



# 2018 INVESTOR DAYS BORDEAUX

Frankie Ng  
CEO

Carla De Geyseler  
CFO



WHEN YOU NEED TO BE SURE

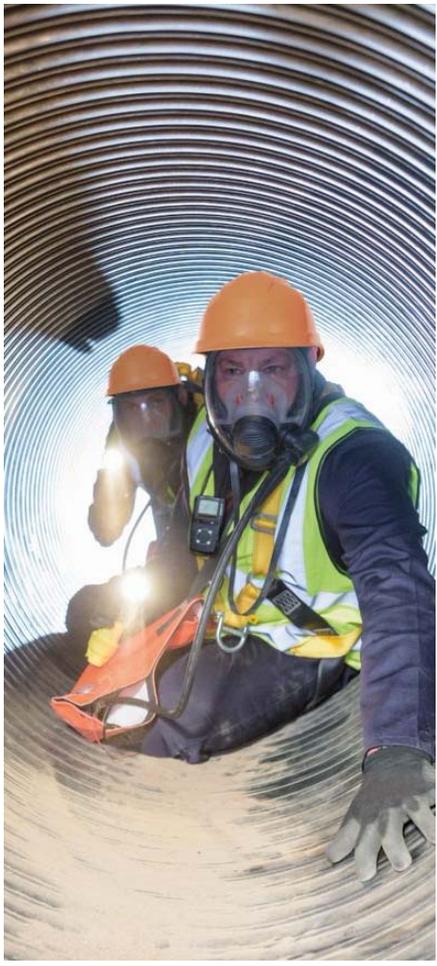
**SGS**

↓  
**SGS BUSINESS PRINCIPLES**



**STRATEGIC FOCUS**  
↑

↓  
**MARKET OPPORTUNITIES & CHALLENGES**



**SGS PERFORMANCE**  
↑

# SGS BUSINESS PRINCIPLES

↑  
Guiding our decisions to success inside and outside



## SGS BUSINESS PRINCIPLES SUCCESS IS...



### **INTEGRITY**

MAKING SURE WE BUILD TRUST



### **HEALTH AND SAFETY**

MAKING SURE WE ESTABLISH  
SAFE AND HEALTHY WORKPLACES



### **QUALITY AND PROFESSIONALISM**

MAKING SURE WE ACT AND  
COMMUNICATE RESPONSIBLY



### **RESPECT**

MAKING SURE WE TREAT  
ALL PEOPLE FAIRLY



### **SUSTAINABILITY**

MAKING SURE WE ADD  
LONG-TERM VALUE TO SOCIETY



### **LEADERSHIP**

MAKING SURE WE WORK  
TOGETHER AND THINK AHEAD



SGS BUSINESS  
PRINCIPLES

SUSTAINABILITY

Our Sustainability efforts  
deliver results



 <p>Dow Jones Sustainability Indexes</p> <p>Dow Jones Sustainability Indexes</p> <p>Industry leader since 2014</p>	 <p>FTSE4Good</p> <p>FTSE4GOOD Index</p> <p>Industry member since 2017</p>	 <p>Carbon Disclosure Project</p> <p>Industry leader in since 2013</p>	 <p>Sustainability Engagement Index</p> <p>Highest level of sustainability reporting</p>	 <p>GRI – G4 Comprehensive</p> <p>80% of engagement among employees</p>
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Leader in other customer/investor ratings



\* As of 2016, NTO is calculated based on permanent (fix-term and open-ended) contracts

\*\* Against 2014 baseline

\*\* TRIR: Total Recordable Incident Rate

\*\*\*LTIR: Lost Time Incident Rate



**SGS BUSINESS  
PRINCIPLES**

**LEADERSHIP**

Our Leadership provides  
direction and support





### BUSINESS LINES

	<b>ALIM SAIDOV</b> Oil, Gas and Chemicals		<b>DERICK GOVENDER</b> Minerals
	<b>WIM VAN LOON</b> Industrial		<b>OLIVIER COPPEY</b> Agriculture, Food and Life
	<b>CHARLES LY WA HOI</b> Consumer and Retail		<b>JEFFREY MCDONALD</b> Certification and Business Enhancement
	<b>THOMAS KLUKAS</b> Transportation		<b>ROGER KAMGAING</b> Governments and Institutions



### REGIONS

	<b>DIRK HELLEMANS</b> North and Central Europe		<b>PAULINE EARL</b> Western Europe
	<b>TEYMUR ABASOV</b> Eastern Europe and Middle East		<b>FABRICE EGLOFF</b> Africa
	<b>FRANÇOIS MARTI</b> North America		<b>LUIS FELIPE ELIAS</b> South and Central America
	<b>HELMUT CHIK</b> North East Asia		<b>MALCOLM REID</b> South East Asia Pacific

### FUNCTIONS

	<b>CARLA DE GEYSELER</b> Finance
	<b>TOBIAS REEKS</b> Investor Relations
	<b>JOSÉ MARÍA HERNÁNDEZ-SAMPELAYO</b> Human Resources
	<b>OLIVIER MERKT</b> Legal & Compliance
	<b>FRED HERREN</b> Digital and Innovation



## OPERATIONS COUNCIL CHANGES



Francois Marti  
COO North America



Wim van Loon  
EVP Industrial



Felipe Elias  
COO South America



Charles Ly Wa Hoi  
EVP Consumer & Retail



Tobias Reeks  
SVP Investor Relations

3 members of the Operations Council left the Group

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**SGS BUSINESS PRINCIPLES**



**STRATEGIC FOCUS**  
↑



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**MARKET OPPORTUNITIES & CHALLENGES**



**SGS PERFORMANCE**  
↑



STRATEGIC  
FOCUS

NEW GUIDANCE

Anticipating and acting





Mid single-digit organic growth on average with improvement over the period

Targeting accelerating M&A and remain disciplined on returns

Adjusted Operating Income Margin of above 17% by end of period

Strong cash conversion

Best in class on Return on Invested Capital

Dividend distributions in line with the improvement in net earnings

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**SGS BUSINESS PRINCIPLES**



**STRATEGIC FOCUS**  
↑



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**MARKET OPPORTUNITIES & CHALLENGES**



**SGS PERFORMANCE**  
↑



## Short-term market characteristics

- USA and China trade dispute uncertainty
- Stable trading conditions in oil markets but risk remains
- Agricultural commodity trade less predictable due to seasonal climatic conditions
- Slow upturn of CAPEX investment projects in the Oil & Gas sector

## Long-term fundamentals

- Opening of the China domestic market despite tariffs dispute
- Expanding regulations and stronger enforcement
- Digital evolution continues with data and cyber security as key themes
- Nutrition, health and mobility are key social trends
- Greater consumer expectations on social impact, transparency and sustainability

## EXCEEDING TARGET



Minerals



Governments  
and Institutions

## ON TARGET



Agriculture, Food and Life



Consumer and Retail



Environment, Health  
and Safety



Certification and Business  
Enhancement

## BELOW TARGET



Oil, Gas and Chemicals



Industrial



Transportation



TRADE

BELOW TARGET

UPSTREAM

BELOW TARGET

OTHERS

ON TARGET

### Current issues

- Unpredictable and unstable market conditions since 2015
- Lack of volatility in commodity trade and competitive pressure affecting margins
- Legacy upstream contracts impacting segment progress
- Current business mix creating margin dilution year-on-year

### Mid-term drivers

- Stability in commodity trade with positive outlook on volume
- Upstream market continues to improve particularly with National Oil Companies
- Capacity optimization over past 3 years should support margin improvement
- Portfolio diversification into upstream production and retail



OIL & GAS	INFRASTRUCTURE & CONSTRUCTION	OTHERS
BELOW TARGET	BELOW TARGET	BELOW TARGET

### Current issues

- Weak market presence in the US due to lack of portfolio diversification
- Pressure on margin related to Oil & Gas OPEX work in South America
- Slow upturn of CAPEX investment projects in the Oil & Gas sector

### Mid-term drivers

- Energy Market recovery expected to continue with improvement across regions
- Infrastructure & Construction market growth supported by important development projects in Asia
- Better portfolio mix with focus on testing and regional development programs
- Turnaround in the Americas with acceleration of testing activities



AUTOMOTIVE

ON TARGET

AEROSPACE

BELOW TARGET

OTHERS

ON TARGET

### Current issues

- Diversification strategy not generating expected outcome
- Unsuccessful in acquiring targeted assets at acceptable returns
- Greenfield strategy will take longer to generate returns
- Liberalization of regulated market creating margin pressure in some geographies

### Mid-term drivers

- Positive market dynamics in automotive, aerospace and rail sectors
- Acquisitive approach is still key to accelerate market entry
- Increasing testing requirements for combustion and growth in electrical vehicles
- Higher demand for complex material and onboard electronics testing

SOFTLINES

ON TARGET

HARDLINES

ON TARGET

ELECTRICAL &  
ELECTRONICS

ON TARGET

## Achievements

- Successful portfolio diversification both organically and by acquisition
- Expansion of Softline to new geographies and to GB standard testing in China
- Drive of automation across the network helped to sustain margin
- Testing and certification solutions to support client's product development

## Mid-term drivers

- New regulatory and conformity requirements driven by new technologies
- Client partnerships to deliver services along the entire supply chain
- Increased performance testing from Brands as a differentiator
- Many acquisitive opportunities to complement portfolio and geographies





PRODUCT CONFORMITY  
ASSESSMENT

BORDER

OTHERS

ON TARGET

EXCEED

EXCEED

## Achievements

- Successful deployment of new scanner programs including D-Tect
- Significant market share gain for TransitNet
- Digitalization of activity combined with increased market share offsetting fee reduction and increased royalty

## Mid-term drivers

- More opportunities as Governments become digital
- Trading within and between regional trade blocks to increase demand for Border solutions
- Increasing environmental awareness to drive growth for e-waste solutions

ON TARGET

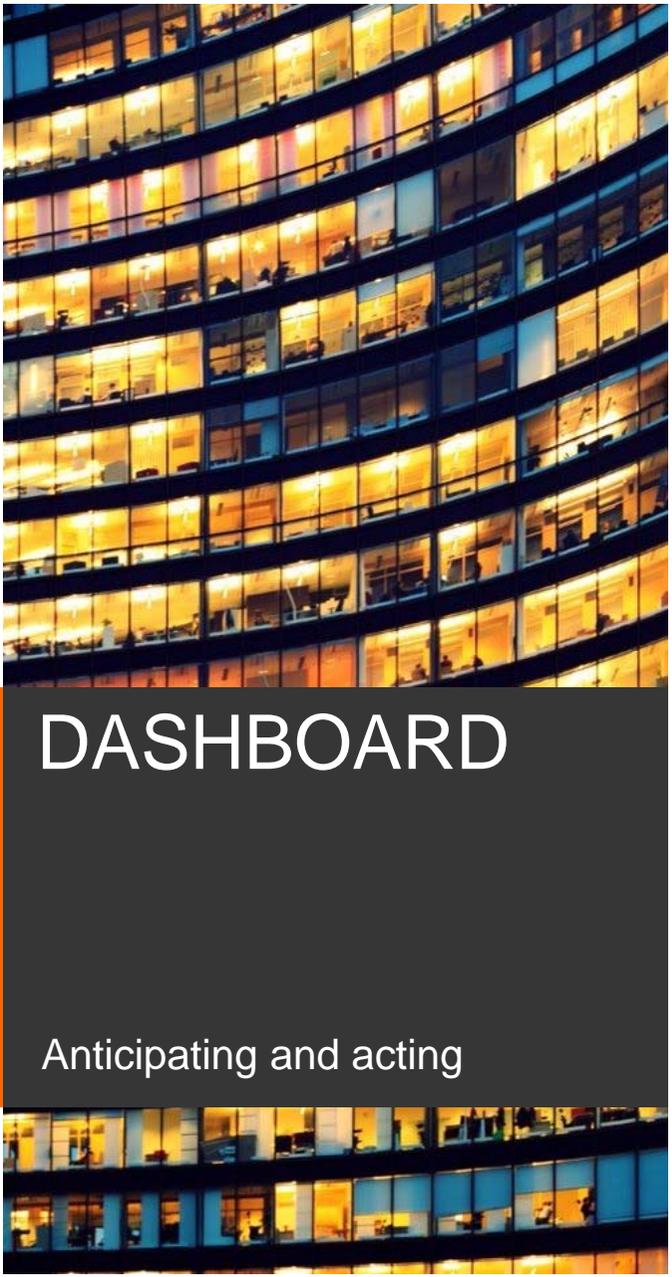


ON TARGET



BELOW TARGET





STRATEGIC  
FOCUS

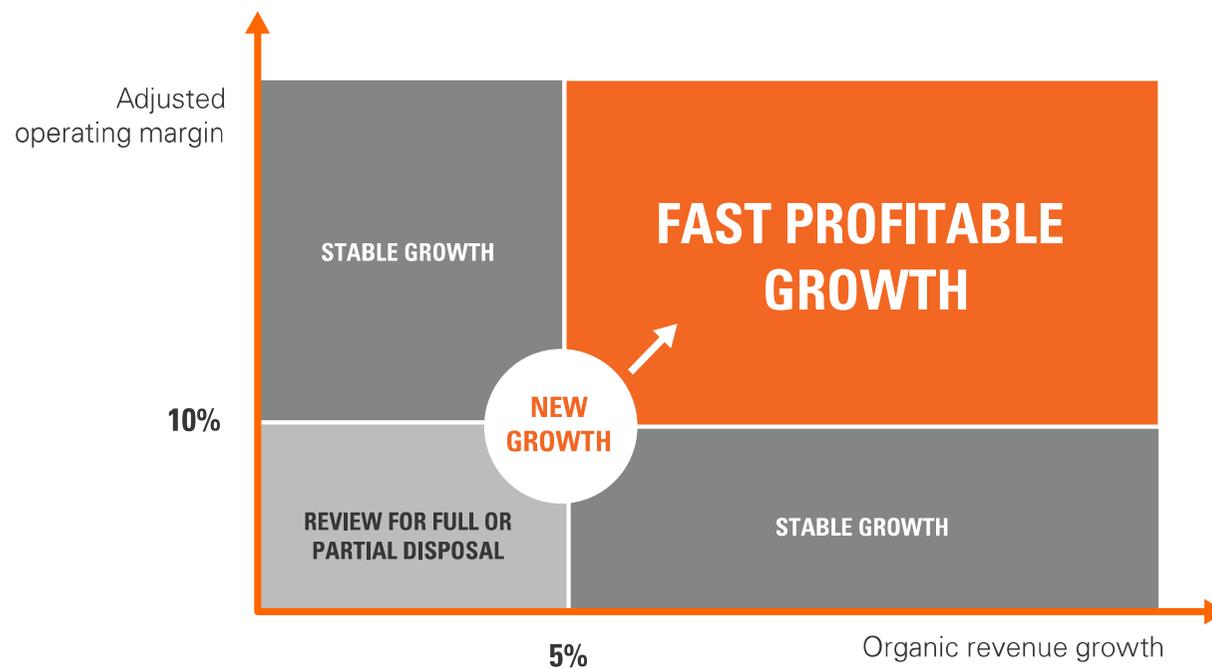
DASHBOARD

Anticipating and acting

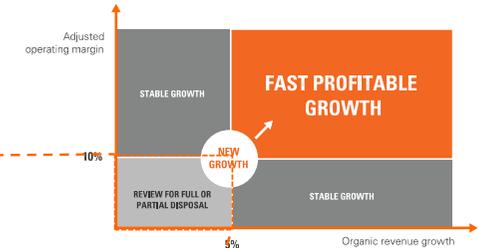
Positive cash flow and strategic significance are prerequisites to stay in the portfolio

Maximum 18 months before executing full/partial disposals or shutdowns in the Stable Growth category

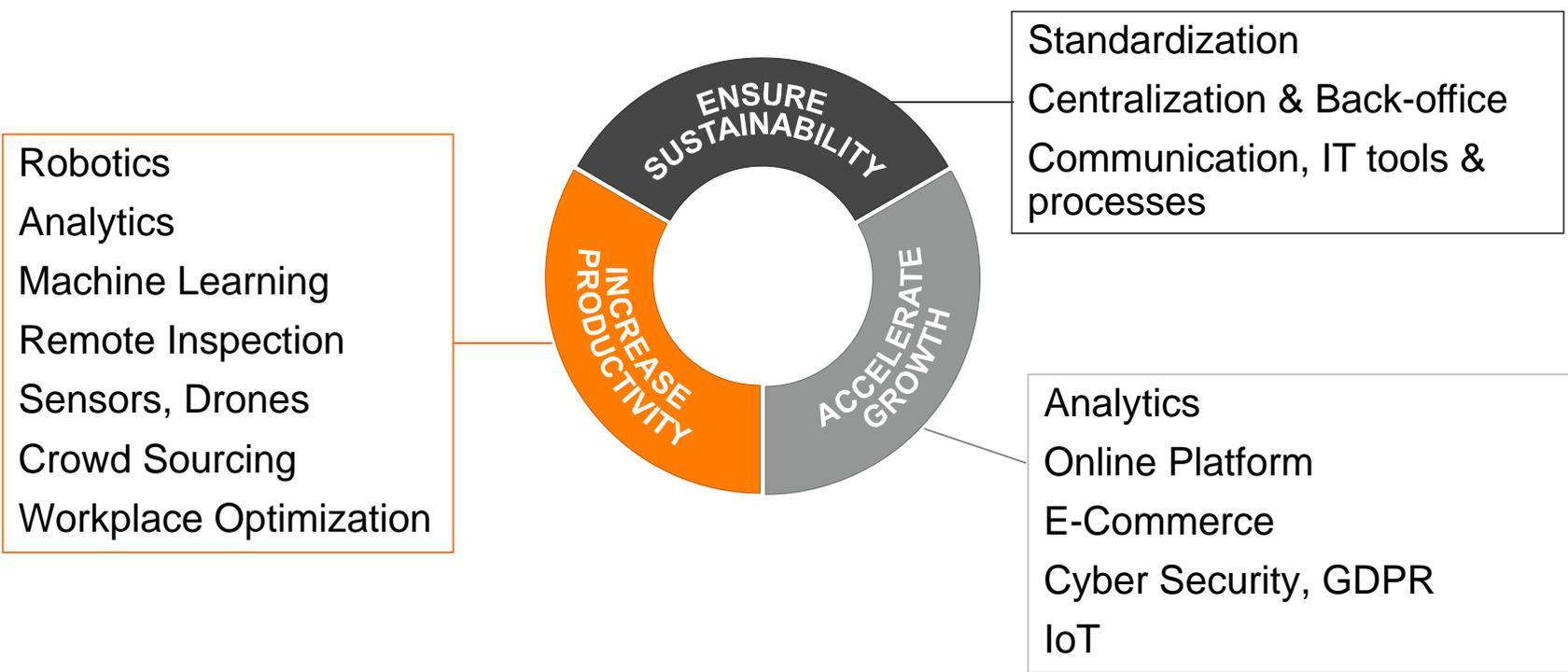
Maximum 3-year incubation in the New Growth category before entering the Fast Profitable Growth category or executing full/partial disposals



FIX	DISPOSE	CLOSE
<b>Small Scale</b>		
<ul style="list-style-type: none"> <li>Over 100 projects undertaken in the past 2.5 years leading to fixing, disposing or closing of small business activities and countries</li> </ul>		
<b>Large Scale</b>		
<ul style="list-style-type: none"> <li>Improved several business activities to comply with dashboard thresholds</li> <li>Several underperforming and non-core business activities have been identified for disposal within next 12 months – combined revenue of around CHF 350 million</li> </ul>		

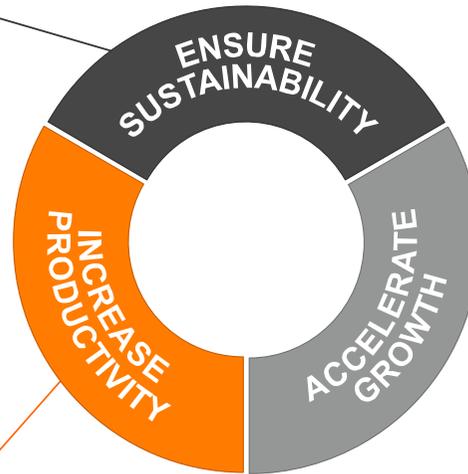


Aligned with our 2020 objectives, SGS leverages the digital ecosystem with **3 main objectives**:



- Migration of servers to cloud well under way
- Investment in new LIM systems to accelerate transformation
- Enhancement of data and infrastructure security

- Remote inspection deployed in GIS and other businesses
- Internal crowdsourcing launched to address specific projects
- Partnered with KOMGO to simplify commodity supply chain
- Automation (robot, RPA) being deployed



- Digital activities continue to accelerate with new project deployments
- Cyber Security services as a core focus
- E-Commerce still linked to traditional services but evolving (e-Calibration)
- Time to market longer than expected in most products

LIM: Laboratory Information Management System

## Solid fundamentals

- Balanced strategy between short- and long-term shareholder value creation
- Dashboard as a standard management tool
- Sustainability and employee engagement a core focus
- Large and diversified customer base
- Deliver best in class on Return on Invested Capital

## Getting stronger through

- Strong TIC industry fundamentals benefiting from structural growth drivers
- World Class Manufacturing as core efficiency concept
- Investment in digital transformation
- Active management of portfolio
- Strategic partnerships to provide innovative services

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**SGS BUSINESS PRINCIPLES**



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**MARKET OPPORTUNITIES & CHALLENGES**



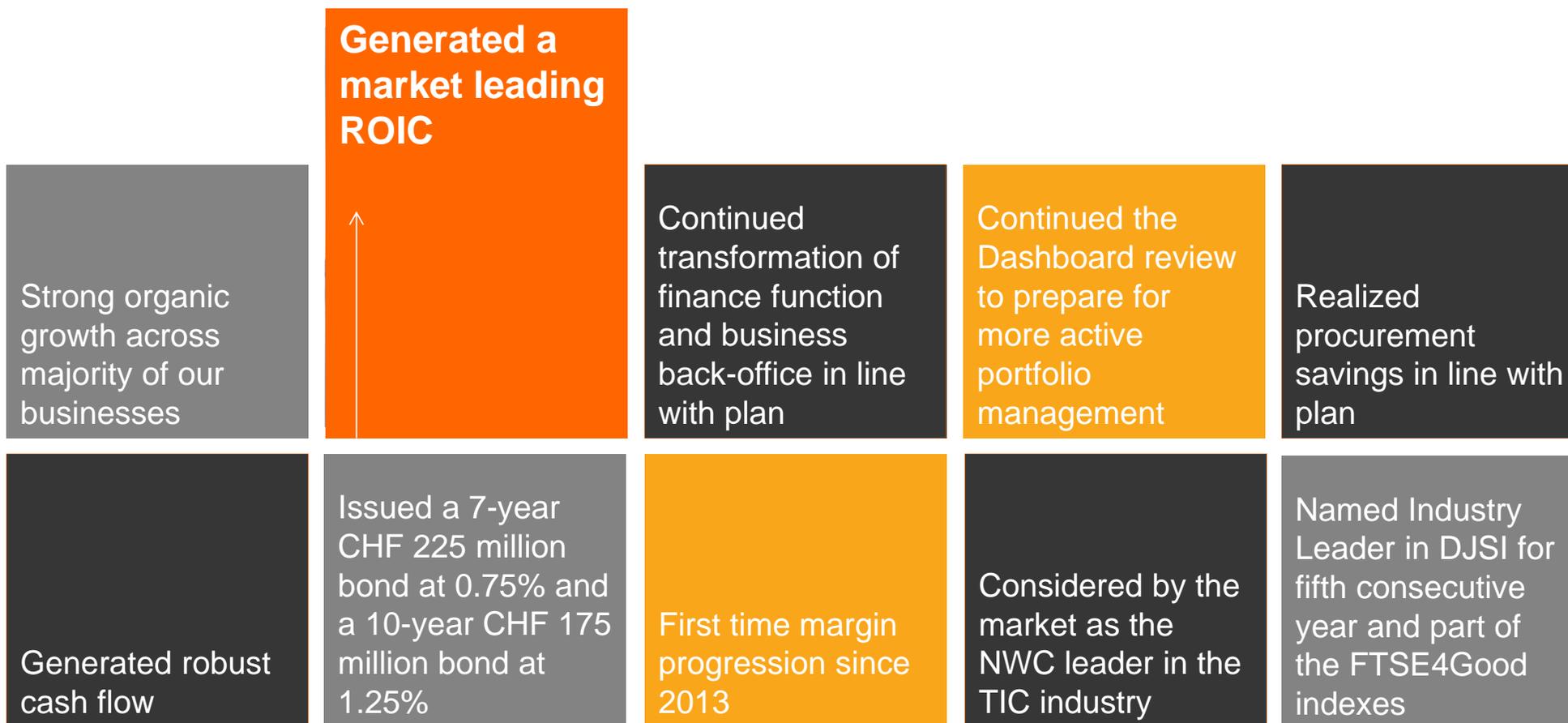
**STRATEGIC FOCUS**  
↑



**SGS PERFORMANCE**  
↑



# WHAT HAS SGS **ACHIEVED** IN 2018?



# FINANCIAL FRAMEWORK

↑  
Monitor Group performance and  
align interests with shareholders





Solid organic  
revenue  
growth



Resilient  
profitability



Robust cash  
flow  
generation



Sustainable  
and attractive  
shareholder  
value



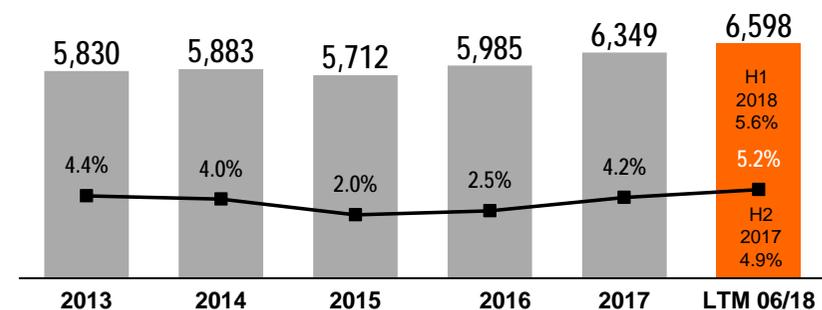


**SOLID ORGANIC  
REVENUE GROWTH**

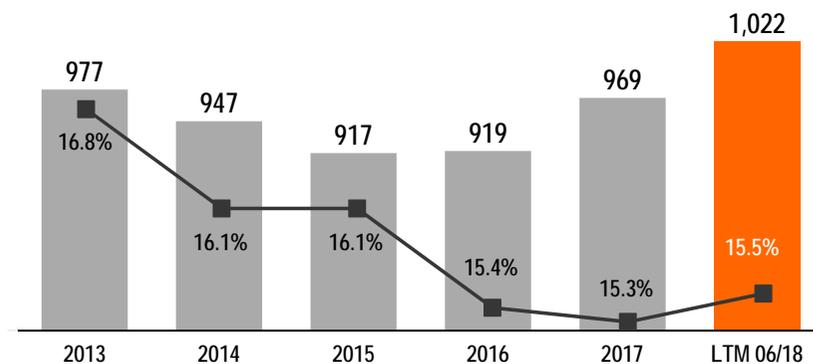


**RESILIENT  
PROFITABILITY**

REVENUE (CHF MIO; % ORGANIC GROWTH)



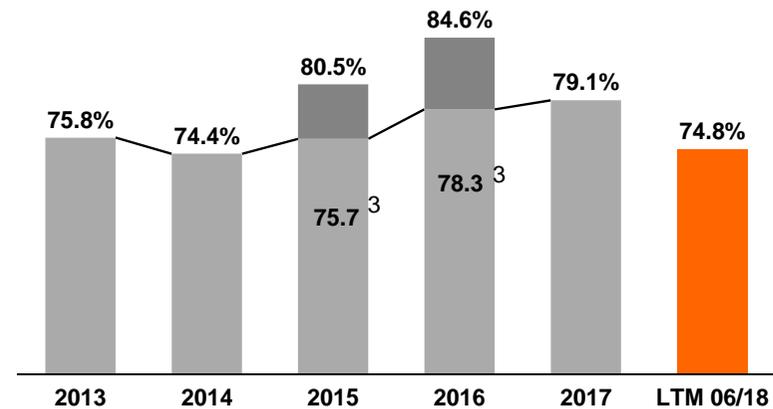
ADJ. OPERATING INCOME (CHF MIO; % MARGIN)



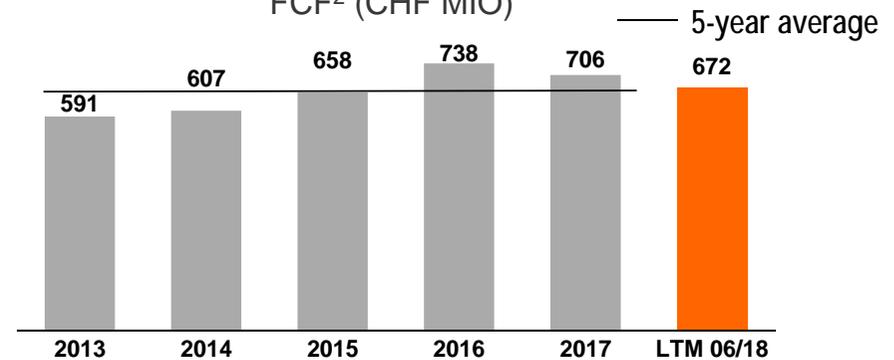


ROBUST CASH FLOW  
 GENERATION

ADJ. CASH CONVERSION RATIO<sup>1</sup> (%)

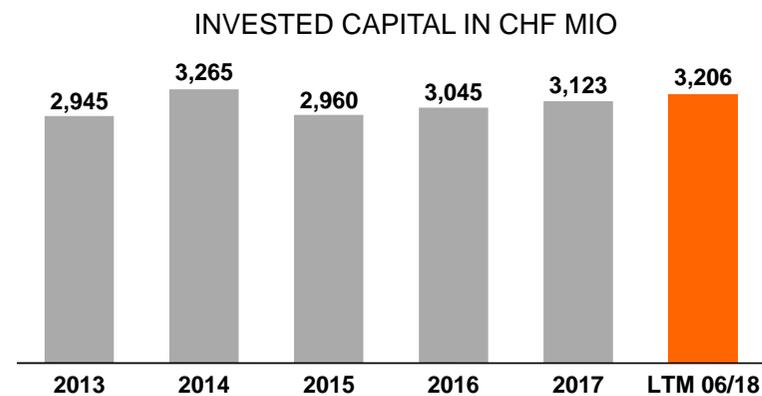
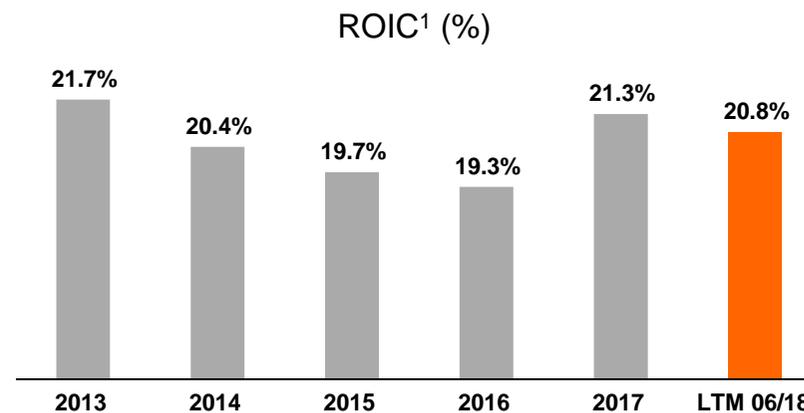


FCF<sup>2</sup> (CHF MIO)

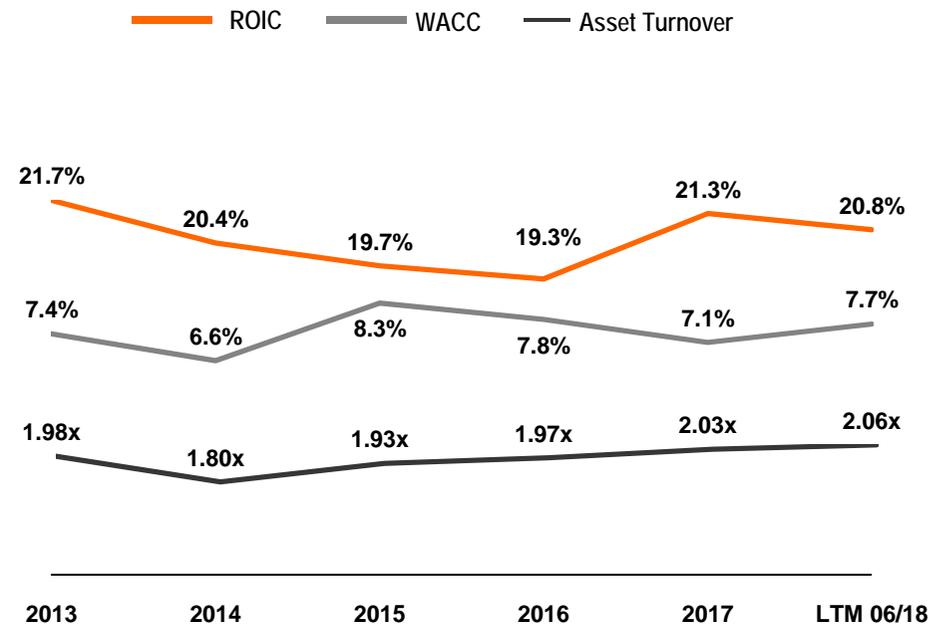
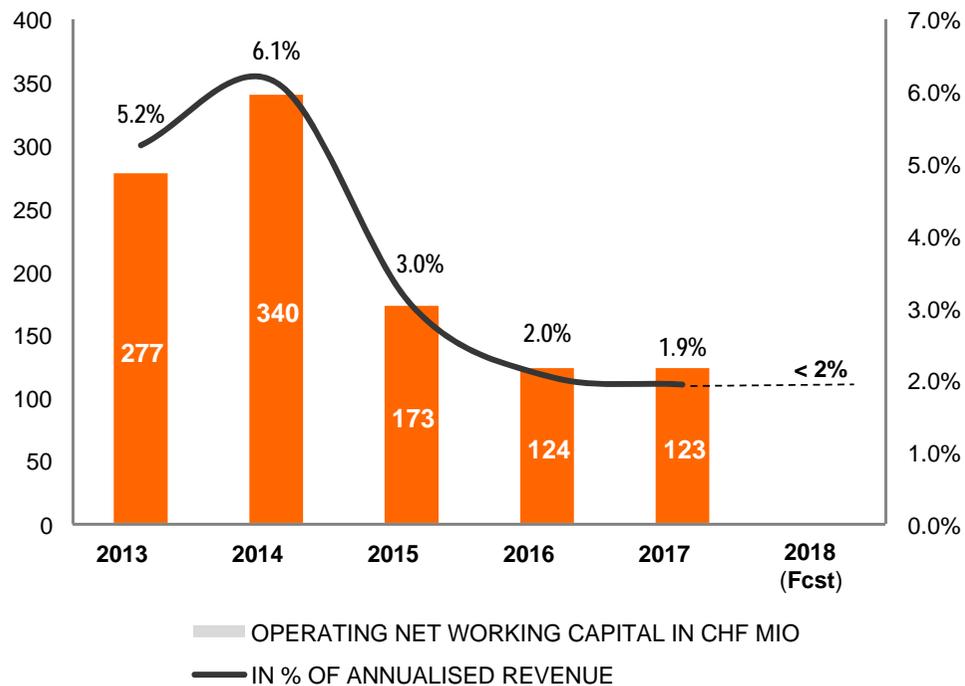




SUSTAINABLE AND  
 ATTRACTIVE SHAREHOLDER  
 VALUE



NET WORKING CAPITAL % REVENUE



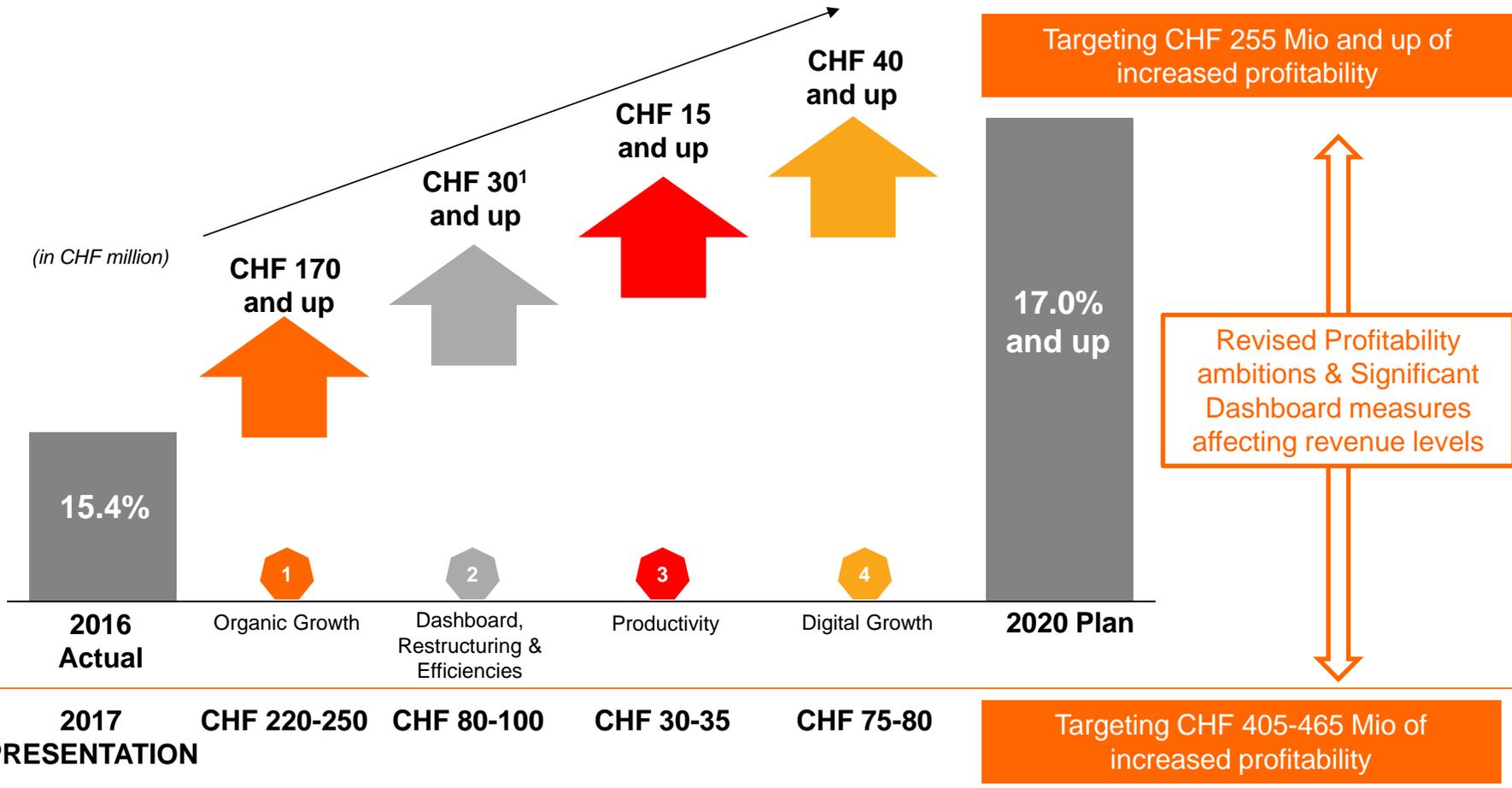
# ADJUSTED OPERATING INCOME



2020 Projected AOI Growth



## ADJUSTED OPERATING INCOME AOI EVOLUTION UNTIL 2020



1

## Organic Growth

*CHF 170 and up*

- Positive mix effect of revenue growth
- Market Challenges in OGC and IND mainly in the Americas
- Market and execution challenges in TRP, mainly in South America and Africa
- Procurement savings expected to deliver in line with the plan

2

## Dashboard, Restructuring and Efficiencies

*CHF 30 and up*

- Many small closure / divestment opportunities already realized and continue
- Additional medium-sized closure / divestment opportunities are planned
- Optimization of finance and back-office functions in line with the plan
- Pricing initiatives expected to gain momentum in last two years of the plan

3

## Productivity

*CHF 15 and up*



- Savings in line with the initial plan
- Incremental investments in laboratory efficiencies now planned to further increase productivity beyond 2020

4

## Digital Growth

*CHF 40 and up*

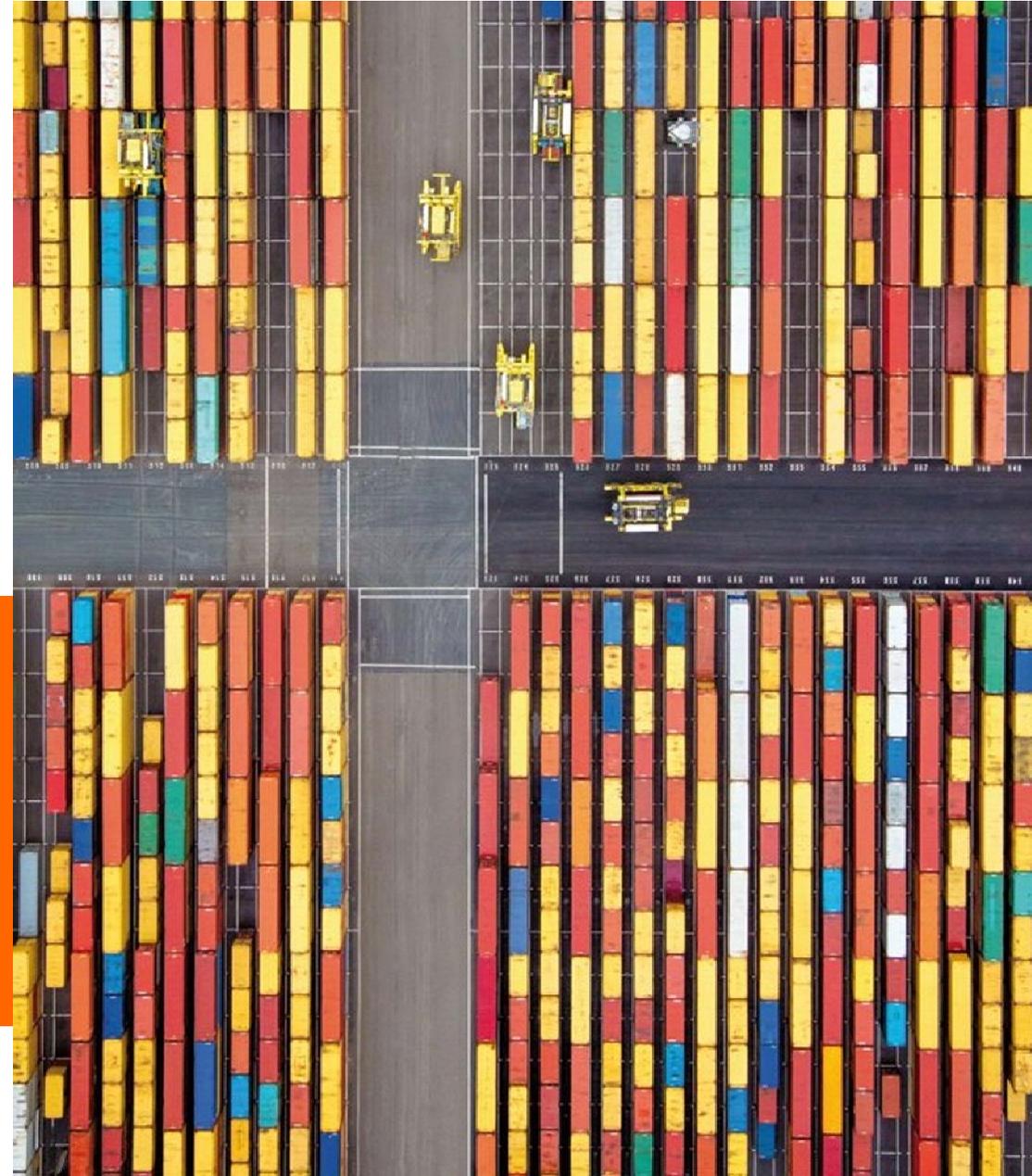


- Good progress in digital activities achieved. Opportunities exist, but uncertain time to market and customer education is resulting in more time required to deliver the expected revenue and margin

# PROCUREMENT & SUPPLY CHAIN



Procurement savings in line with the plan





## PILLARS

**Cost & Cash Flow Leadership**

**Global Sourcing Solutions**

**Lab of the Future**

**Sustainable Procurement**

## PRIORITIES

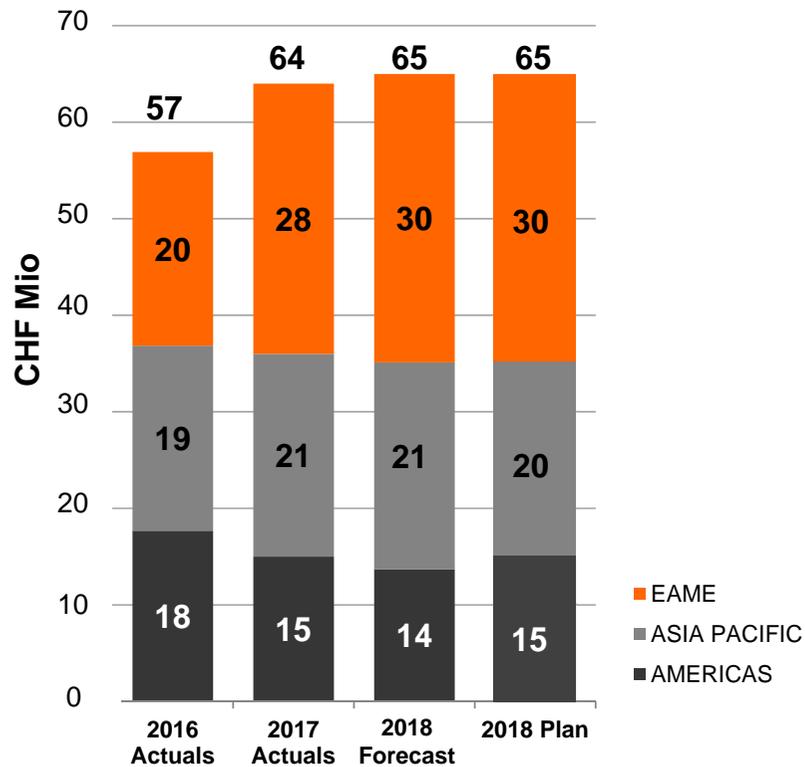
Deliver 3-year savings plan of minimum CHF 180m by 2020 with underlying pipeline of sourcing initiatives enabling SGS to achieve its 2020 profitability target

Develop and rollout global category strategies across the network by applying professional change management with necessary rigor

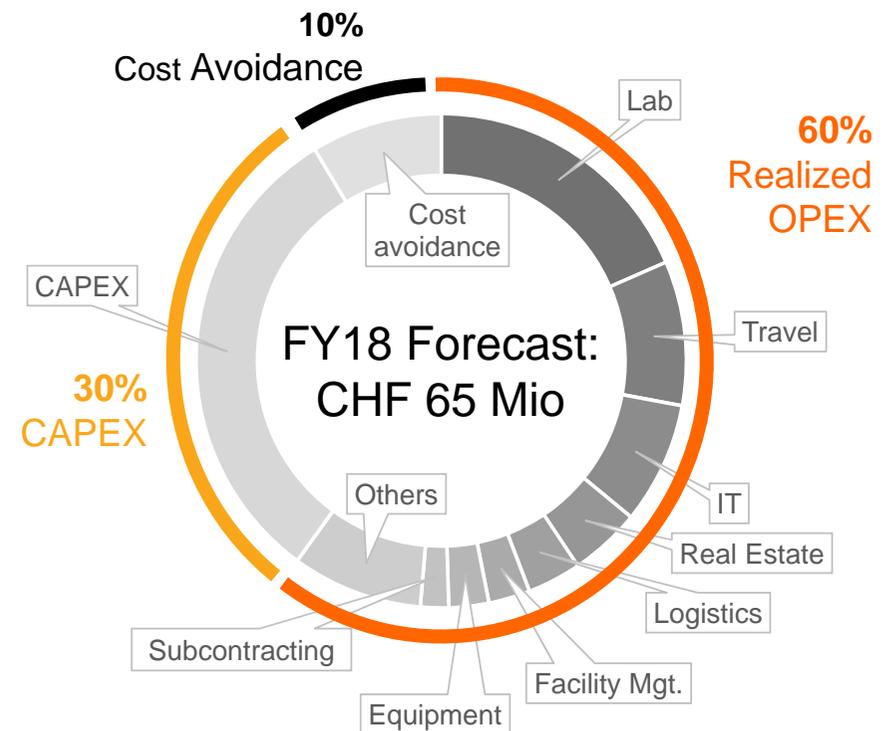
Leverage the global procurement and supply chain management capabilities to improve efficiency of our laboratories and to make them fit for the digital future

Reduce supply chain risk while boosting social responsibility. Deploy code of conduct and establish auditing and certification processes for suppliers

**PROCUREMENT SAVINGS BY REGION**



**PROCUREMENT SAVINGS BY NATURE**





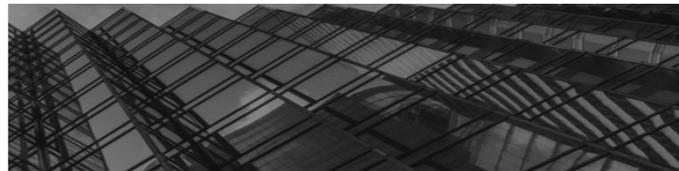
**“Understand Procurement” trainings provided to over 300 business professionals to improve their customer support**

**Advanced technology collaboration teams established with strategic partner to co-develop solutions for increased laboratory efficiency**



**Code of Conduct and Self-Assessment questionnaire done with 925 suppliers in 12 high-risk countries, plus supply chain initiatives contributed to DJSI Leadership for 5th year**

**Global car lease strategy with preferred providers. First countries in Europe to deliver 30% savings. Partnerships enable development of sustainable mobility concepts**



**eSourcing tool and professional support by procurement COE targets benefiting from 30% online negotiated spend in 2018**

### EFFICIENCY

Become the lowest cost per revenue in the industry

- Lease expiry and break-up opportunities
- Space Management optimization
- Lease Cost Renegotiation
- Enhance Portfolio Management and identify savings opportunities

### WORK SATISFACTION

Deliver workspace for employees to ensure productivity

- Real Estate underlying principle to enhance productivity, satisfaction and to retain talent
- Project with HR to evolve traditional space metrics to know employee's use of workspace
- Release surplus or underutilized space

### VALUE CREATION

Unlock Real Estate value for better use of Shareholder capital

- Buy versus Lease policy and criteria
- Valuation of SGS-owned portfolio
- Divestment of non-strategic assets
- Leverage Corporate Real Estate key supplier capabilities

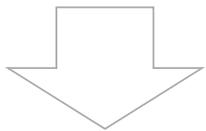
# GLOBAL BUSINESS SERVICES (GBS)

↑ Transformation of the support and back-office functions in line with the plan



### Organizational Alignment

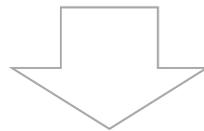
Refine Governance and Organizational Model to set the foundation for support functions



End-to-End responsibilities established with clear accountability

### Simplify and Standardize

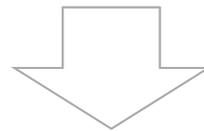
Reduce complexity and implement Best Practices across the SGS network



Global standard Finance processes defined - applicable for **>50% of revenue** by end of 2018

### Digitize & Automate

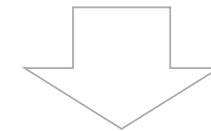
Introduce high quality standard systems and tools at lowest service delivery cost



Global Oracle solution implemented in **34 countries** with state-of-the art tools by end of 2019

### Leveraged Delivery

Standard services through Global Business Services Centers in Katowice, Manila and Changzhou



By end of year GBS organization will have grown by **22%** and expects to grow by **>25% in 2019**

GBS in Manila, Katowice & Changzhou have reached a significant size to provide effective support

### Manila



700 FTEs providing services to:

- Full SGS network
- 4 Business Lines
- 4 Functions

### Katowice



300 FTEs providing services to:

- Over 20 countries
- 3 Business Lines
- 2 Functions

### Changzhou



200 FTEs providing services to:

- 2 countries
- 2 Business Lines
- 1 Function

**1200 FTEs** support the entire SGS network

## GLOBAL BUSINESS SERVICES SAVINGS TARGET 2020



# OPTIMIZE PRICING

↑  
Monetize pricing potential



## FOCUS AREAS



## FOCUS AREAS

### Strategy / Golden Rules

- Global Pricing Rules redesigned and improved to align to new market conditions
- Enhancement of tailor-made pricing strategy by activity
- Strengthen governance model driven by KPIs, with systematic review to ensure guidelines are embedded in SGS DNA

### Education

- Standardized pricing engines, with roll-out of advanced training material to upgrade negotiation skills and awareness campaign
- Holistic pricing review framework, leveraging interactive platforms to share tools and best practices

### Margin Improvement Projects

- Implementation of selected margin improvement projects (revenue quality, value pricing, processes) to drive margin uplifts

# CAPITAL ALLOCATION



Priorities reconfirmed





Invest in organic growth projects and technology-driven partnerships



Deliver bolt-on acquisitions with attractive business synergies



Maintain an attractive shareholder return policy



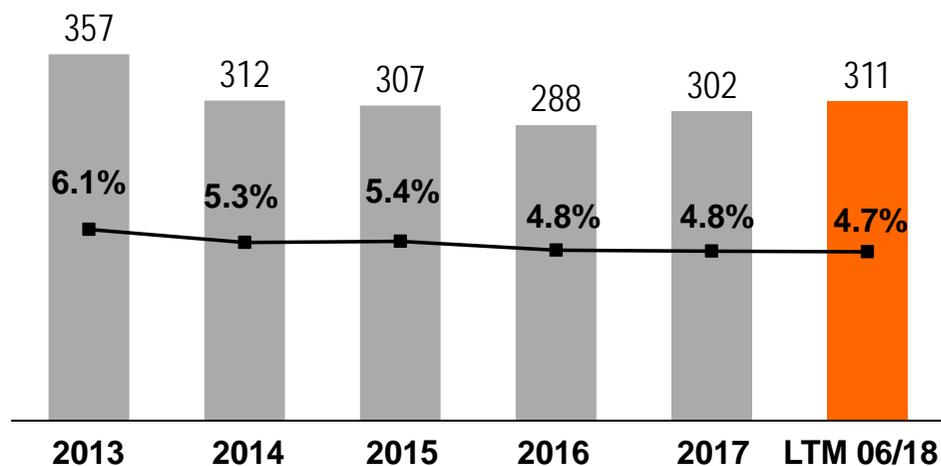
Maintain a solid investment grade credit rating

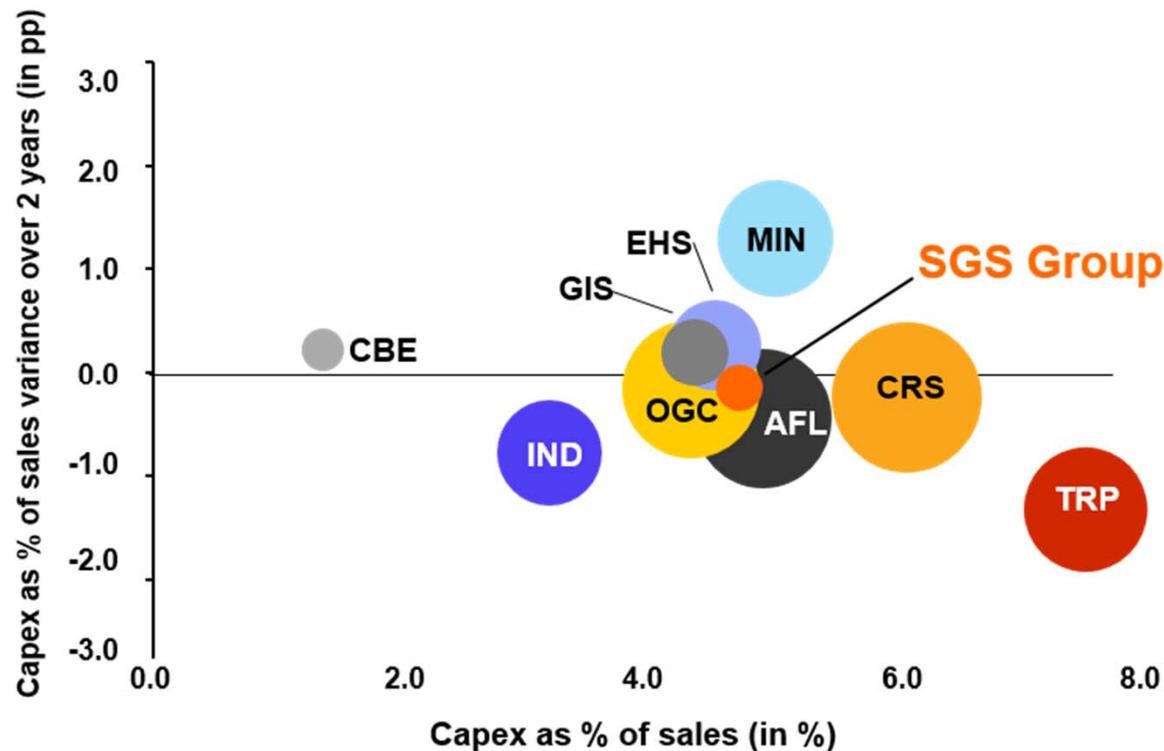
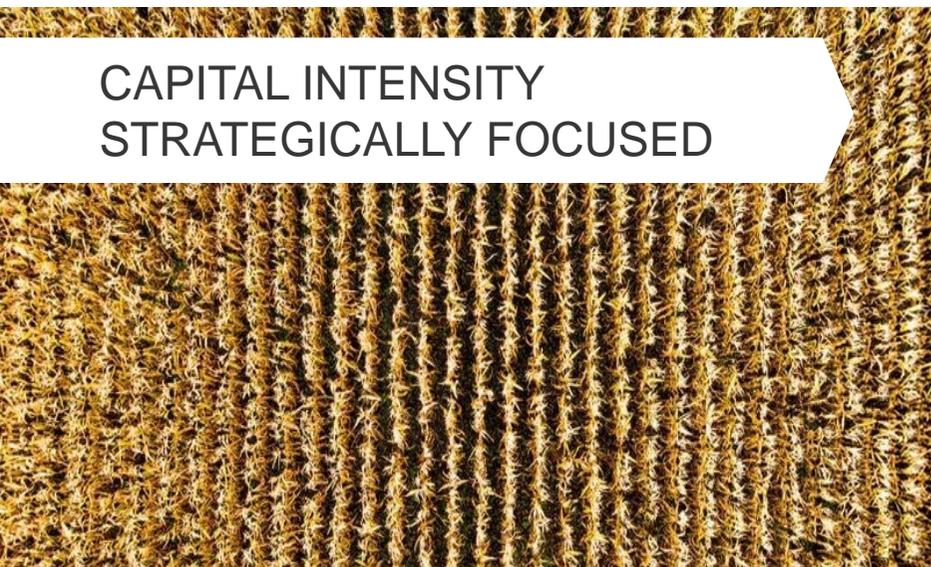




INVEST IN ORGANIC GROWTH  
 PROJECTS AND TECHNOLOGY-  
 DRIVEN PARTNERSHIPS

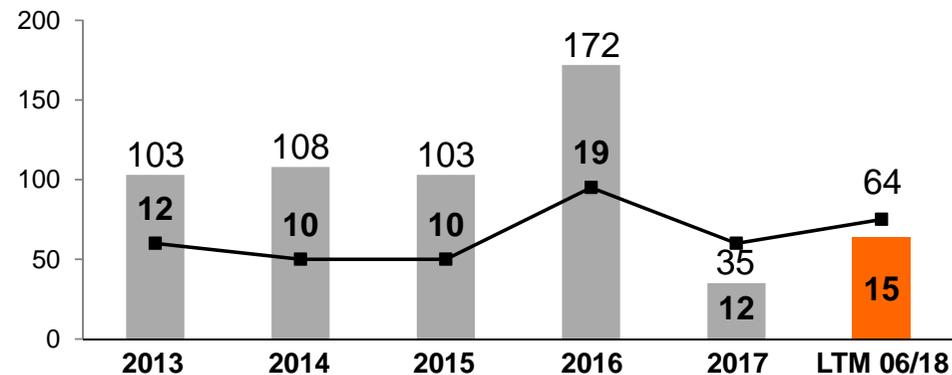
CAPEX (CHF MIO, % OF SALES)

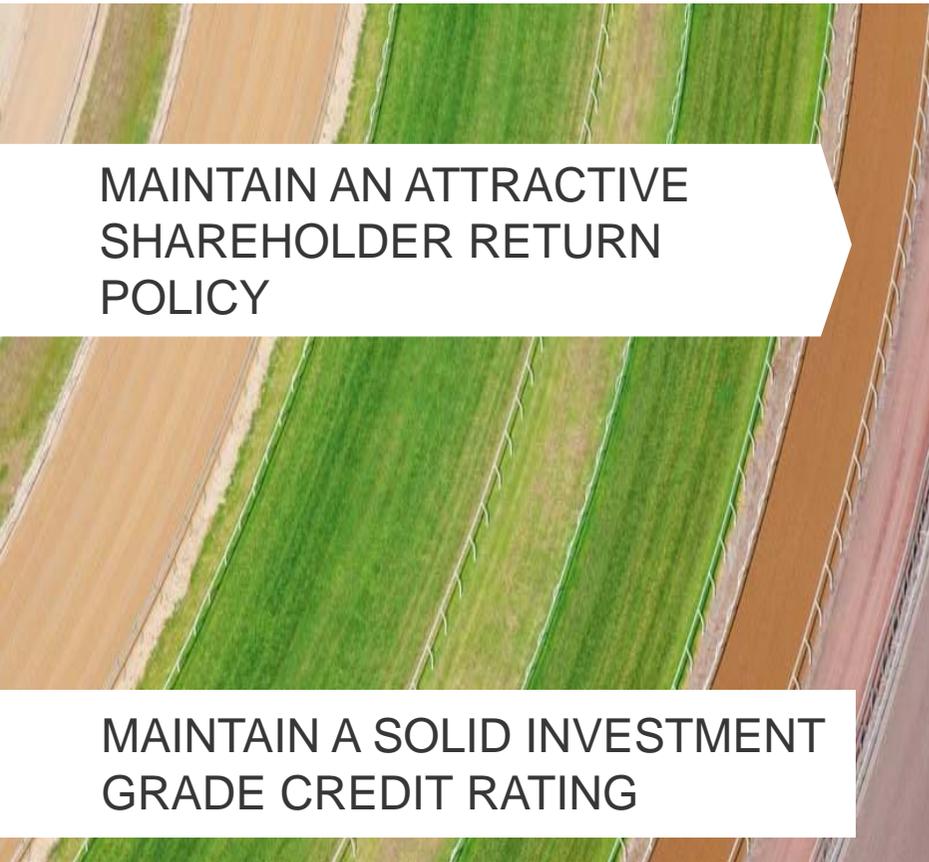




INVEST IN ORGANIC GROWTH  
 PROJECTS AND TECHNOLOGY-  
 DRIVEN PARTNERSHIPS

ACQUISITION CASH CONSIDERATION  
 (CHF MIO; # OF TRANSACTIONS)

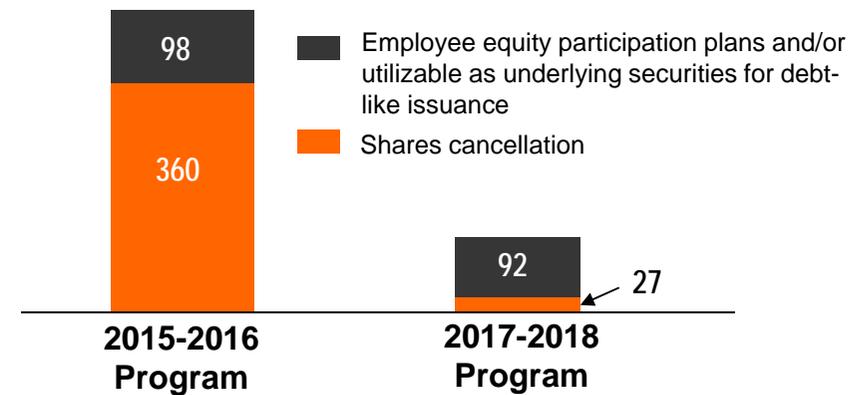
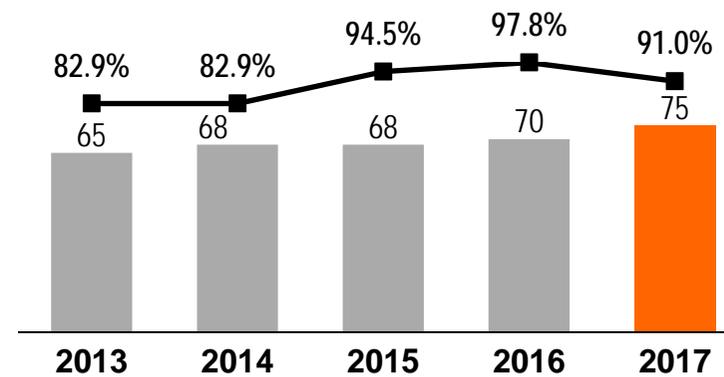


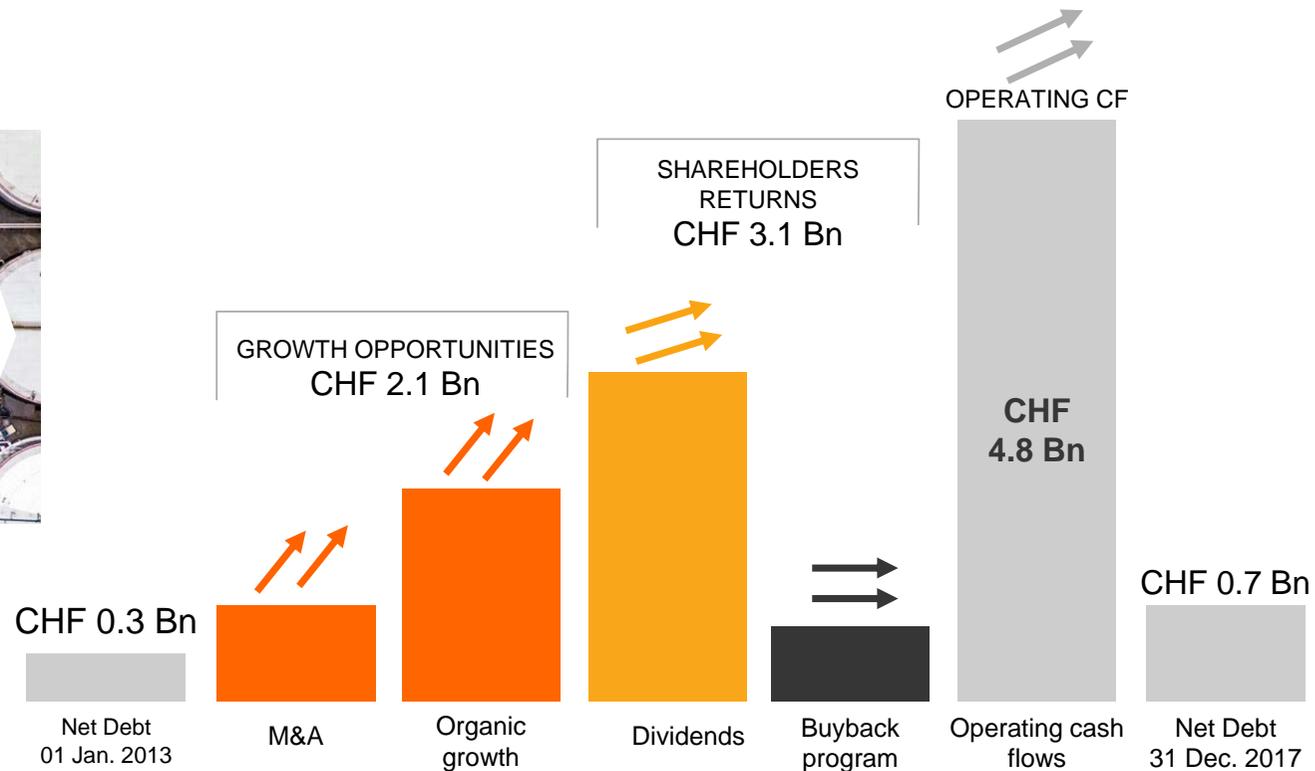


MAINTAIN AN ATTRACTIVE  
SHAREHOLDER RETURN  
POLICY

MAINTAIN A SOLID INVESTMENT  
GRADE CREDIT RATING

DIVIDEND PER SHARE<sup>1</sup> (CHF) AND PAYOUT RATIO<sup>2</sup> (%)





- Strong top-line **growth**
- First **margin progression** since 2013
- **Savings** from Procurement & Supply Chain and Global Business Services in line with the initial plan
- **Pricing Excellence** initiative will contribute to increase revenue and profitability growth
- Plan to divest medium-size businesses and **accelerate acquisitions** while remaining disciplined on returns
- Targeting 2020 Adjusted Operating Income Margin of **above 17%**
- **Best in class Return on Invested Capital**
- Dividend distributions in line with improvement in net earnings

**WWW.SGS.COM**

**WHEN YOU NEED TO BE SURE**

**SGS**