



# SGS INVESTOR DAYS 2019

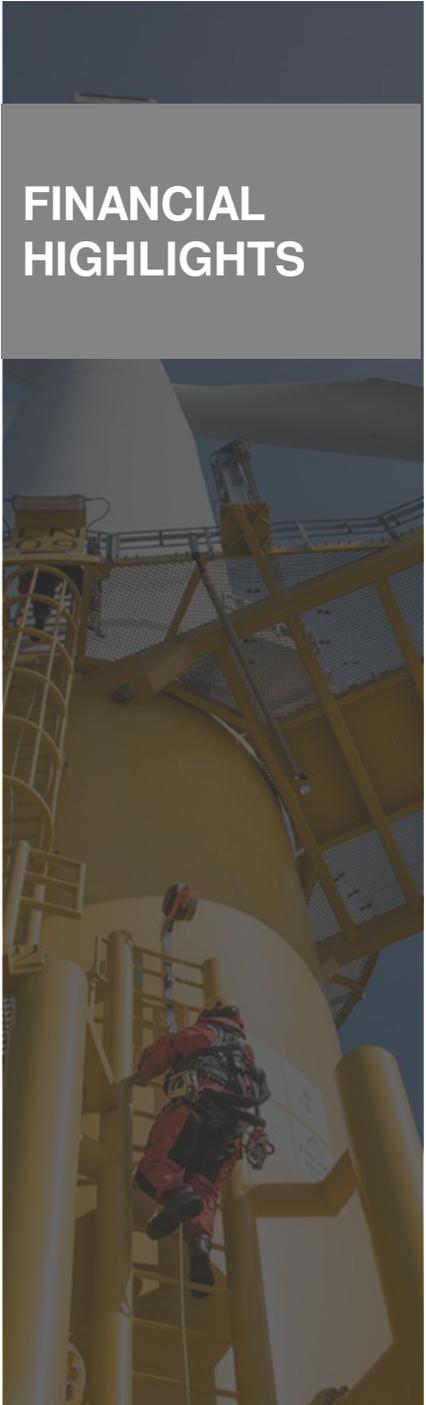
## FINANCE UPDATE

**Dominik de Daniel**  
CFO

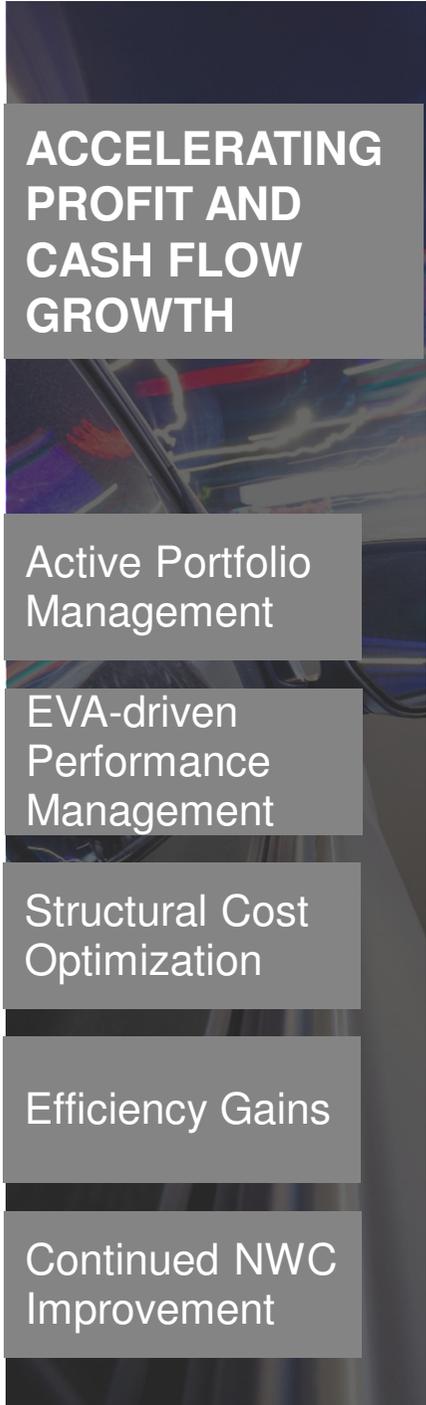
7-9 November 2019

WHEN YOU NEED TO BE SURE

**SGS**



## FINANCIAL HIGHLIGHTS



## ACCELERATING PROFIT AND CASH FLOW GROWTH

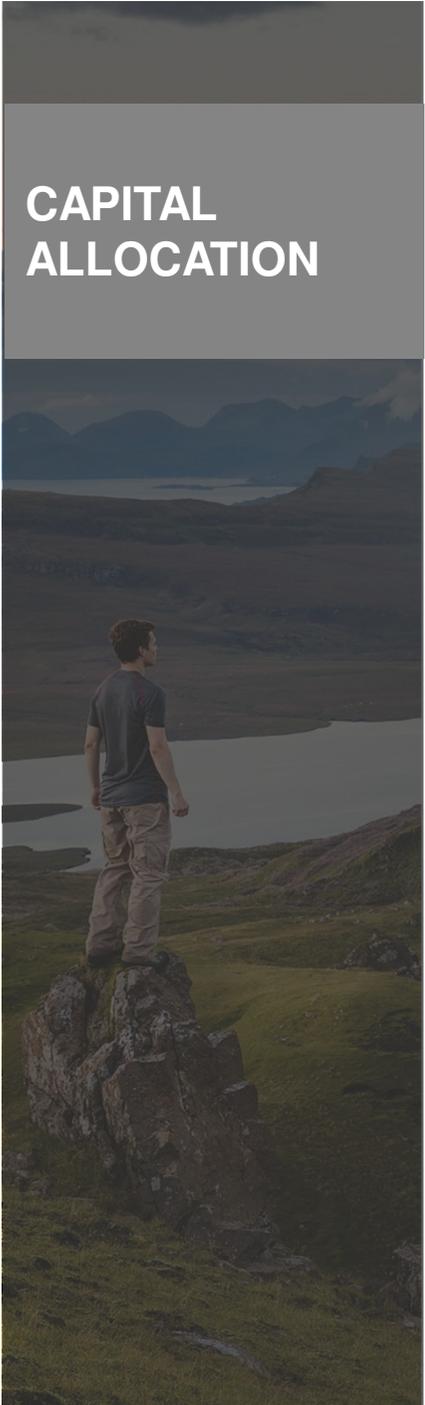
Active Portfolio Management

EVA-driven Performance Management

Structural Cost Optimization

Efficiency Gains

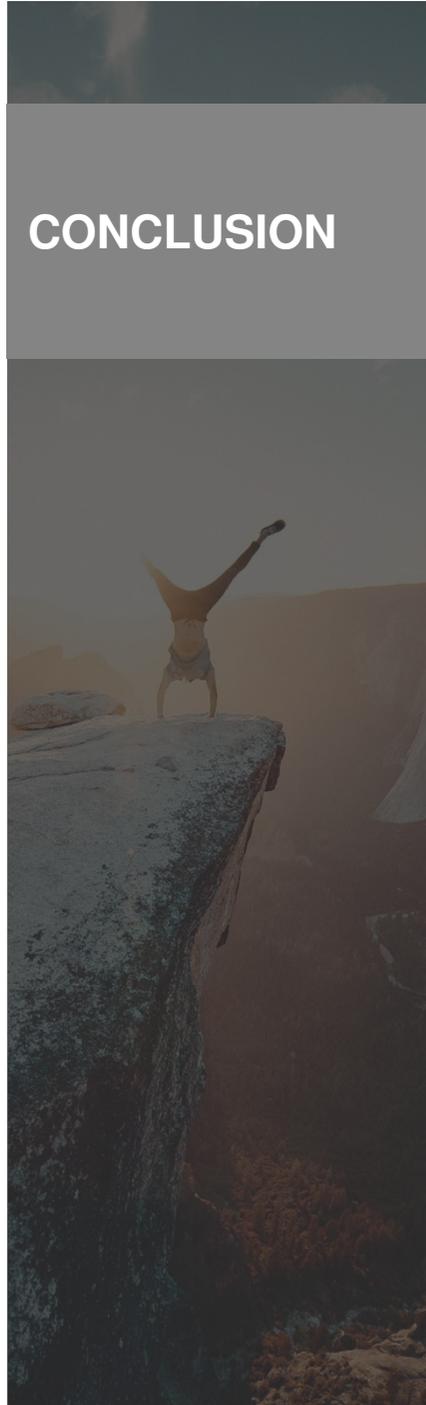
Continued NWC Improvement



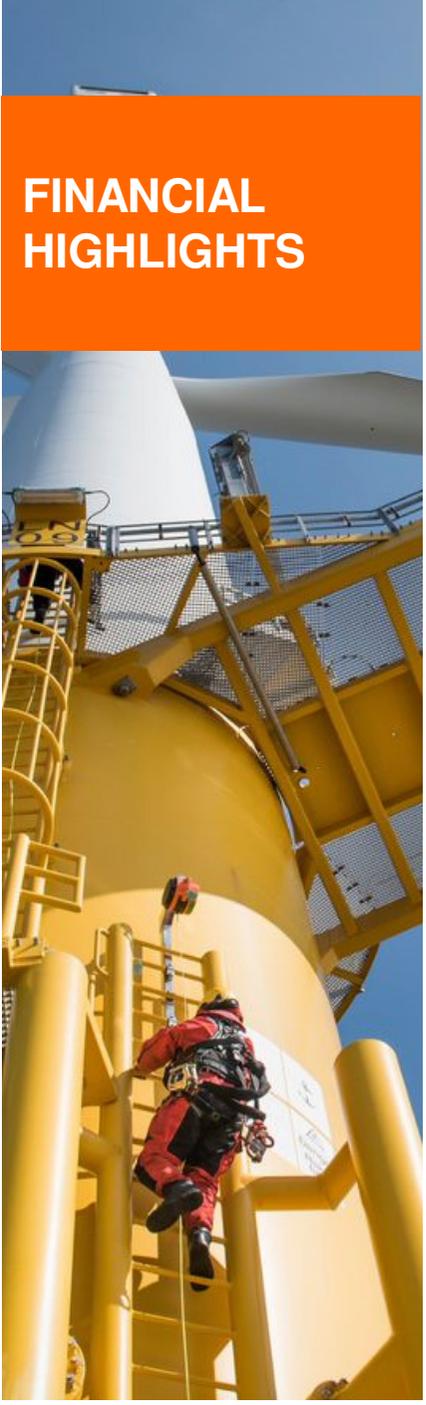
## CAPITAL ALLOCATION



## ADJUSTED OPERATING INCOME MARGIN 2020



## CONCLUSION



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## ACCELERATING PROFIT AND CASH FLOW GROWTH

Active Portfolio Management

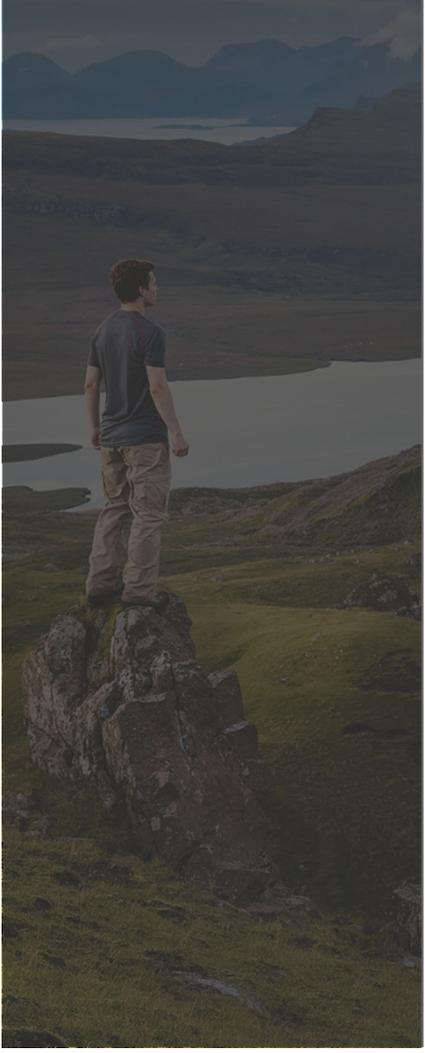
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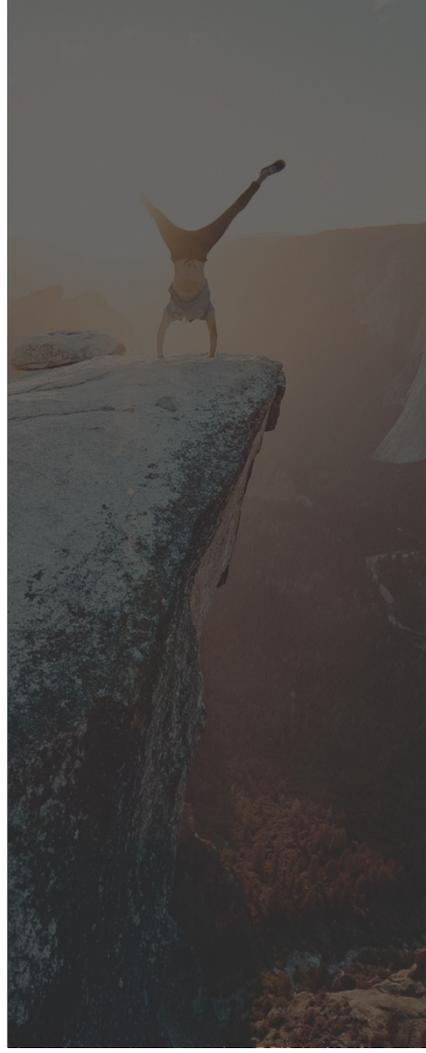
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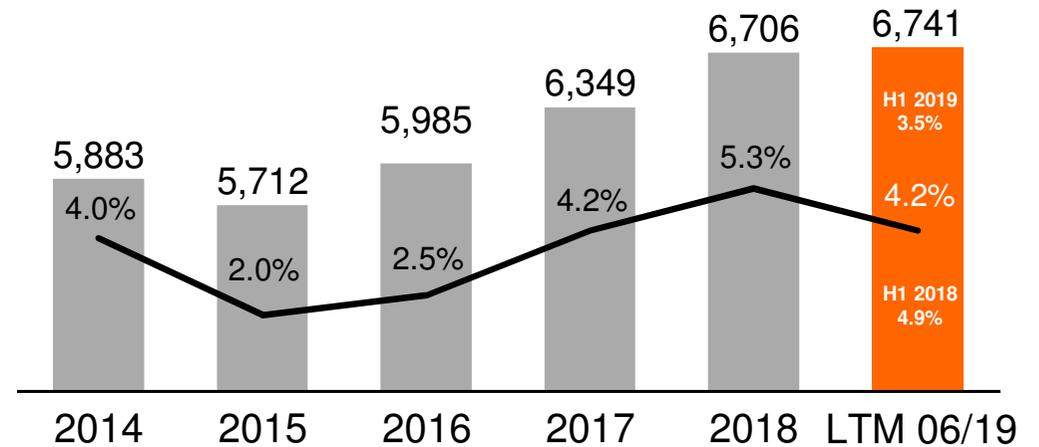
SOLID ORGANIC REVENUE GROWTH



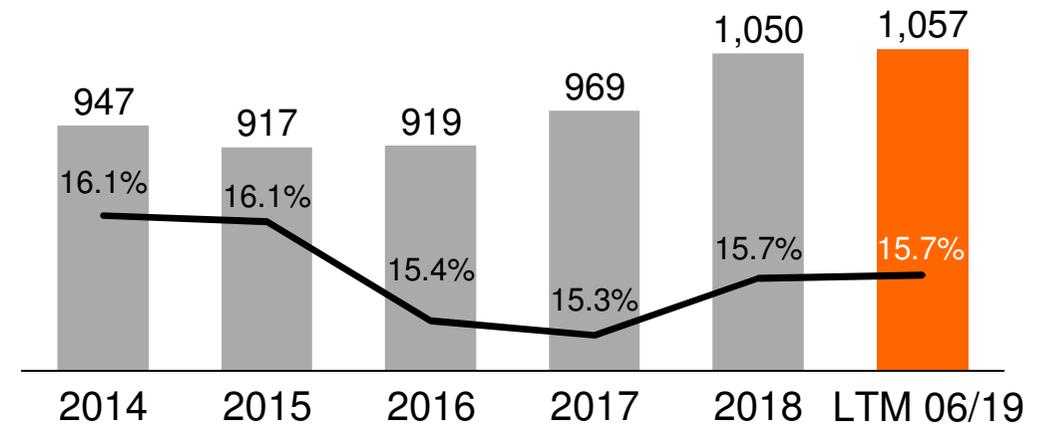
RESILIENT PROFITABILITY



REVENUE (CHF MIO; % ORGANIC GROWTH)



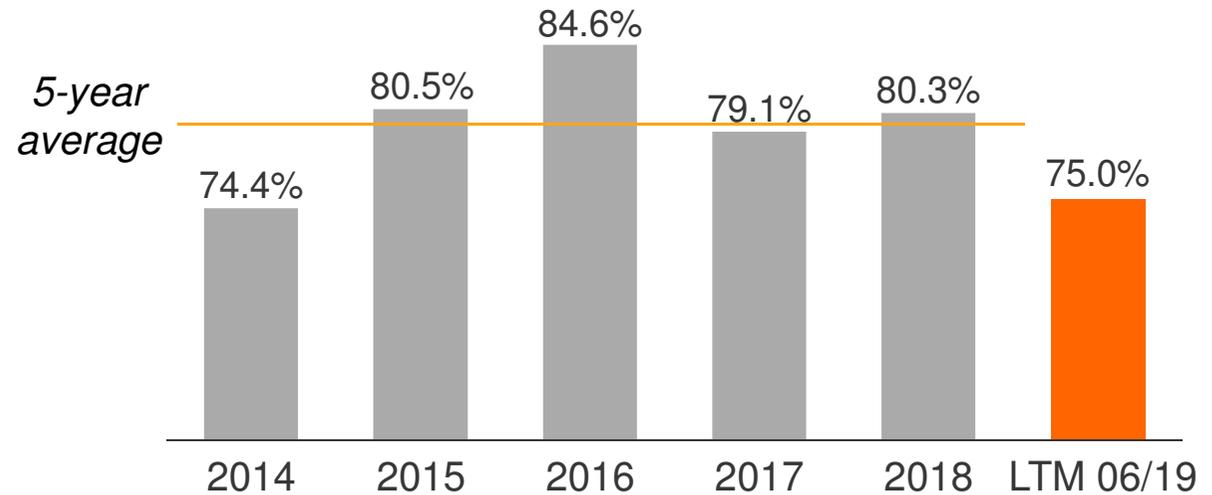
ADJ. OPERATING INCOME (CHF MIO; % MARGIN)



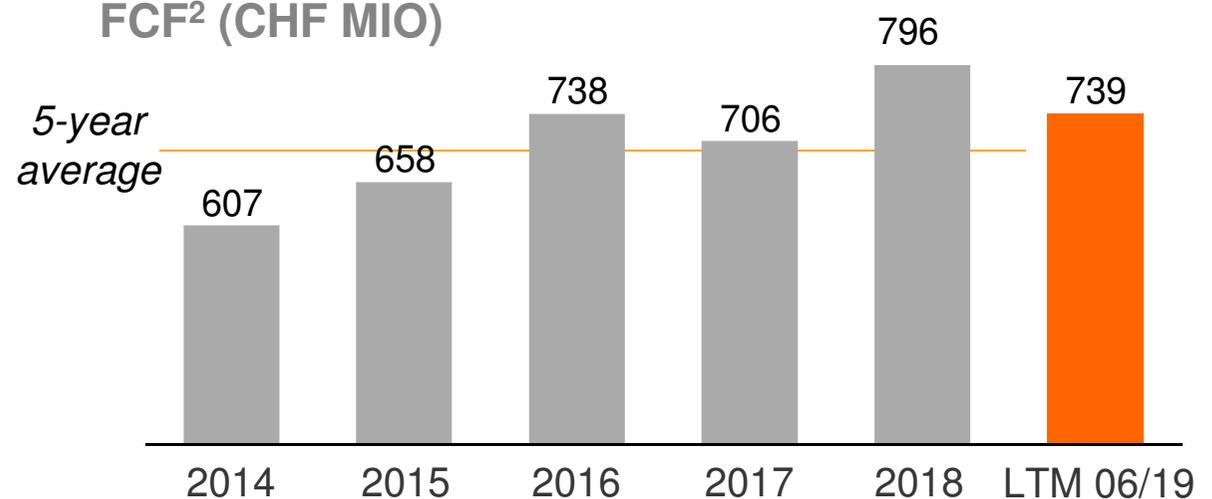
ROBUST CASH FLOW GENERATION



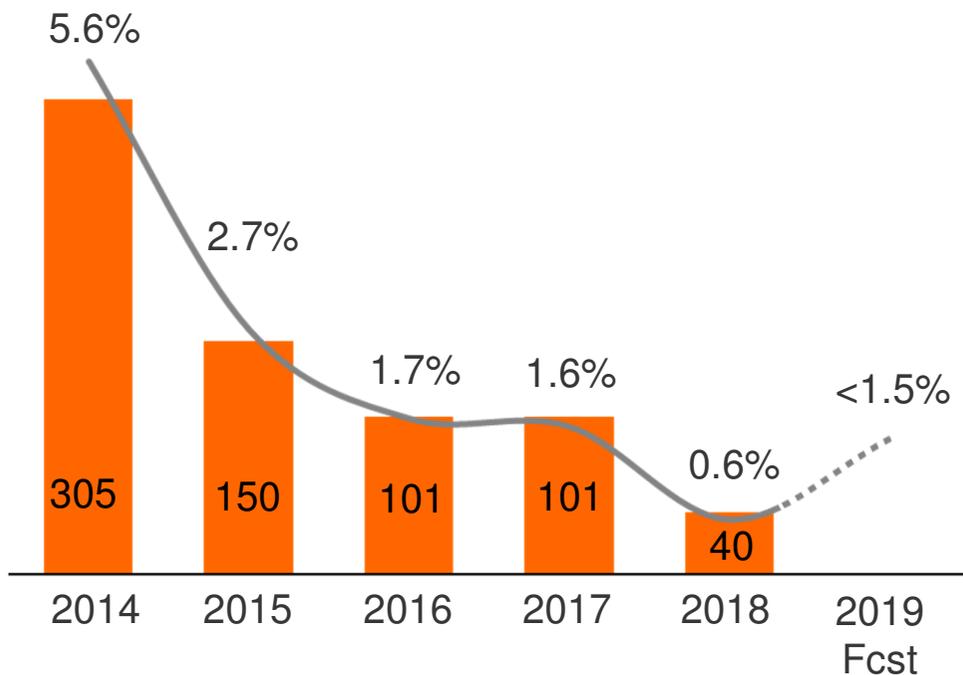
### ADJ. CASH CONVERSION RATIO<sup>1</sup> (%)



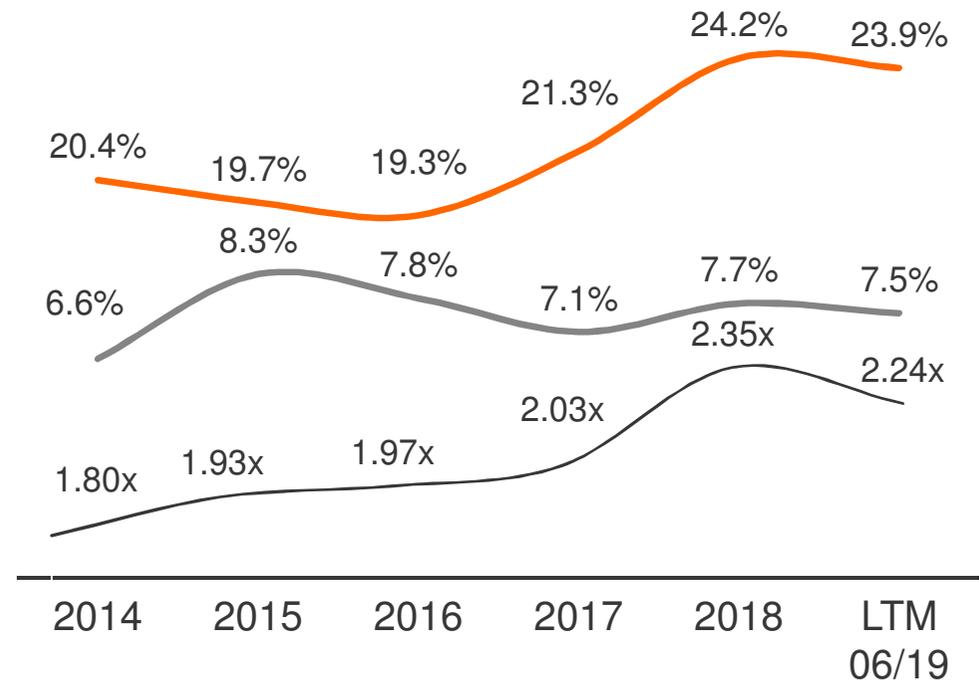
### FCF<sup>2</sup> (CHF MIO)



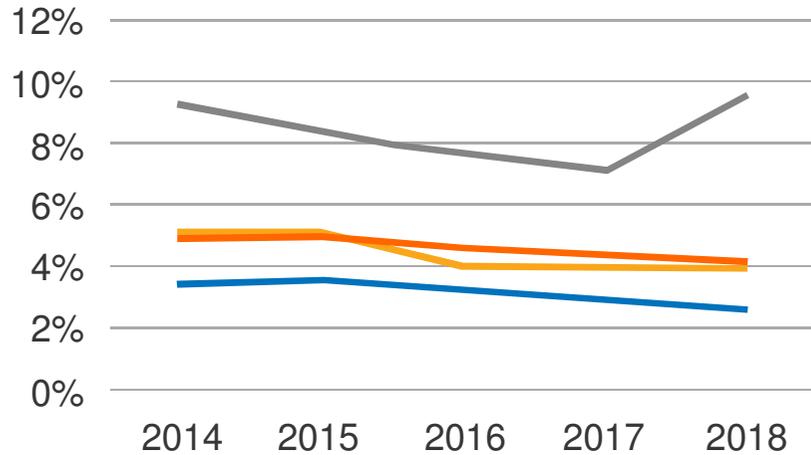
█ OPERATING NET WORKING CAPITAL IN CHF MIO  
— IN % OF REVENUE



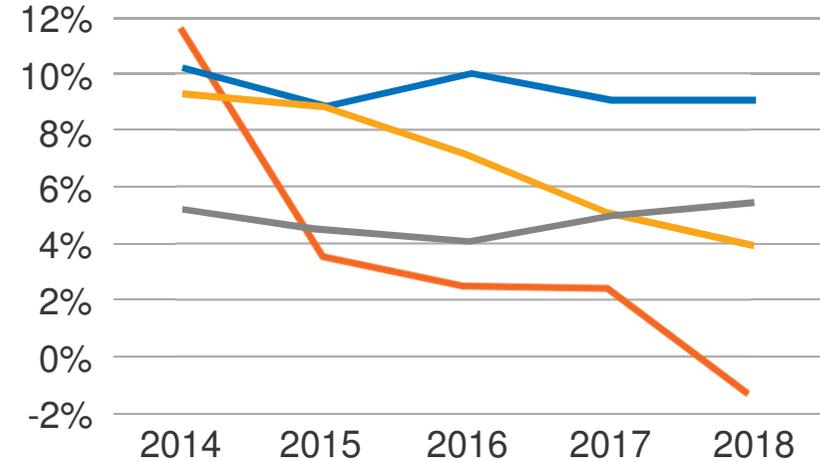
— ROIC<sup>1</sup>    — WACC    — Asset Turnover<sup>2</sup>



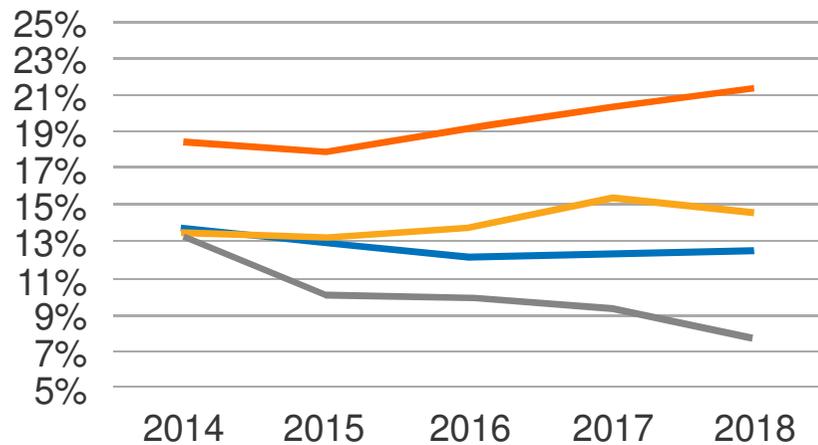
### NET CAPEX % OF REVENUE



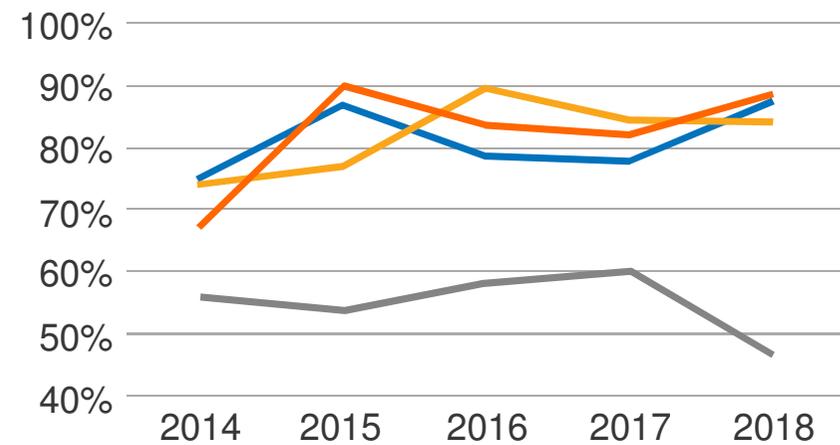
### NWC IN % OF REVENUE



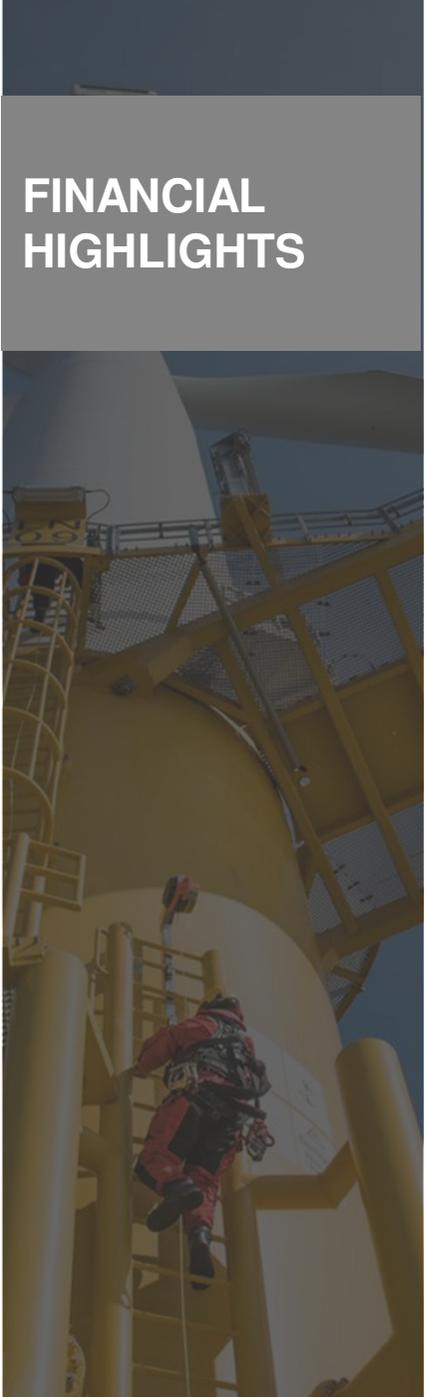
### ROIC



### OPERATING FCF CONVERSION RATIO



— SGS — Peer 1 — Peer 2 — Peer 3



## FINANCIAL HIGHLIGHTS



## ACCELERATING PROFIT AND CASH FLOW GROWTH

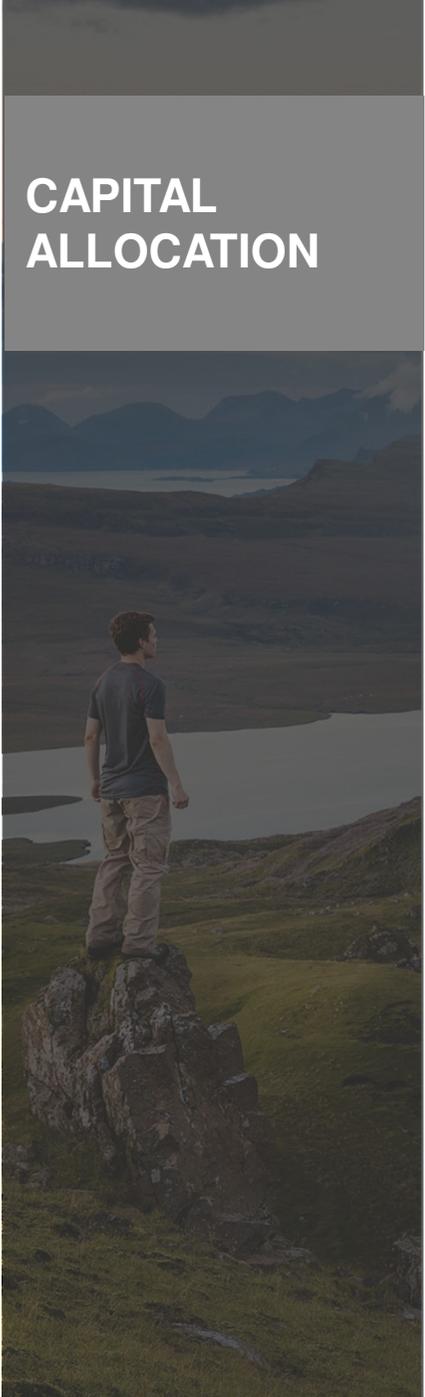
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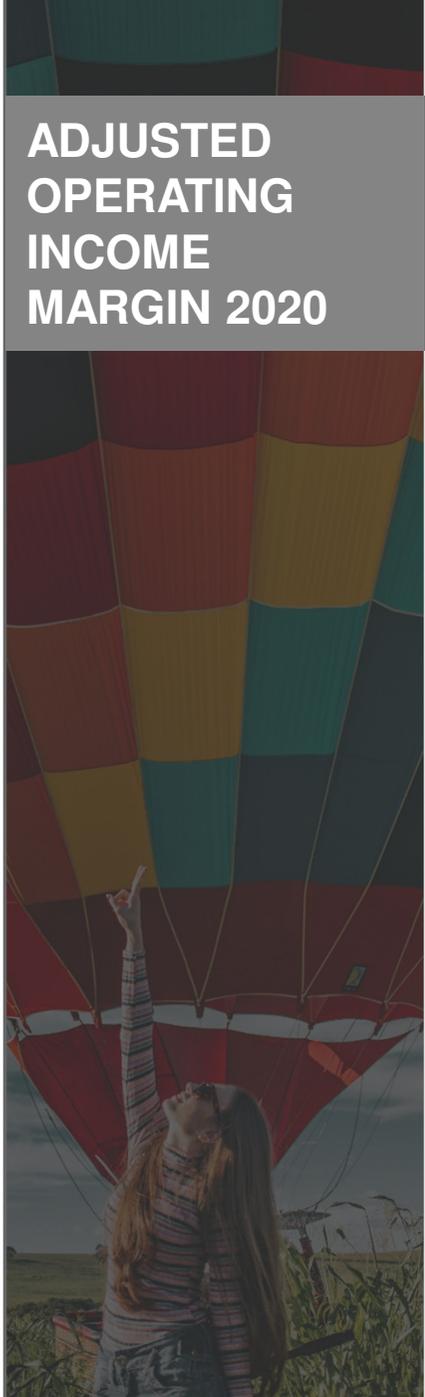
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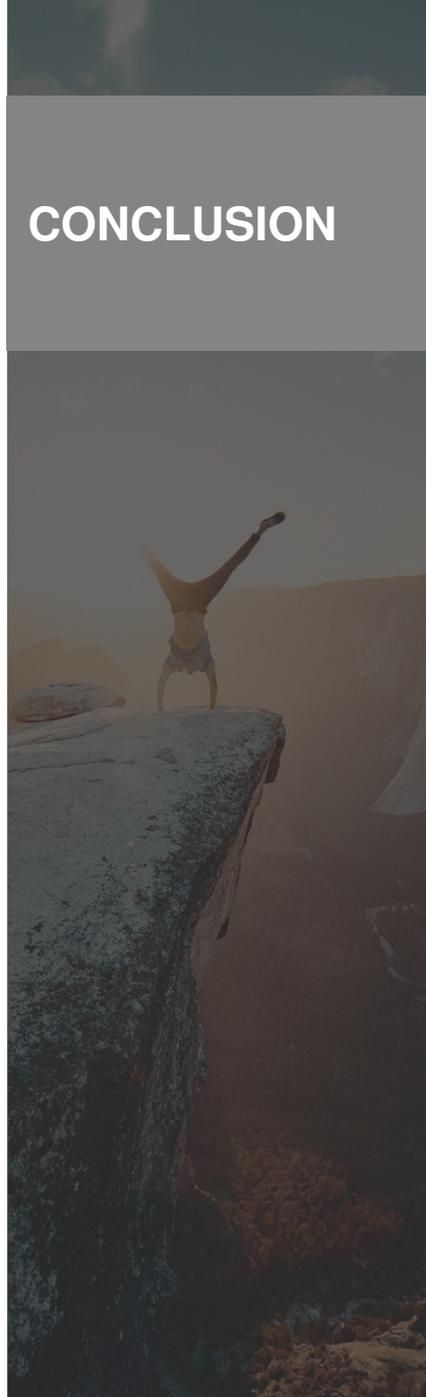
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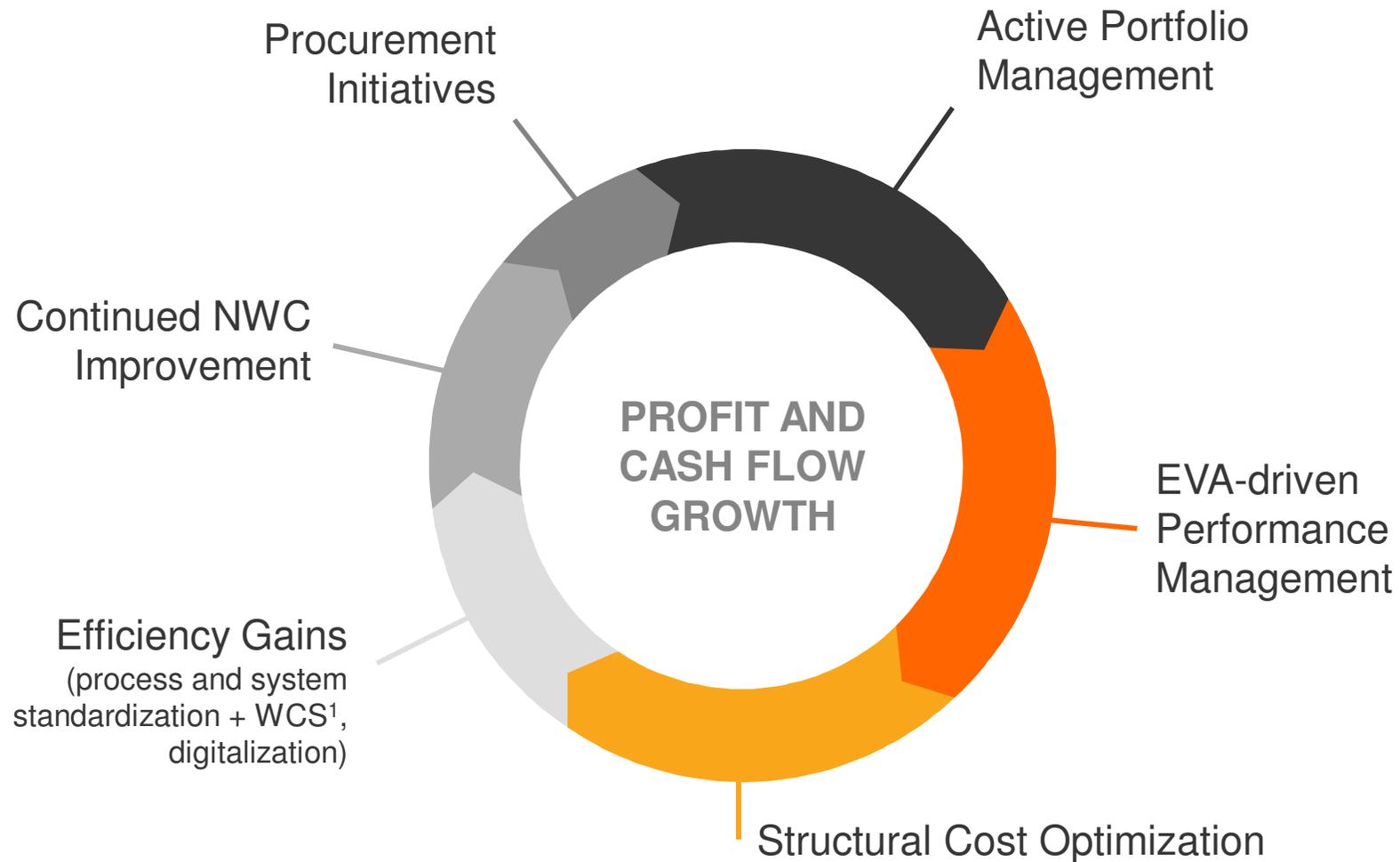
## CAPITAL ALLOCATION

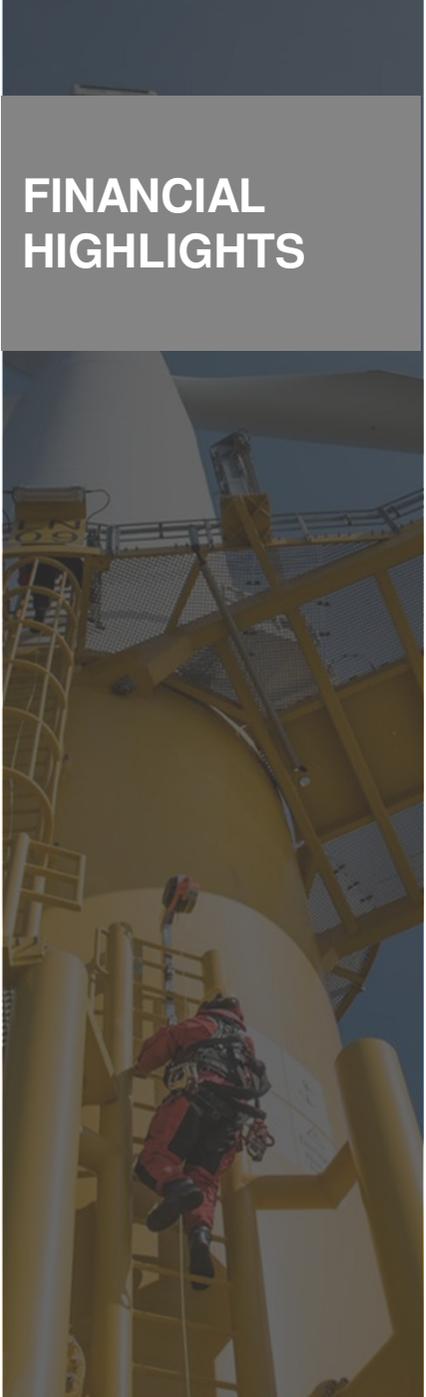


## ADJUSTED OPERATING INCOME MARGIN 2020



## CONCLUSION





**FINANCIAL  
HIGHLIGHTS**



**ACCELERATING  
PROFIT AND  
CASH FLOW  
GROWTH**

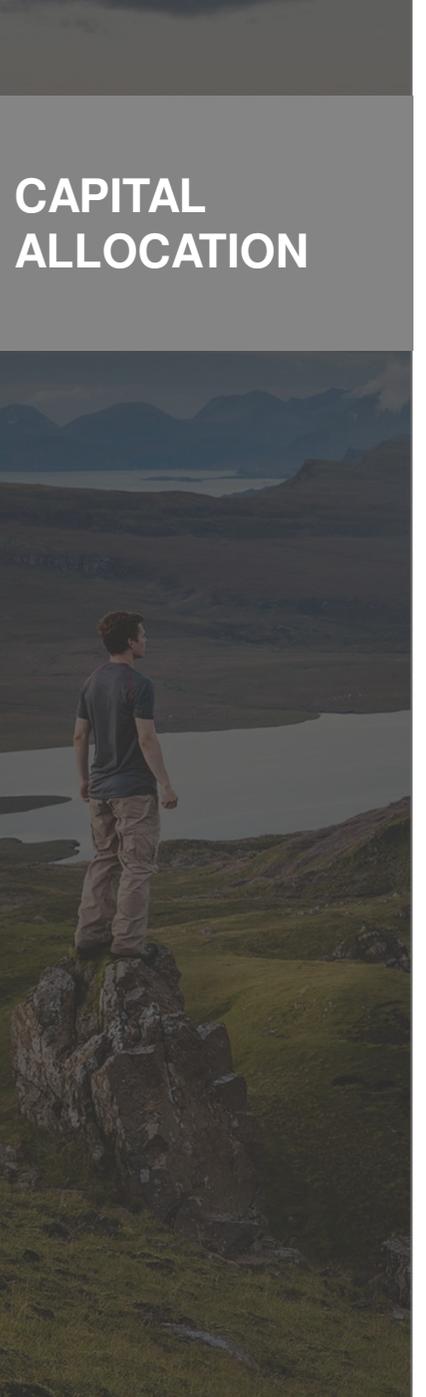
Active Portfolio  
Management

EVA-driven  
Performance  
Management

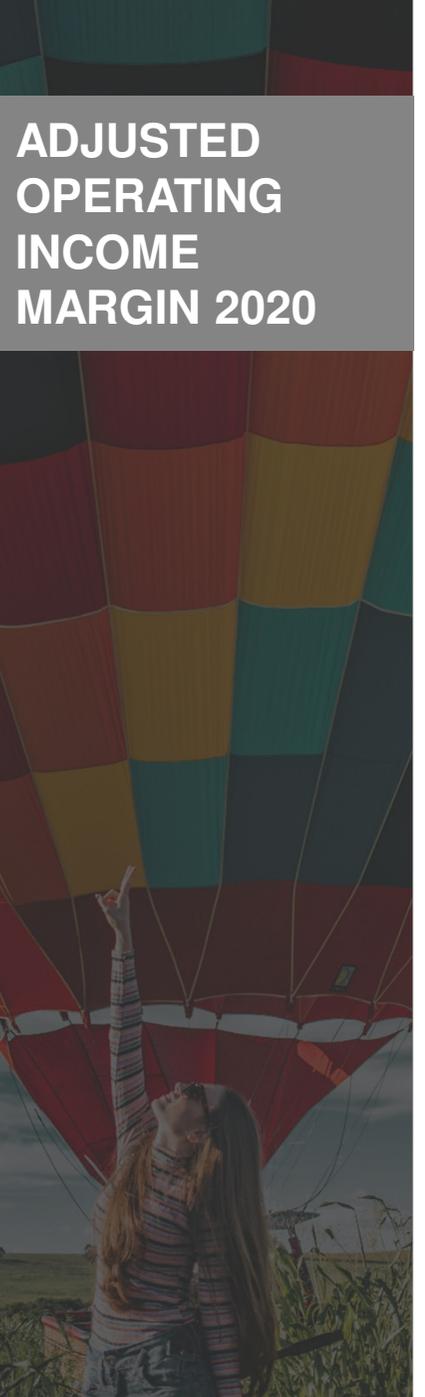
Structural Cost  
Optimization

Efficiency Gains

Continued NWC  
Improvement



**CAPITAL  
ALLOCATION**

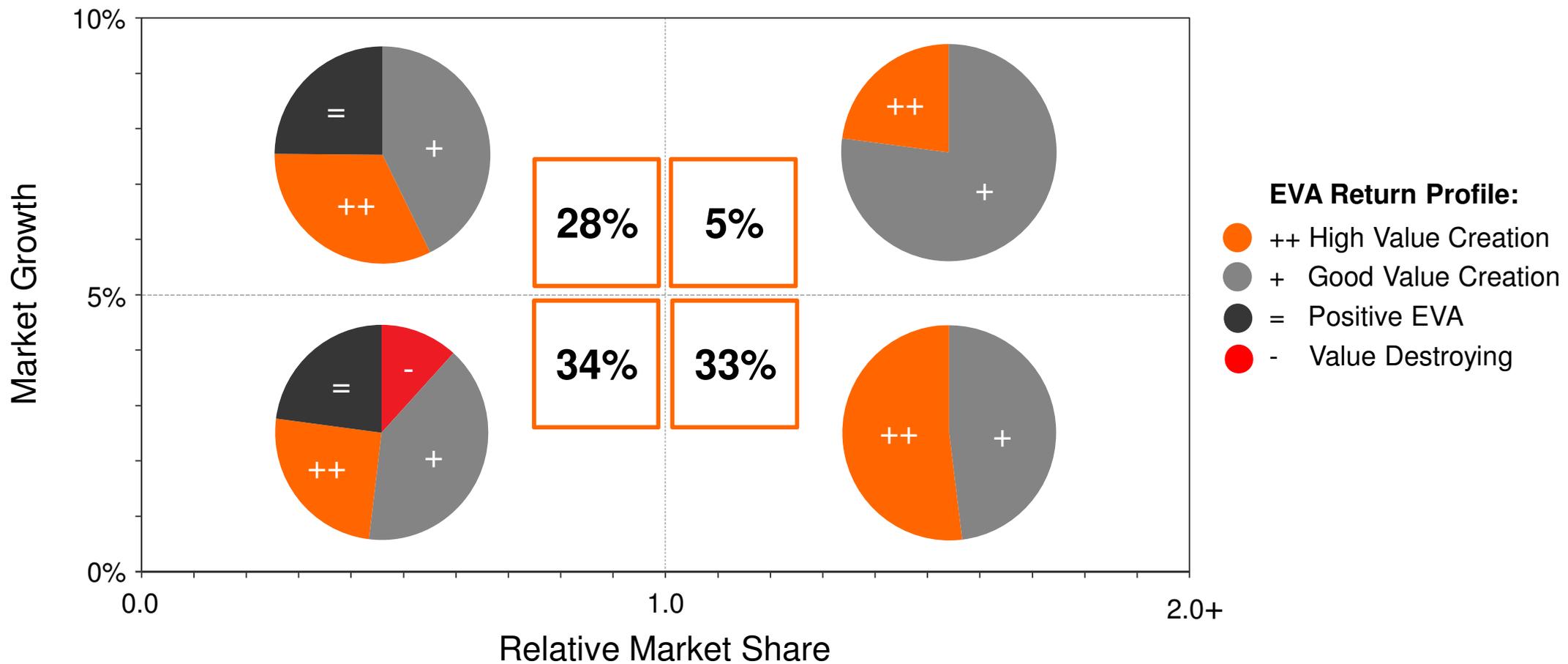


**ADJUSTED  
OPERATING  
INCOME  
MARGIN 2020**



**CONCLUSION**

### RELATIVE MARKET SHARE VS. EXPECTED MID-TERM GROWTH BY BUSINESS ACTIVITY



## Disposal of PSC

- PSC is a leading player in the PTO<sup>1</sup> business in the USA with revenues of USD 309 Mio in 2018
- PSC was acquired in 2014 and grew significantly under the leadership of SGS
- PTO-activities within the OGC business were defined as non-core activities
- Disposal of 100% of the interest for a consideration of USD 335 Mio

## Acquisition of Maine Pointe

- Maine Pointe – a global supply chain and operations consulting firm
- SGS acquired a 60% stake in June 2019 for a price consideration of USD 108 Mio
- Together with LeanSiS (acquired in Q1 2019) Maine Pointe will take our CBE activities towards more advanced consulting services
- Maine Pointe achieved revenues of over USD 70 Mio in 2018 with a proven track-record of strong double-digit growth and operating profit margins in the mid 20's
- High revenue synergy potential. Introduction to North America Consulting market opportunities
- The acquisition of Maine Pointe is expected to be EVA accretive as of year 1

## RETURN PROFILE, CAPEX INTENSITY AND M&A APPETITE BY BUSINESS UNIT

	Capex Intensity	NWC Intensity	Return Profile	M&A Appetite
Agriculture, Food and Life	average	average	+ +	high in food and life
Minerals	higher	higher	+ +	low
Oil, Gas and Chemicals	higher	higher	+	low
Consumer and Retail	higher	lower	+ + +	high in E&E and cosmetics
Certification and Business Enhancement	lower	lower	+ + +	in selective areas
Industrial	lower	higher	+	in selective areas
Environment, Health and Safety	lower	higher	+	high
Transportation	higher	lower	+	in selective areas
Governments and Institutions	average	higher	+ + +	in selective areas



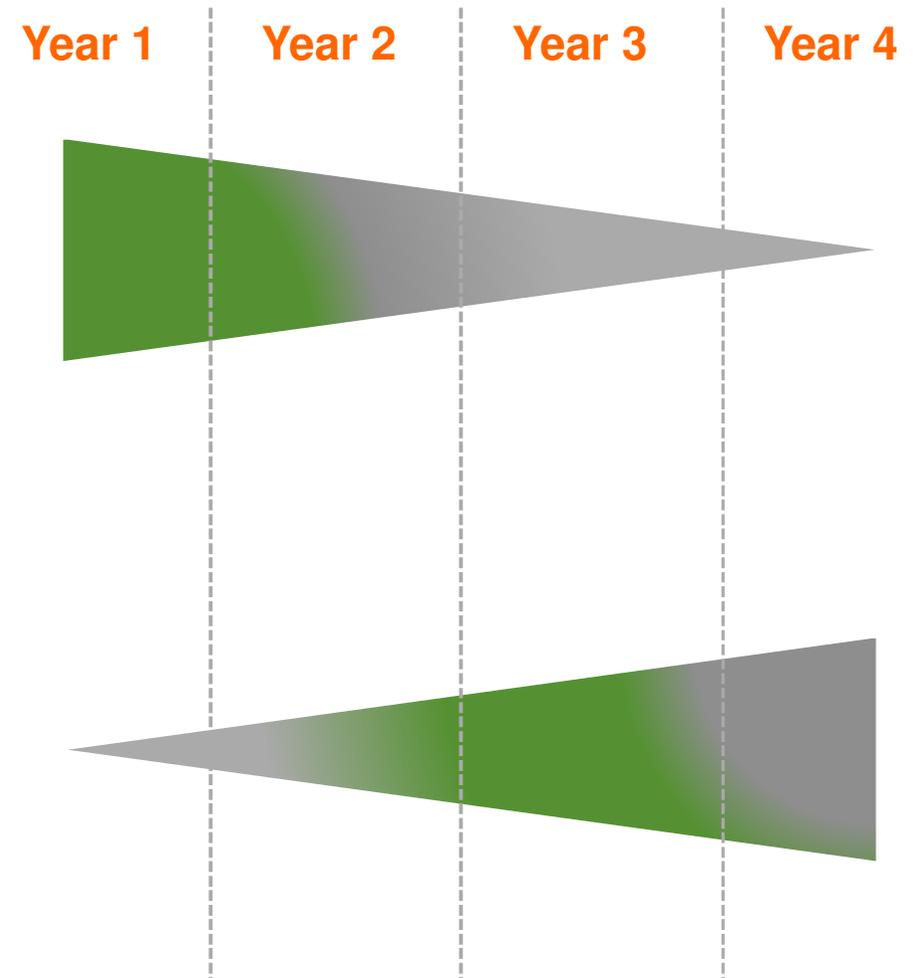
## Indicators for a positive EVA in year 1

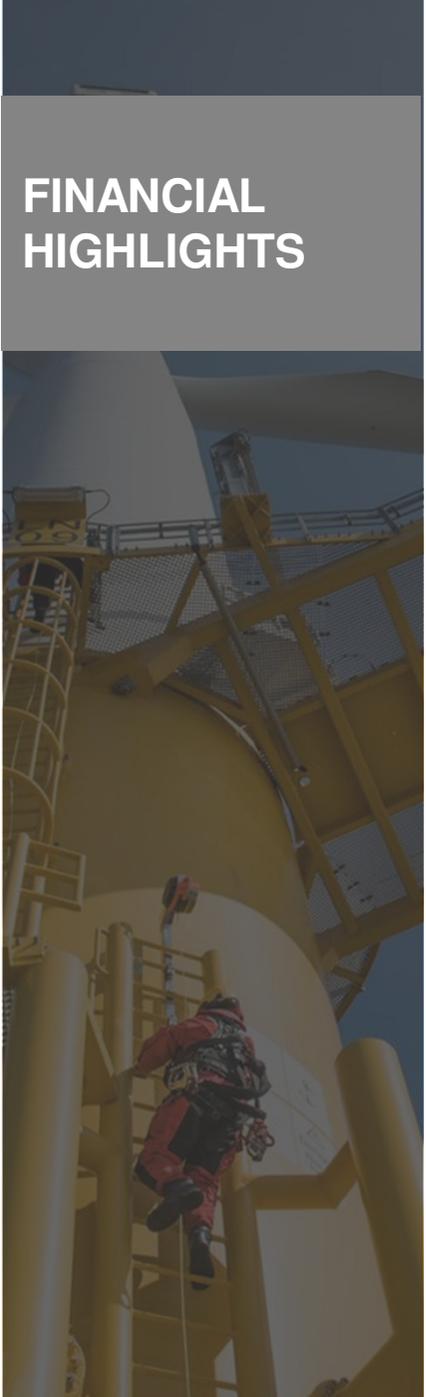
- Small bolt-on acquisition
- Negligible impact on relative market-share
- Concentrated client portfolio
- Low to mid-single digit growth
- Limited synergy potential
- Cyclicalitity > SGS cyclicalitity

## Indicators for a positive EVA beyond year 1

- Transformational acquisition for the BU
- Relative market-share will change materially
- Broad client portfolio with high retention rate
- High single-digit to double-digit growth
- High synergy potential
- Low cyclicalitity

## EXPECTED NUMBER OF YEARS TO CREATE POSITIVE EVA:





## FINANCIAL HIGHLIGHTS

## ACCELERATING PROFIT AND CASH FLOW GROWTH

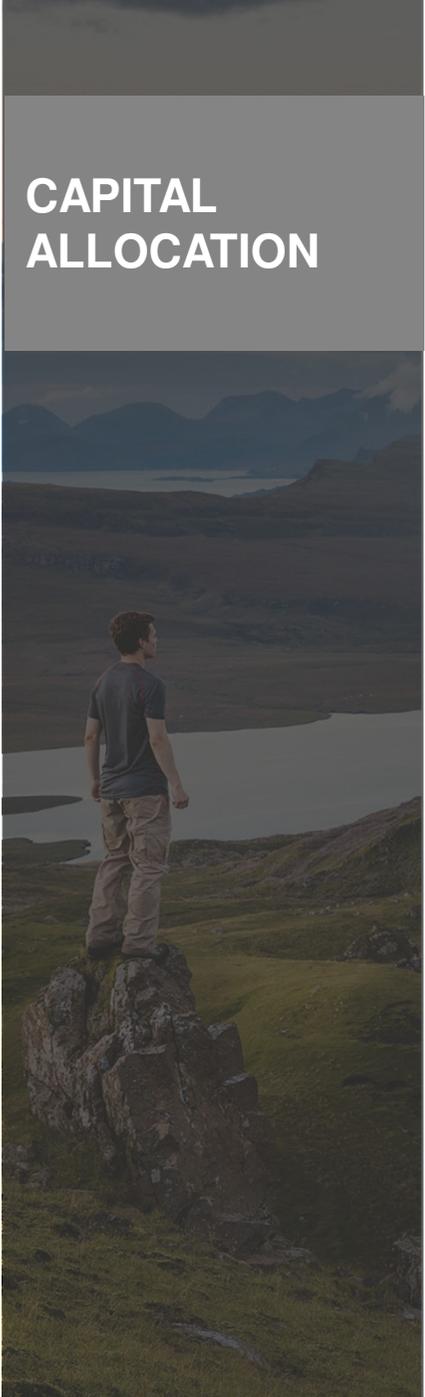
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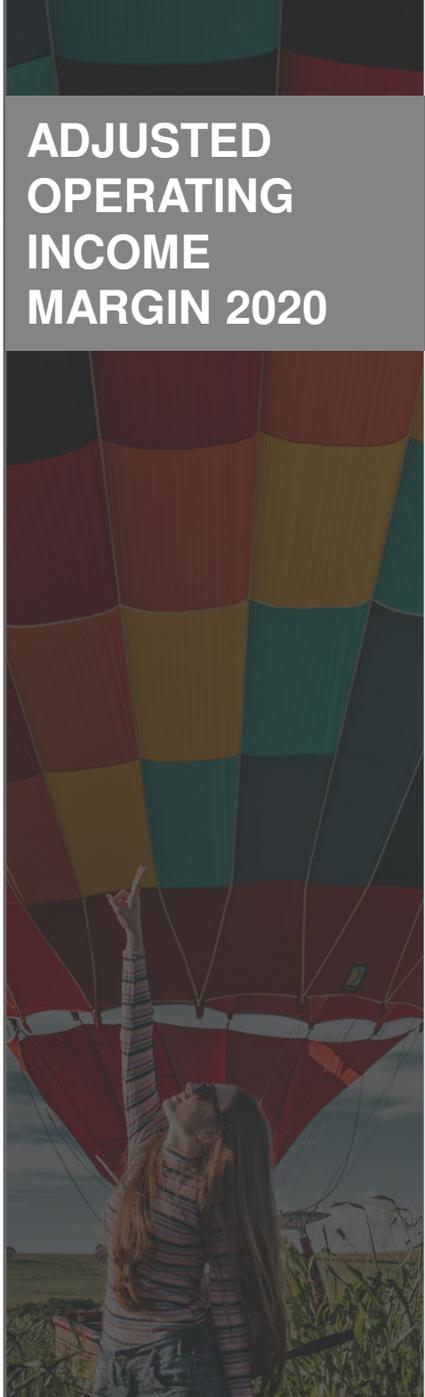
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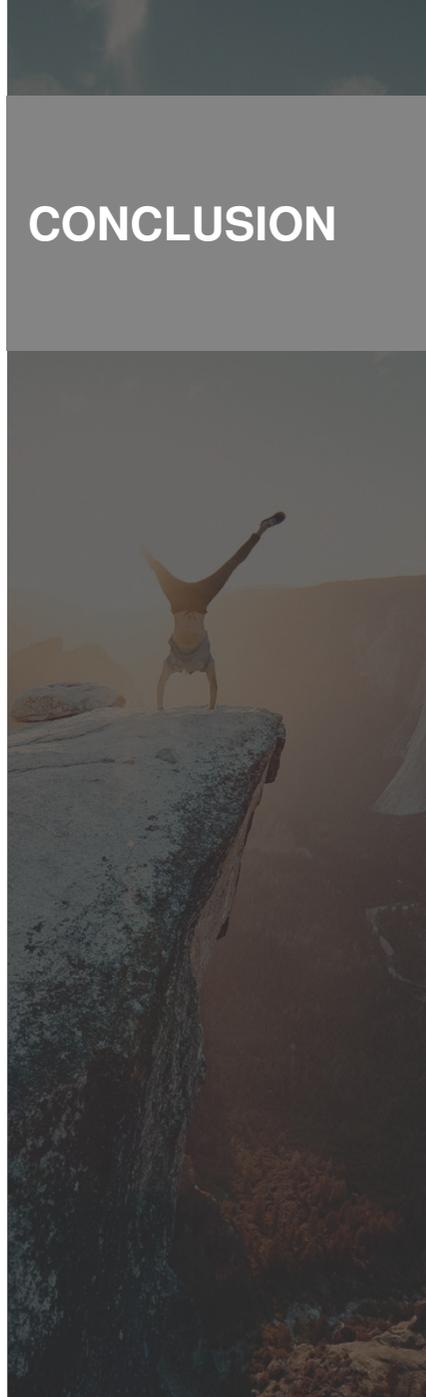
Continued NWC Improvement



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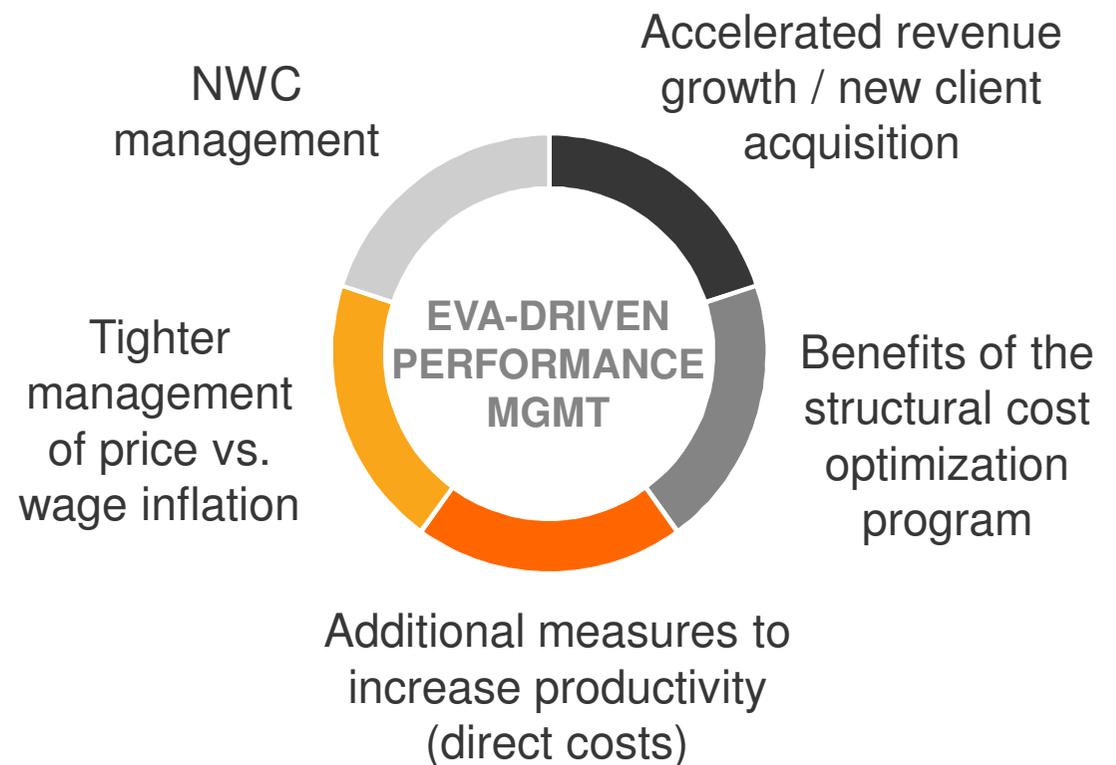


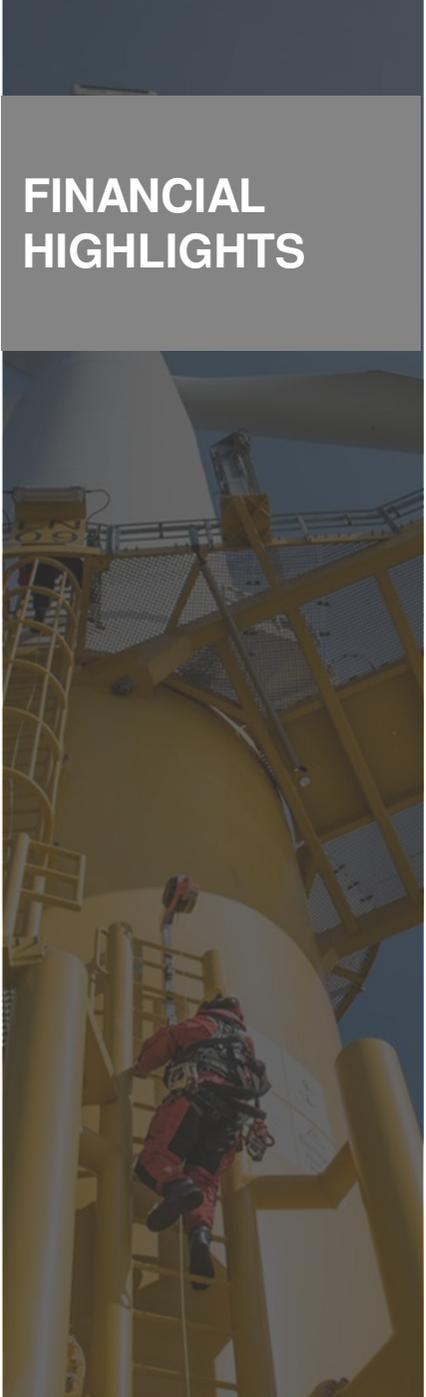
## ADJUSTED OPERATING INCOME MARGIN 2020



## CONCLUSION

- Integrate **EVA framework into strategic decision making** to drive **performance**
- EVA assessment conducted in Q3 2019, showed that **150+ individual businesses** accounting for approx. 8% of Group revenue had a **negative operational EVA** in the last 12 months
- For each of the value destroying units a **recovery plan** will be established and implemented in Q4 2019. Alternatively, different exit or consolidation options will be considered
- The recovery plans focusing on the following levers **will be monitored on a quarterly basis**





## FINANCIAL HIGHLIGHTS



## ACCELERATING PROFIT AND CASH FLOW GROWTH

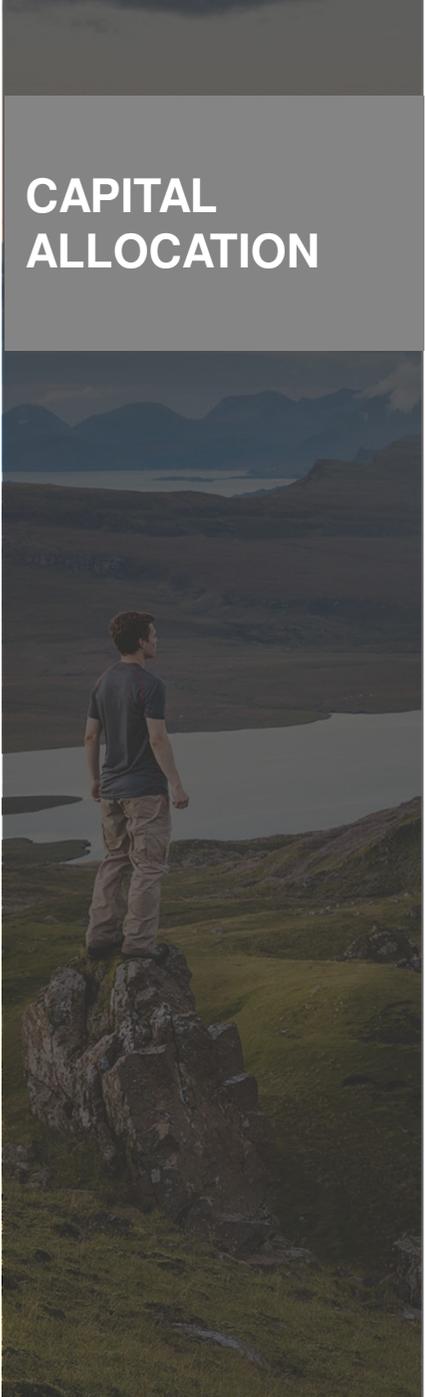
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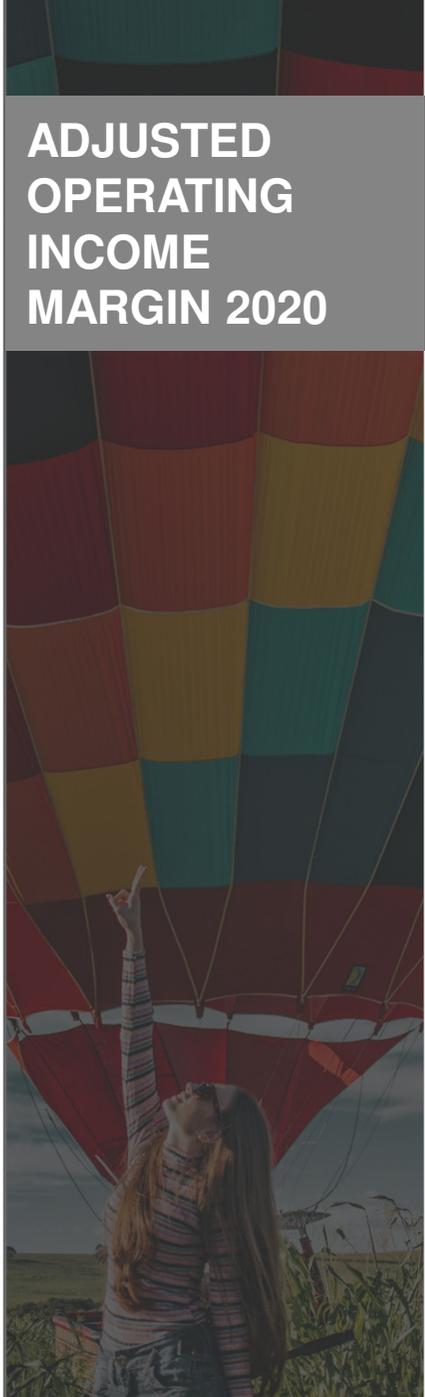
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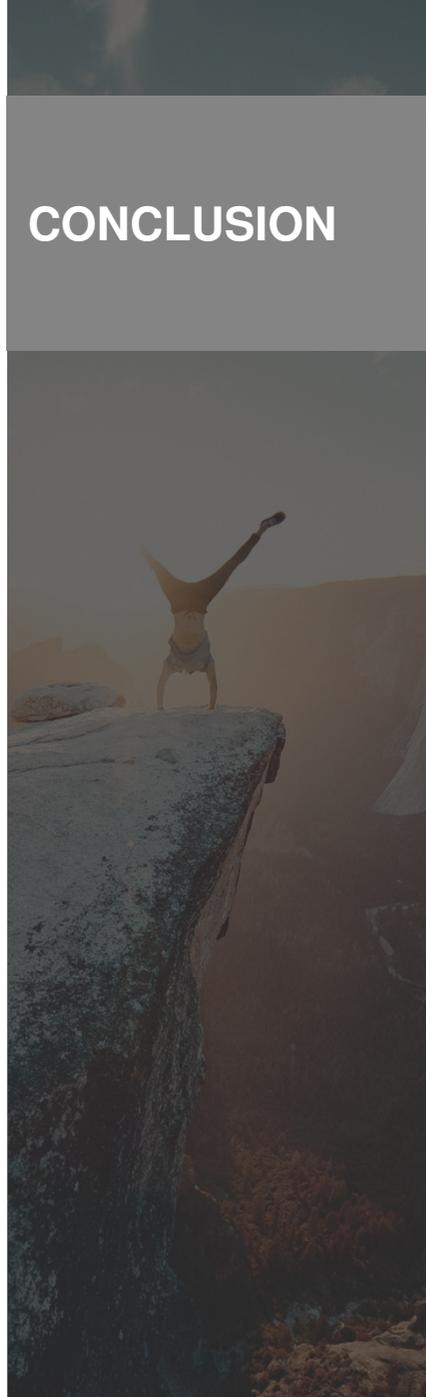
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## CAPITAL ALLOCATION



## ADJUSTED OPERATING INCOME MARGIN 2020

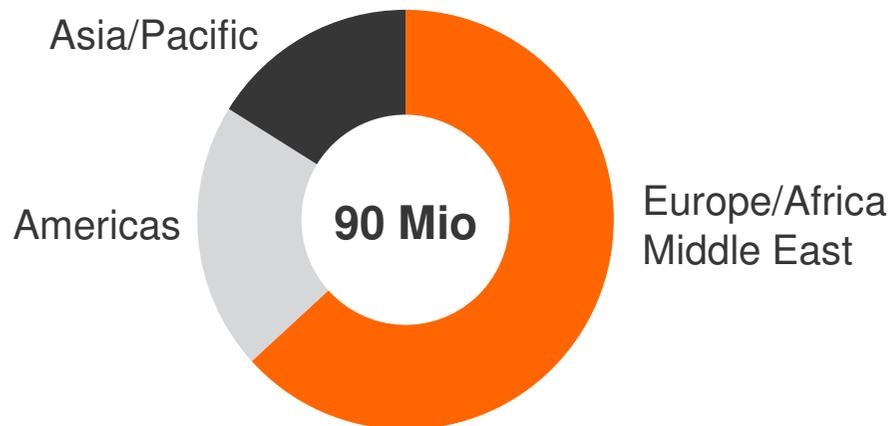


## CONCLUSION

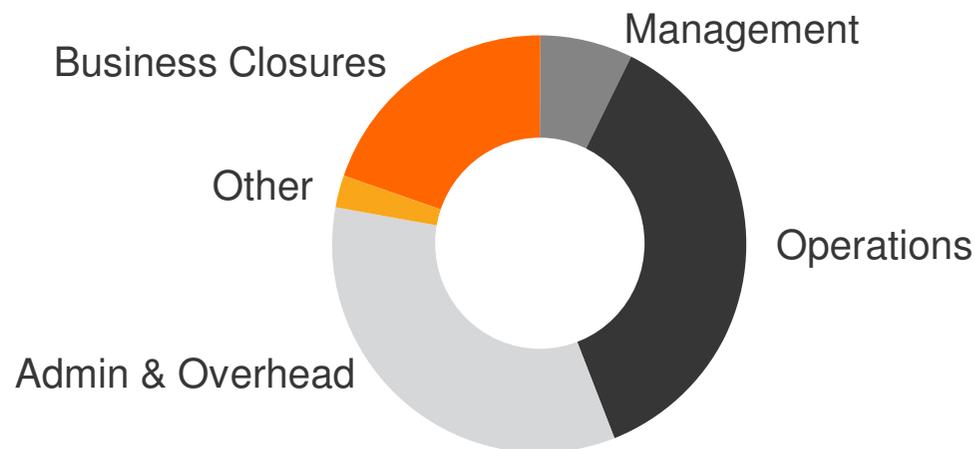
## Highlights

- At least **90 Mio** annualized sustainable savings
- **970** actions initiated / central monthly follow-up
- Current status: **47%** of actions **closed** confirming **50%** of the total savings, well on track to achieve target at the end of 2019

### SAVINGS BY REGION



### HEADCOUNT REDUCTION BY AREA





**SGS GERMANY  
CHF 8+ Mio Savings Target**

**-4%**  
Overall staff  
reduction

**-16%**  
Streamline of  
Overhead  
departments

**-12%**  
Reduction of  
labs and  
consolidation in  
OGC

**-6%**  
Closing of sub  
business units  
in Industrial  
Services



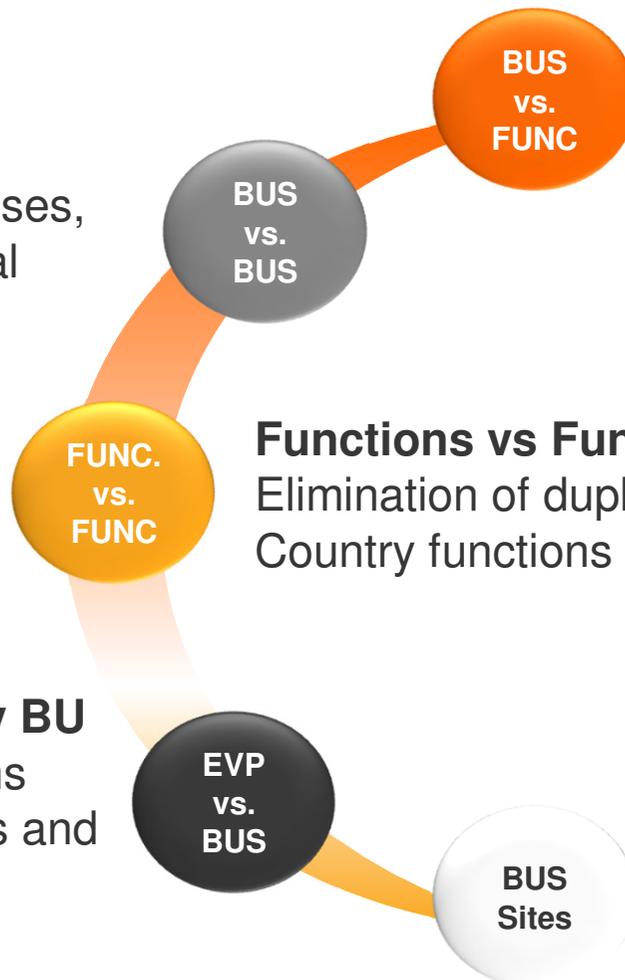


### Business vs. Business

Consolidation of businesses, elimination of 1 additional management layer

### Global BU vs. Germany BU

Elimination of duplications between Group Business and local Business units



### Business vs. Function

Elimination of duplications between Country functions (OVH) and local Business units

### Functions vs Functions

Elimination of duplications between Group and Country functions

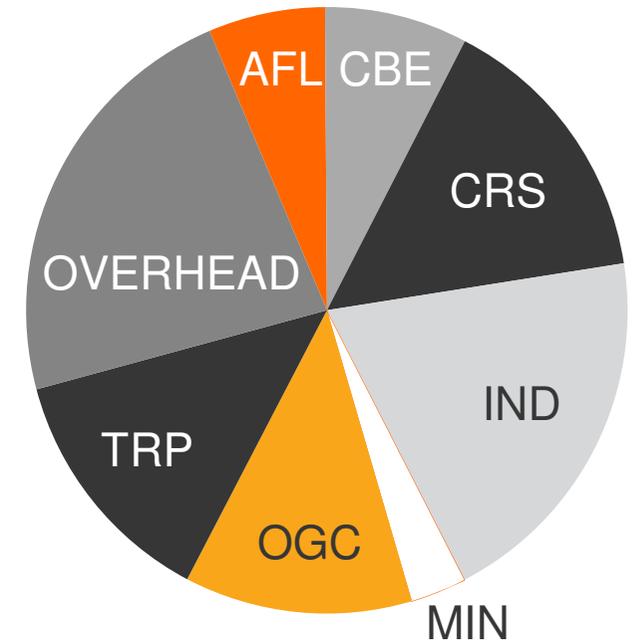
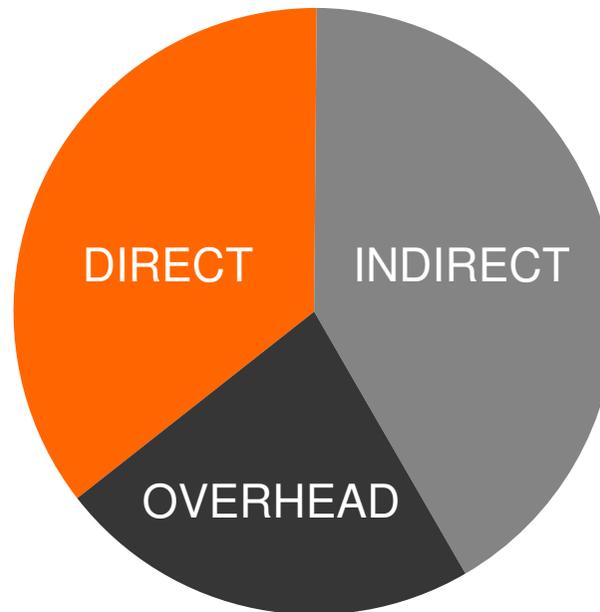
### Business & Location closures

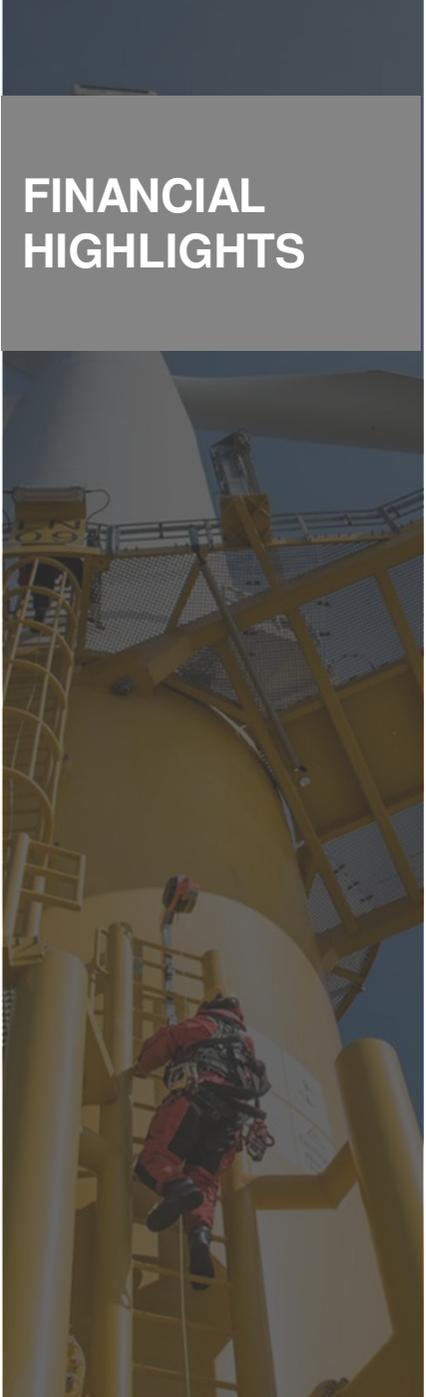
Consolidation of sites and labs

### GERMANY SAVINGS CHF 8+ Mio

#### Current Status

- 65% of actions identified have been implemented
- Remaining actions to be implemented in Q4 2019





## FINANCIAL HIGHLIGHTS



## ACCELERATING PROFIT AND CASH FLOW GROWTH

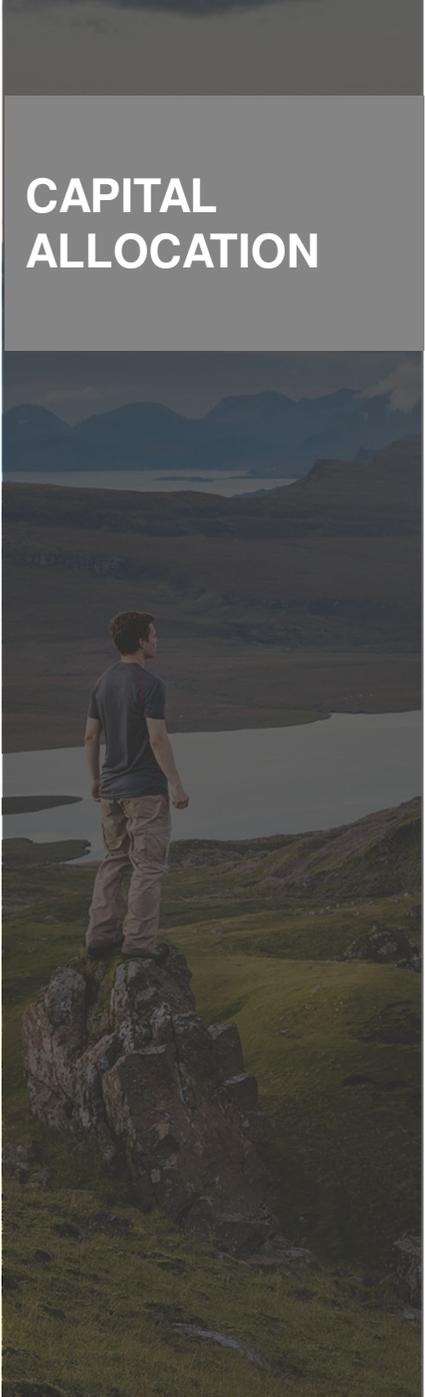
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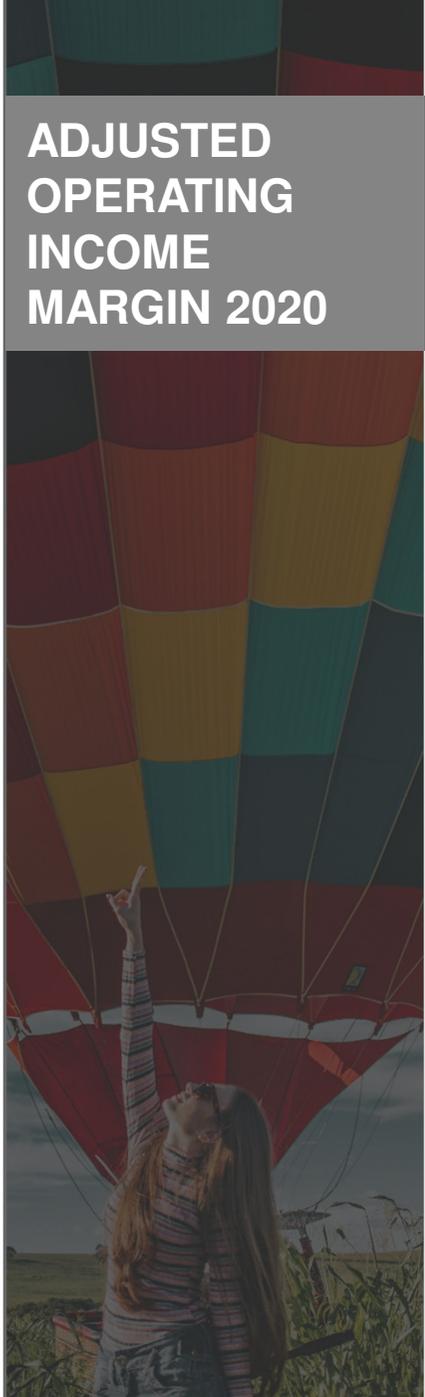
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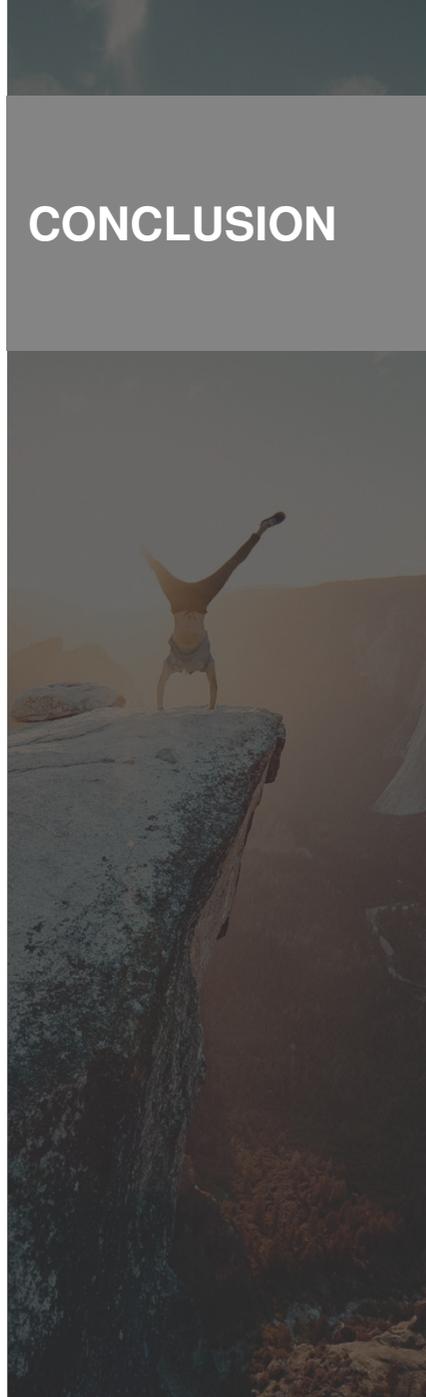
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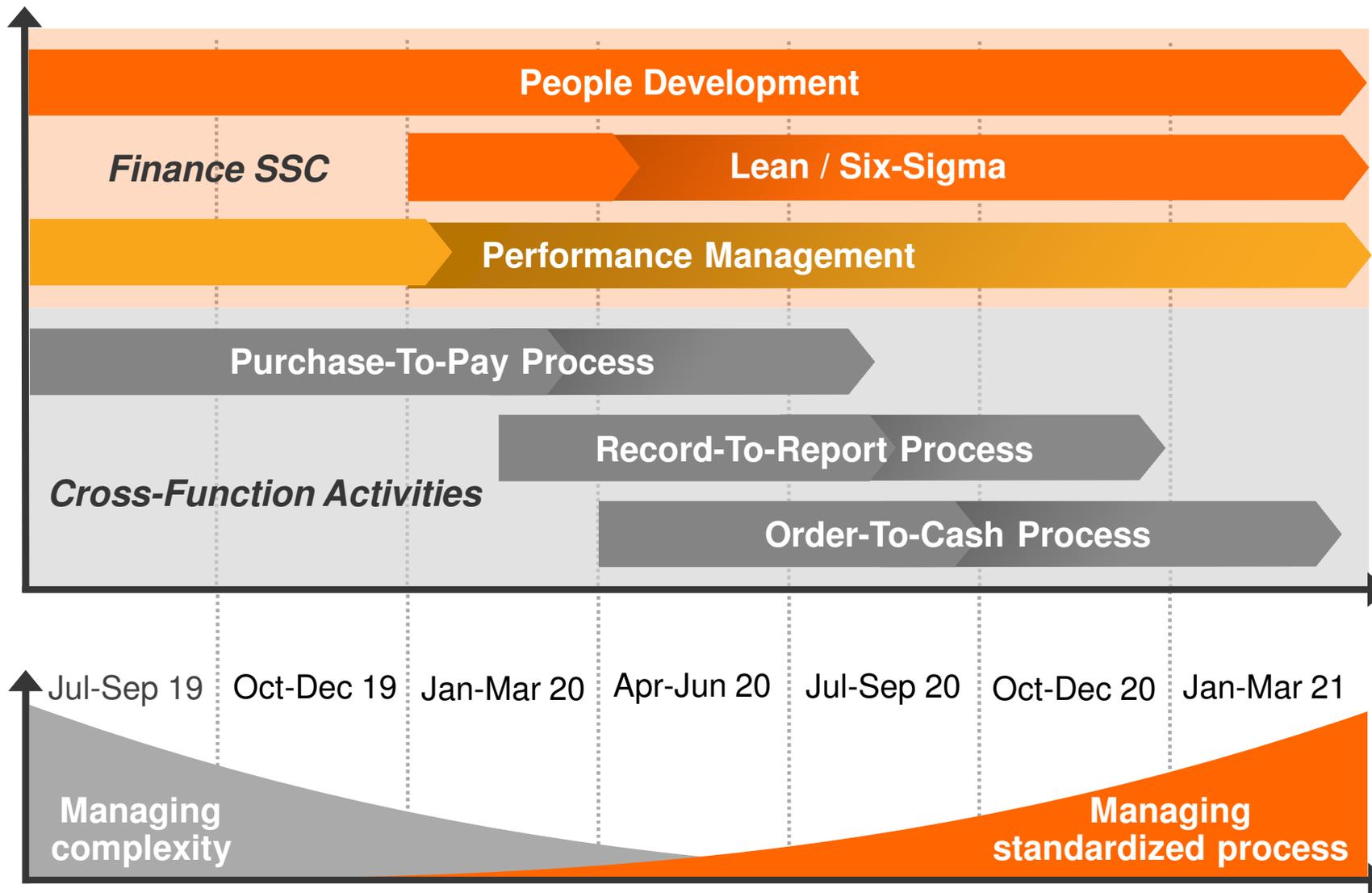
## CAPITAL ALLOCATION



## ADJUSTED OPERATING INCOME MARGIN 2020



## CONCLUSION



### People:



- Process training and best practice sharing
- Lean/Six-Sigma and Continuous Improvement

### Results:

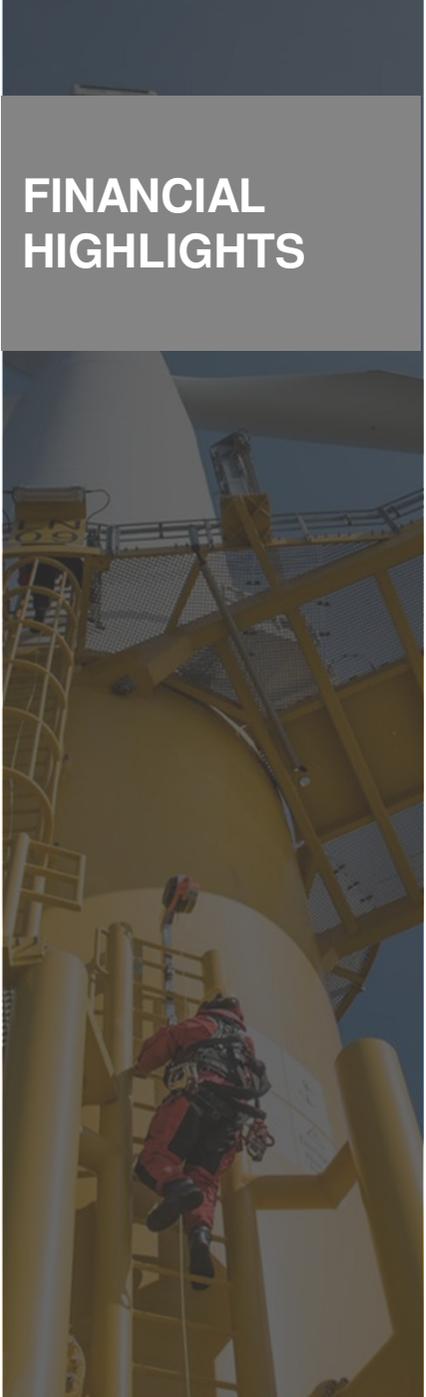


- KPIs tracking and review with functions and countries

### Process:



- Fit-Gap Analysis (Brown Paper Sessions)
- Standardization
- Automation / RPA



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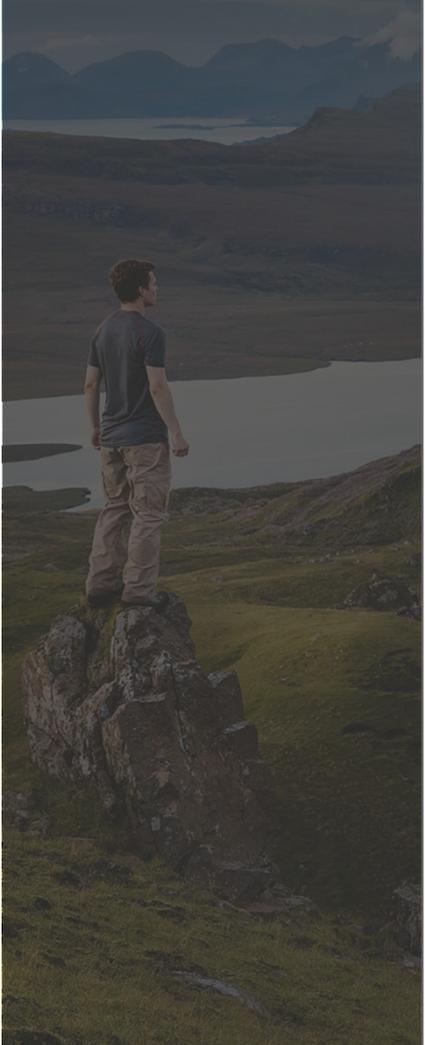
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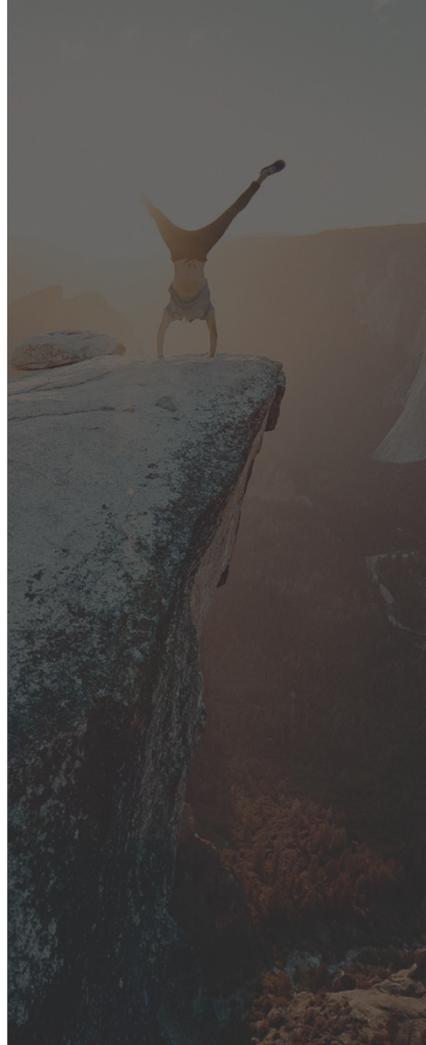
## CAPITAL ALLOCATION



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## CONCLUSION





## 25% Time to Bill

*25 % of full OTC cycle*

- Billing centralization (in country). First pilots showing strong cost saving potential
- Close follow-up on WIP and UR
- KPIs monitored through dashboards
- System consolidation (mid-term)

## 50% Payment Terms

- EVA-driven culture
- Close the gap to standard payment terms
- Improvement of contract terms especially for long-term projects (i.e. milestone payments)

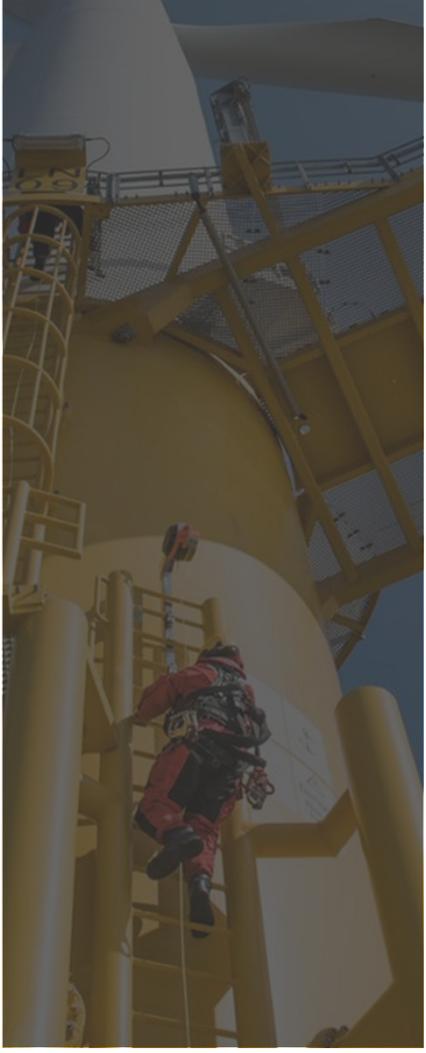
## 25% Overdue

- Onboarding of additional countries to Finance SSC
- Advanced collection tools in SSC
- Roll out of a new collection policy
- KPI-driven follow up and escalation

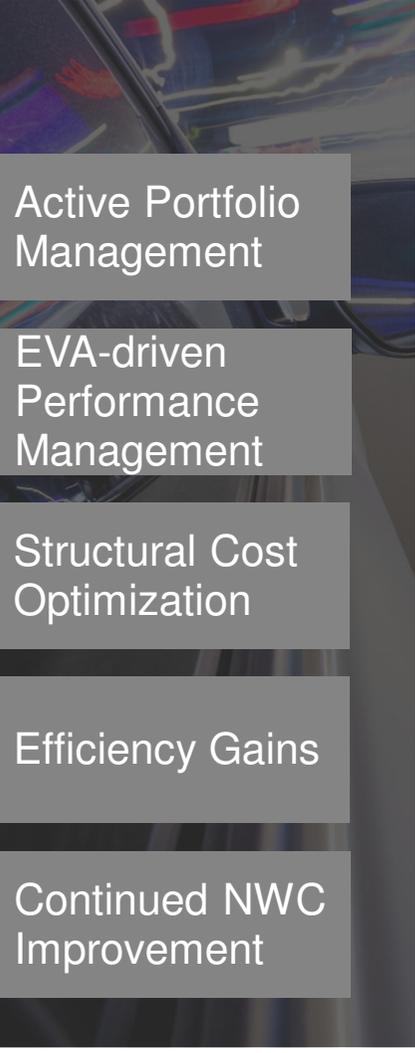
DSO 47 days

Expected mid-term improvement of 4 days

# FINANCIAL HIGHLIGHTS



# ACCELERATING PROFIT AND CASH FLOW GROWTH



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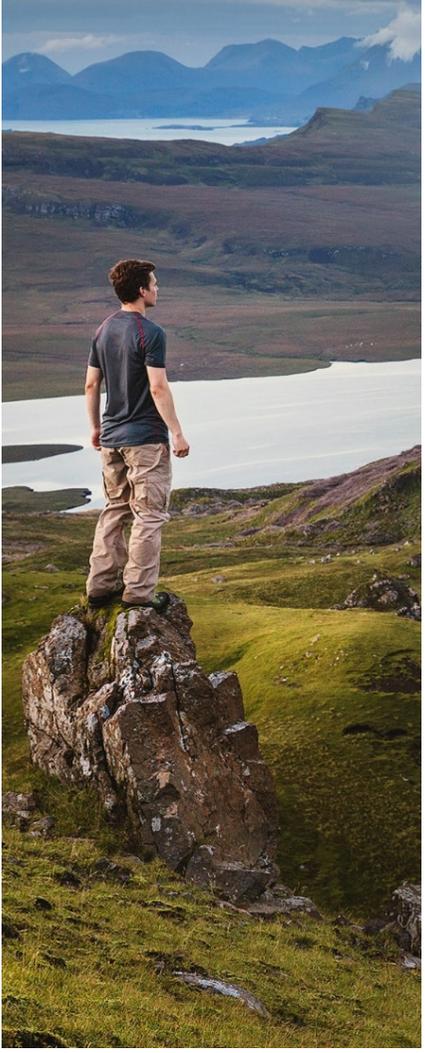
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# CAPITAL ALLOCATION



# ADJUSTED OPERATING INCOME MARGIN 2020



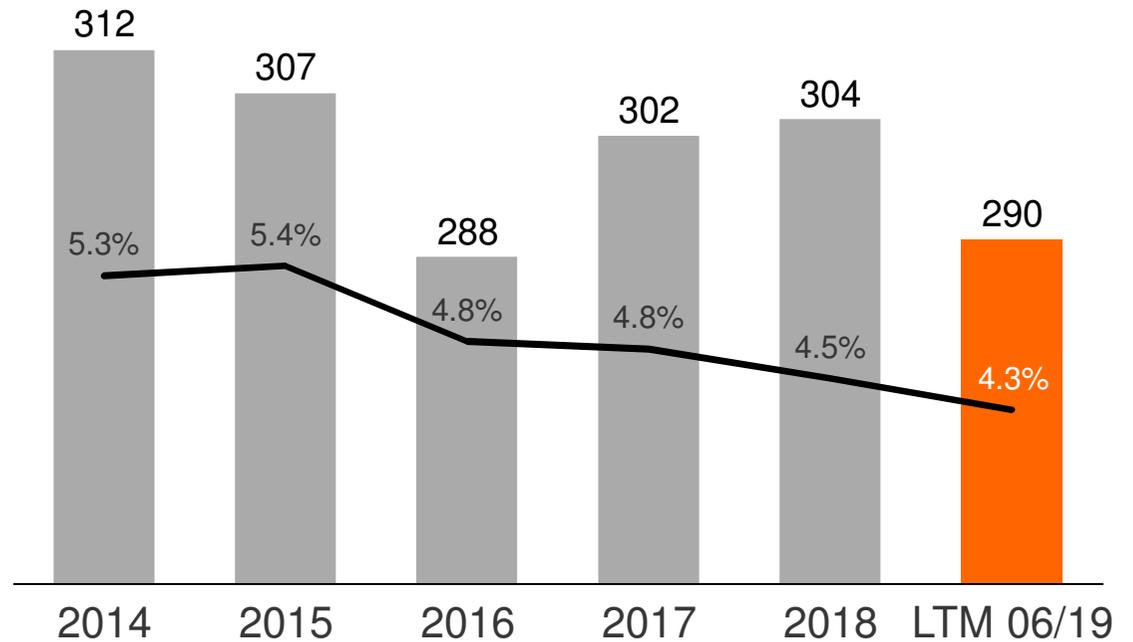
# CONCLUSION



CAPEX LEADING TO  
SUSTAINABLE SOLID  
ORGANIC GROWTH



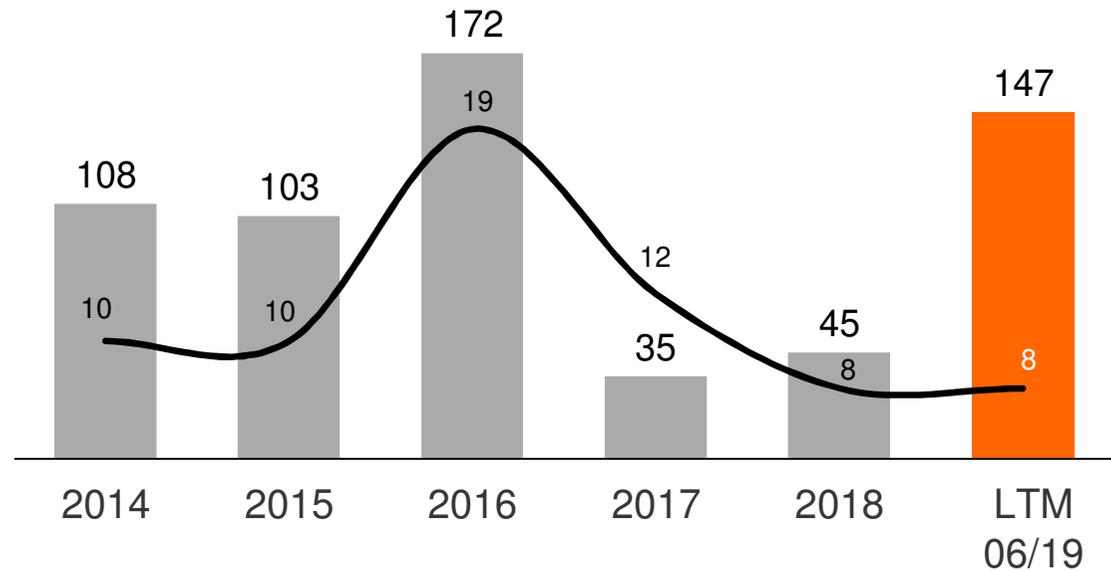
CAPEX (CHF MIO IN % OF REVENUE)



FOCUS ON  
M&A ACTIVITY

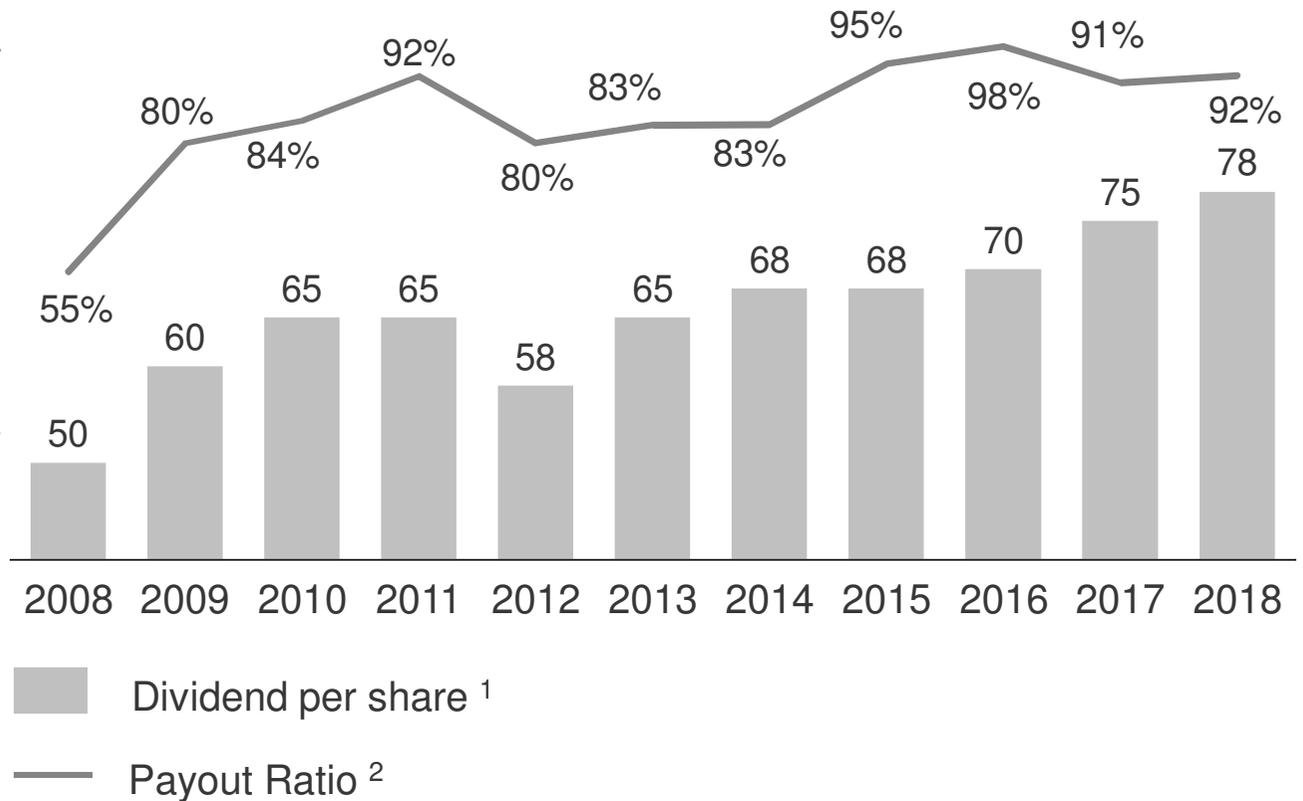


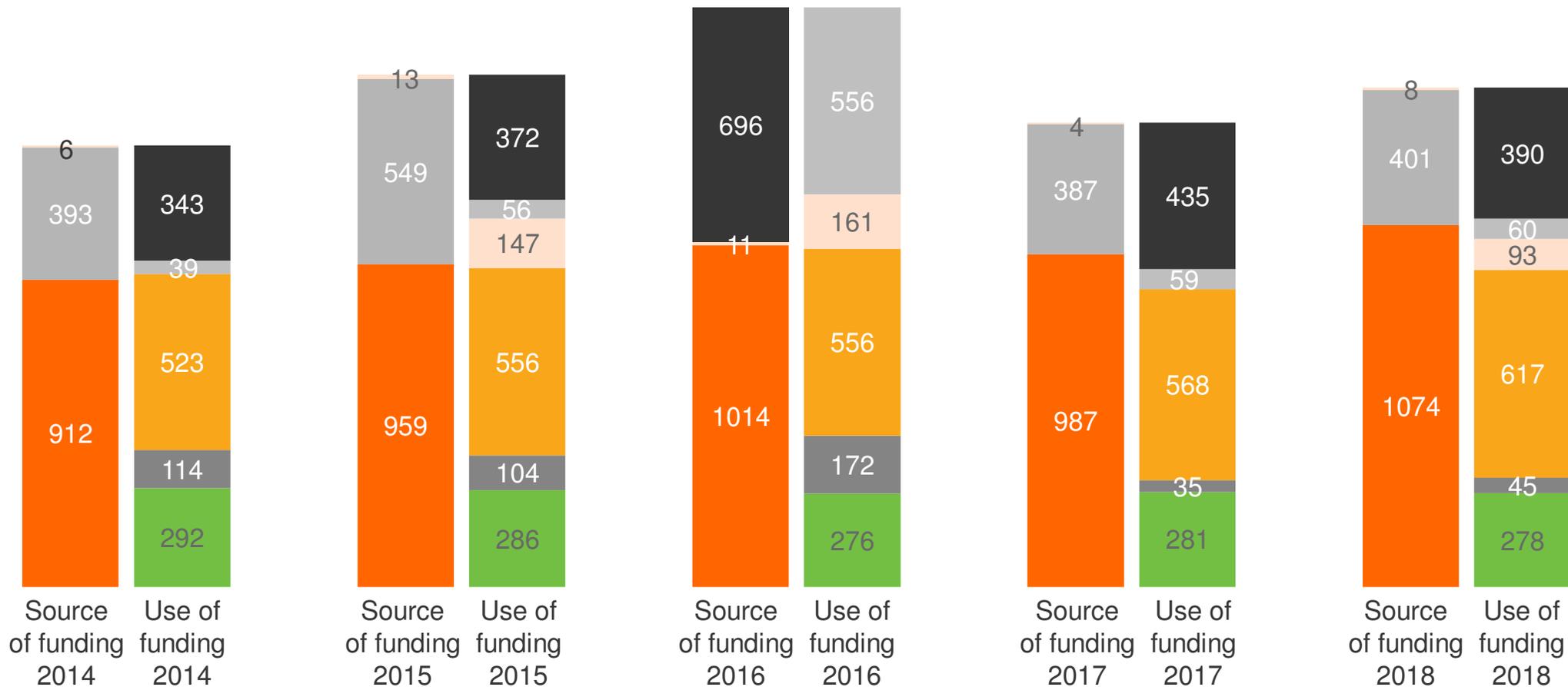
### ACQUISITION CASH CONSIDERATION (CHF MIO / # OF TRANSACTIONS)



MAINTAIN ATTRACTIVE  
SHAREHOLDER RETURN  
POLICY

AVERAGE DIVIDEND YIELD OF  
3.7% (RANGING FROM 3.2%  
TO 4.9%)





### SOURCE OF FUNDING

- Net cash decrease
- Proceed of corporate bonds
- Cash flow from operating activities
- Other

### USE OF FUNDING

- Net cash increase
- Dividends
- Interest and reimbursement of corporate bonds
- Acquisitions and NCI
- Capex
- Net cash paid on treasury shares



Investments into operations (CAPEX) to **sustain and enhance growth**

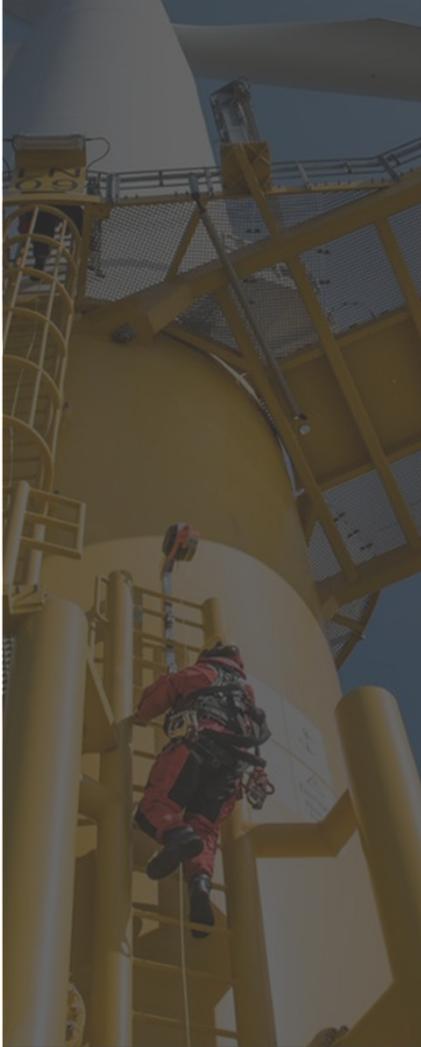
Merger & Acquisitions to **accelerate growth**

Dividends in line with earnings growth to **reward performance**

Share buyback to **return excess (if any)**

- Committed to a sound and prudent balance sheet policy with sufficient debt headroom for sizeable M&A opportunities without impacting credit rating
- Usage of cash: prioritize **investments** over **distribution**, however following stringent ROIC/EVA criteria and not jeopardizing dividend capacity

## FINANCIAL HIGHLIGHTS



## ACCELERATING PROFIT AND CASH FLOW GROWTH

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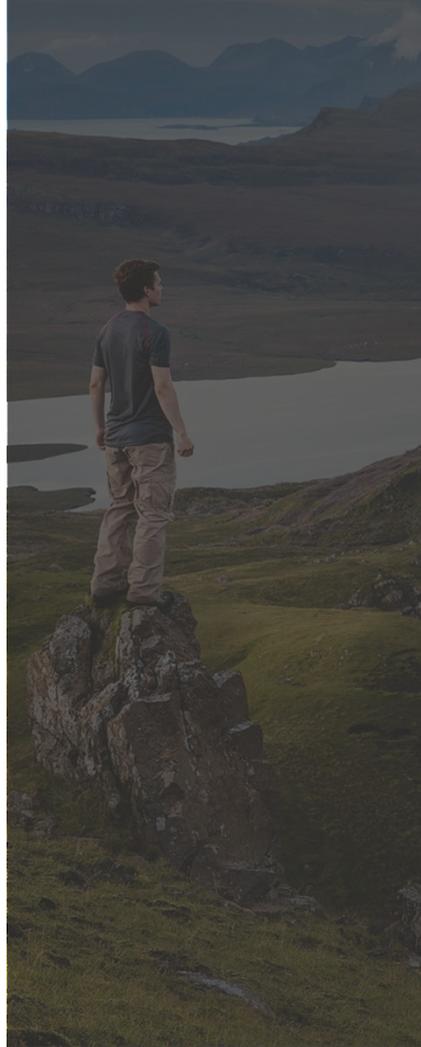
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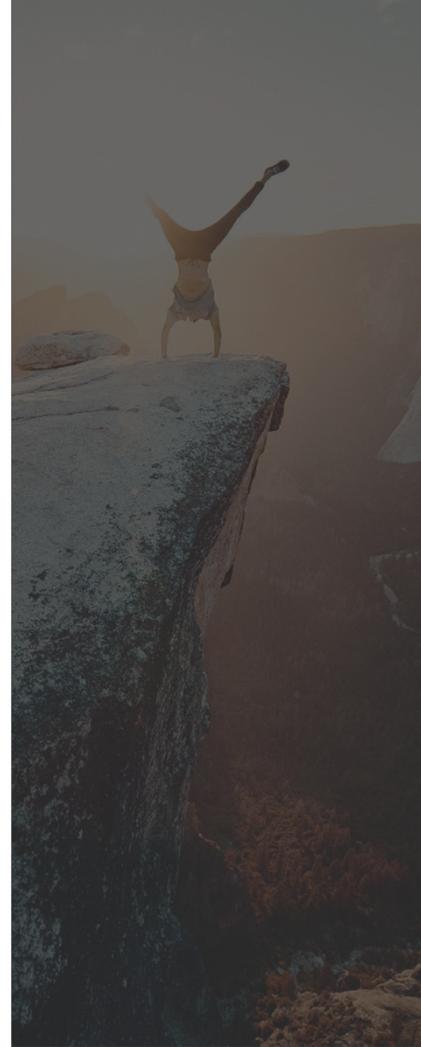
## CAPITAL ALLOCATION



## ADJUSTED OPERATING INCOME MARGIN 2020



## CONCLUSION





## Cost Optimization

- Majority of the expected savings from the structural cost optimization program of at least CHF 90 Mio will occur in 2020

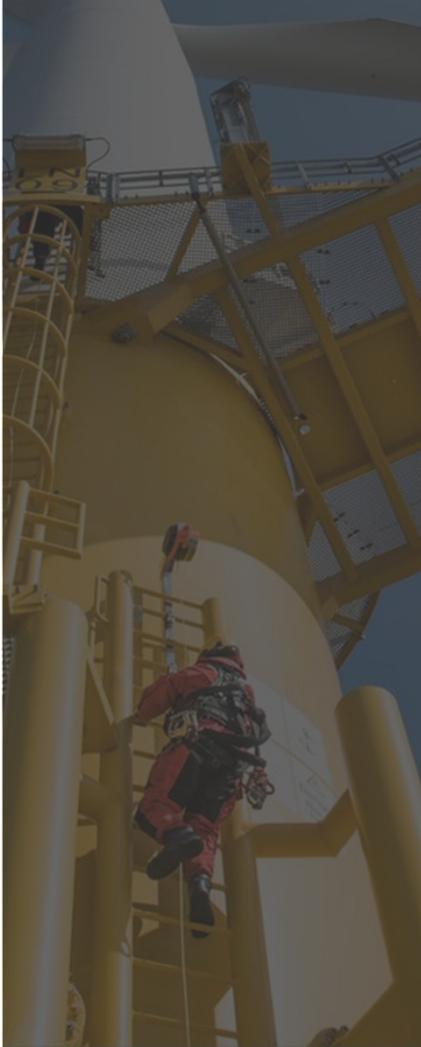
## Business Portfolio

- Margin uplift from changing our portfolio towards higher added-value services will be realized in 2020 (disposal of PSC and acquisition of Maine Pointe)

## EVA-driven Performance

- Improving or exiting value destroying business will lead to a margin uplift in 2020 and beyond

## FINANCIAL HIGHLIGHTS



## ACCELERATING PROFIT AND CASH FLOW GROWTH

Active Portfolio Management

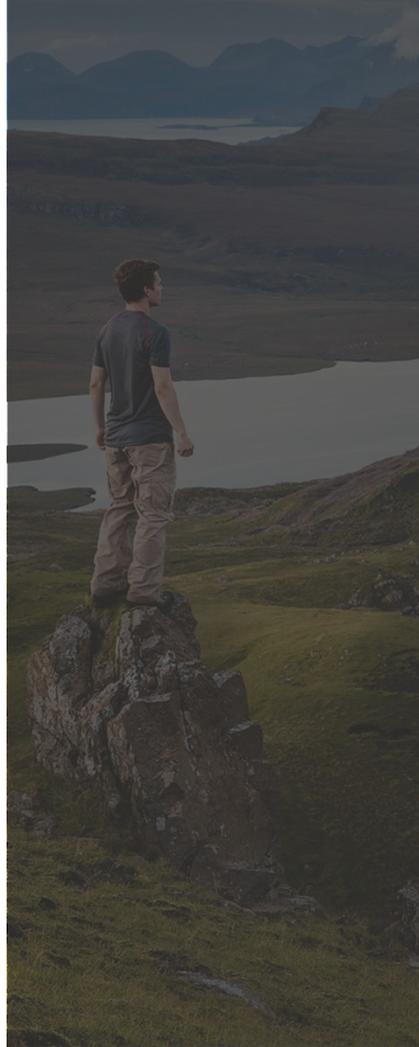
EVA-driven Performance Management

Structural Cost Optimization

Efficiency Gains

Continued NWC Improvement

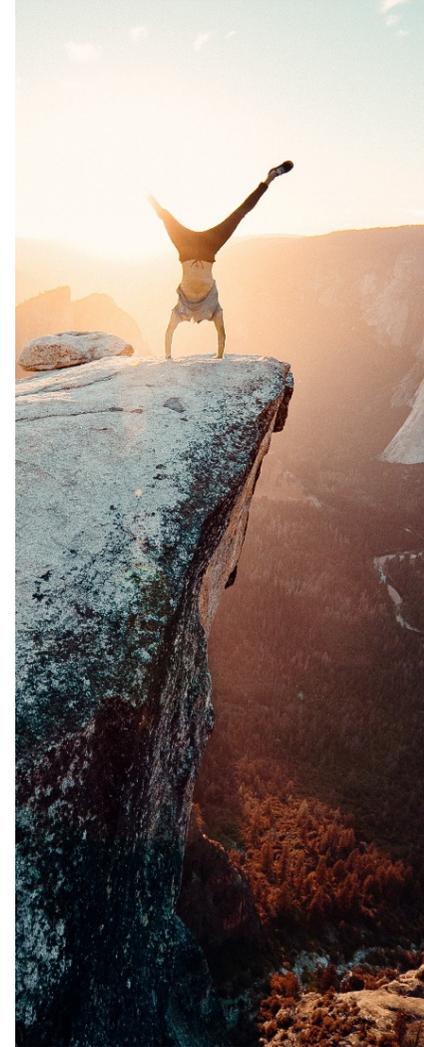
## CAPITAL ALLOCATION



## ADJUSTED OPERATING INCOME MARGIN 2020



## CONCLUSION





- Global leader in the TIC industry with a broad and balanced portfolio
- Proven track-record of sustainable solid organic growth
- Best in class ROIC (%) and Cash Flow conversion
- Shareholder friendly dividend policy with a high pay-out ratio
- Strong balance sheet with sizeable capacity to actively evolve the portfolio towards higher added-value services and growth drivers
- Opportunity to accelerate profit and cash-flow generation driven by growth, structural cost measures, leveraging digital investment, implementing of an EVA-driven performance culture and active portfolio management

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WHEN YOU NEED TO BE SURE

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