

September 2022

Sika

Market profile

Country	Switzerland
Sector	Building Materials
Market cap (CHF million)	34'683
52-week high / low (CHF)	212.4/ 385.7
Price per share (CHF)	226

Key metrics (CHF)

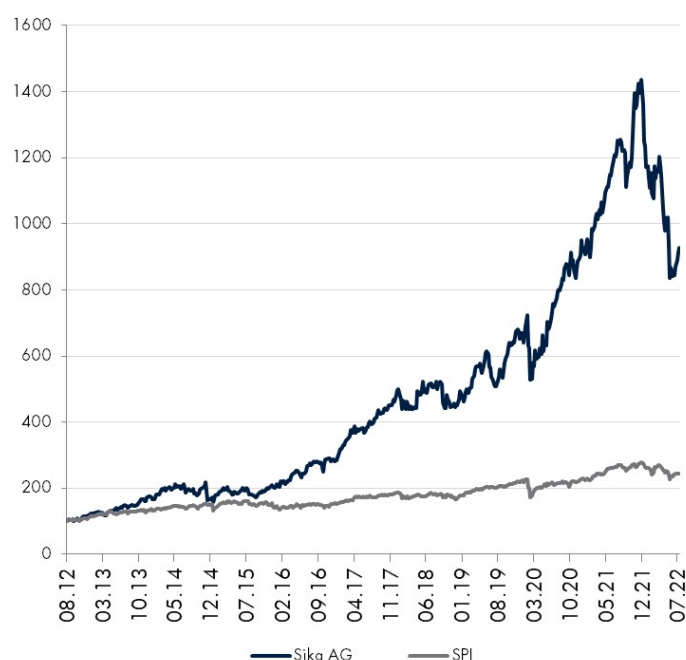
	2021	2022e	2023e
EPS	6.56	7.73	9.16
PE	31.6	29.3	24.7
P/Book	7.3	6.5	5.4
Dividend yield	065%	1.47%	1.66%

Executive summary

Sika's history traces back to 1910, when Kaspar Winkler, the company's founder, invented Sika-1, a quick-setting waterproofing admixture for mortar, which was used to waterproof the Gotthard Tunnel. Driven by a strong demand for this product, Sika already opened subsidiaries in Europe, USA, Argentina, Brazil, and Japan in the 1930s. Since 2000, Sika summarizes its core competencies in bonding, sealing, damping, reinforcing, and protecting. From basement to roof, Sika intends to become the market leader in these technological disciplines. In terms of products, services and support, the company is organized in 5 segments: Construction Solutions, Industry Solutions, Innovation, Knowledge Center, and Project Support.

Evolution of stock price with respect to benchmark (rebased)

Source: IAM



Investment case

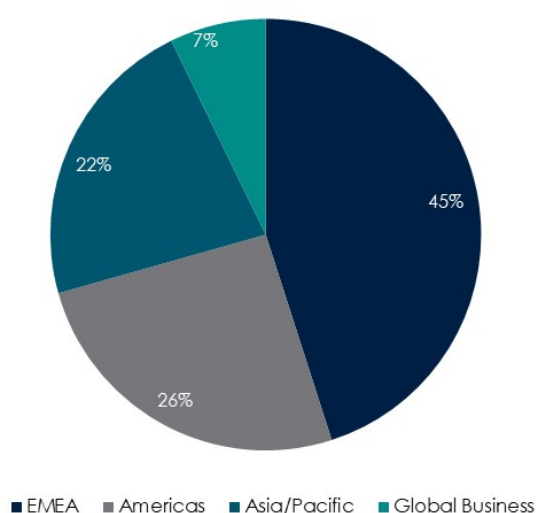
Sika is the industry leader. It has become the dominant chemical supplier to the global construction industry and its growth has far exceeded its underlying market and its closest peers. The company has one of the clearest paths to growth both organically (thanks to its culture of innovation and the quality of its products) and through acquisitions thanks to the quality of its balance sheet. Despite the looming economic slowdown, government stimuli and green capex should lead to a quick rebound in demand for construction chemicals, while further consolidation of the fragmented market looks inevitable. Finally, Sika's products work to improve the sustainability of buildings and constructions, furthermore the company has integrated sustainability criteria into its strategy and its track record and ongoing ESG initiatives compare favorably with peers'.

Company description and history

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Fig.1: Sales by geography, 2021

Source: Sika



Group Structure

Sika conducts its worldwide activities according to countries that have been classed into regions with area-wide managerial functions. The heads of the regions are members of Group Management. The regional and national

management teams bear full profit and loss responsibility, and – based on the Group strategy – set country-specific growth and sustainability targets and allocate resources.

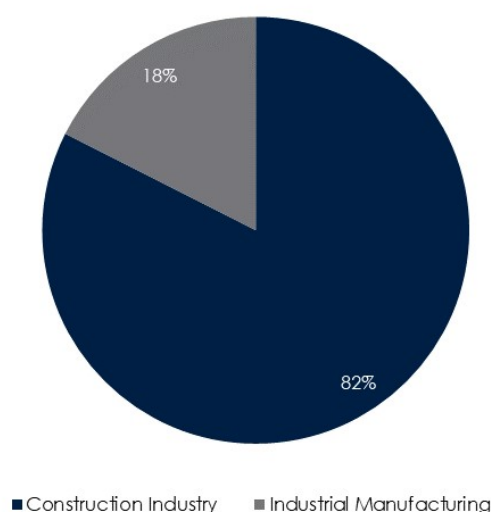
Products and services

In terms of products, services and support, the company is organized in 5 segments: Construction Solutions, Industry Solutions, Innovation, Knowledge Center, and Project Support.

Construction Solutions provides chemical-based construction materials and technical support for all types of construction projects, from high rise buildings and bridges to individual houses renovations, from tunnels to wind turbines and all that is in between. In terms of products, the offering consists of sustainable roof systems, easy-to-use sealant, concrete admixtures, waterproofing solutions, and tile setting adhesives.

Fig.2: Revenue by business segment, 2021

Source: Sika



Industry solution has expertise in bonding, sealing, damping, reinforcing, and protecting. Sika's products are used in the automotive, marine, renewable energies, textiles and consumables, appliance, and equipment markets. The company also is a leading provider and developer of advanced and high-performance resins for the tooling, composite, and electronic industry.

Sika's long history of innovation has led the company to success in becoming a recognized global technology leader in many markets, as well as a creator of value for its customers. While investing in established and new technology centers around the world, Sika also nurtures and develops an international network of scientists, partners, suppliers, and customers.

Sika Knowledge Center is a platform where knowledge articles presenting technical know-how, research results, and other expert findings are available. The purpose of the platform is to promote continuing professional development and educate about Sika's latest construction systems and products.

Sika has engineering and technical experts throughout the organization that can provide product solution support through all project phases from conceptual design through construction and even into long-term maintenance and refurbishment.

Environmental stewardship and developing more sustainable solutions through responsible sourcing of materials, reducing impact and improving life cycle performance are at the center of Sika's global strategy.

Sika's markets

As a company operating in the field of specialty chemicals, Sika has a leading position in the development and production of systems and products for bonding, sealing, damping, reinforcing, and protecting in the building sector and automotive industry. It is active in height target markets: building finishing, concrete, waterproofing, sealing & bonding, roofing, flooring, refurbishment, and industry. The cumulative total volume of construction market sales in 2021 was estimated at more than CHF 70 billion, despite the persistent impact of the COVID-19 pandemic. According to forecasts, the volume of this market should rise to around CHF80 billion by 2025.

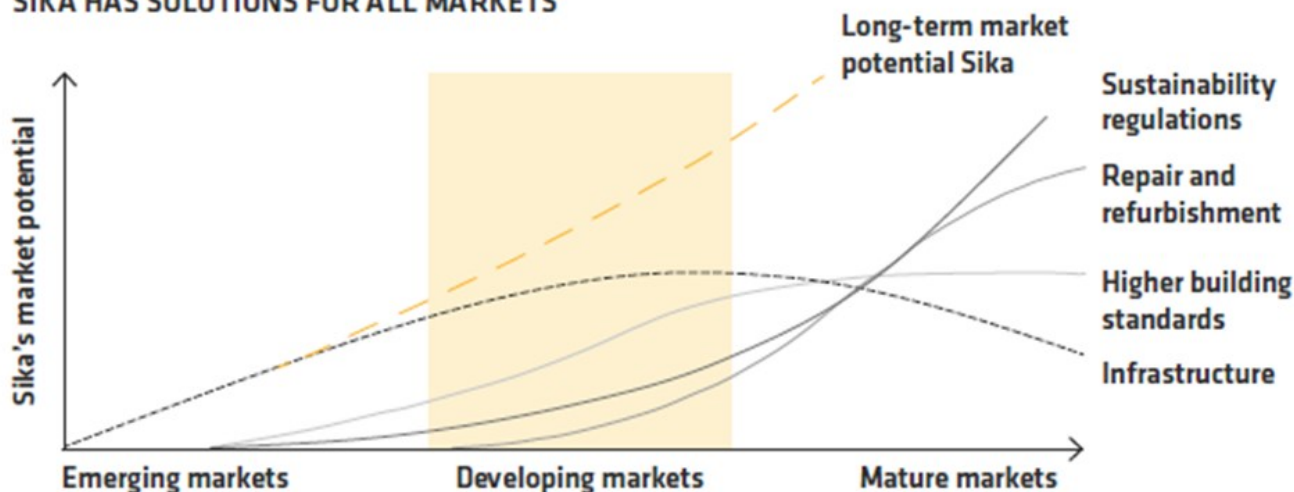
Competitive landscape

Sika's markets are very fragmented, which provides the company with additional potential to expand its business volume in attractive segments. For example, the combined market share of the ten largest internationally active companies in the chemical sector is less than 40%. Sika's global market share is 10% and the aim is to increase this to 12% by 2025. In many cases, the individu-

Fig.3: Markets for sika's products

Source: Sika

SIKA HAS SOLUTIONS FOR ALL MARKETS



al markets and countries are characterized by numerous small and medium-sized companies with a very small market share and a modest market position. Sika uses its reputation and strong distribution organization to steadily extend its market position. The key strategic levers are cross-selling activities relating to Sika's comprehensive portfolio of solutions for construction and industrial applications, targeted key project management, and the expansion of distribution channels, which now increasingly include e-commerce platforms.

Sika aligns its medium to long-term growth strategy with six important megatrends: Digitalization; Rising growth momentum; Climate change; Demographic change; Urbanization; Technological progress.

Digitalization

Digitalization is a radical leap in development with implications for all walks of life. The rise in digital networking is not only leading to exponential growth in communication possibilities, it also has a deep-rooted impact on market dynamics and social structures. Companies are confronted with the challenge of tapping into new, digital business areas alongside the successful expansion of their existing core competencies, while at the same time including their employees, customers, and business partners in the transformation process. Sika has benefited from a surge in demand in e-commerce, despite being faced with pandemic-related obstacles. The network of computing centers that forms the backbone of the digital economy is continuously being expanded. Sika has developed solutions for modular constructions, is active in 3D concrete printing, and has been driving innovations in both these areas.

Rising growth momentum

Many developing and emerging markets have significantly increased economic output in recent years. Sika is continually strengthening its position in these countries through a combination of internal and external growth. There is a significant business potential to be concretized: strong population growth, urbanization, and the associated urgent requirement for infrastructure expansion, are all factors that speak in favor of investments in these markets.

Climate change

Themes such as sustainability, environmental protection, and climate change are no longer niche subjects. They are burning topics of debate in media, politics, society, and the economy. At Sika, initiatives, measures, and products that contribute to decarbonization and therefore the reduction of CO₂ emissions are given the highest priority. The company has consistently aligned its organization with sustainable development. It makes resource-efficient solutions available to its clients and strives to reduce its own CO₂ footprint on an ongoing basis

Demographic change

Whereas in 2017 the world contained eight economically active persons for every pensioner, the equivalent figure by 2050 will be just four. The rapidly growing proportion of older people in the population will reduce the pool of specialist workers in the labor market. Sika's solutions for increasing the efficiency of construction and production processes can significantly help cushion the shortage of personnel resources.

Urbanization

By 2050, around 70% of the world population is expected to be living in an urban center. The expansion of existing large cities and surrounding agglomerations, as well as the emergence of new megacities, will require massive investment in the expansion of transportation, healthcare, and education systems, sporting and cultural facilities, and of course accommodation. Sika is using urbanization to increasingly offer not only products and systems but also complete solutions from all its target markets.

Technological progress

Alongside digitalization, automation has also provided a powerful boost. An increasing number of processes, decisions, functions, and systems can now be transferred to algorithms and robots. Machines are taking over certain activities traditionally carried out by humans and are therefore either already dramatically changing the world of work in many sectors or will do so in the future. The modular approach to construction is of great importance



to Sika. This increases the degree of automation and therefore efficiency in the realization of construction projects, while at the same time simplifying compliance with rigorous safety standards. With its products, systems, and solutions, Sika can both support and accelerate technological change on construction sites.

Strategy and purpose

Sika's purpose is to anticipate and meet future challenges by providing reliable, innovative, sustainable, and long-lasting solutions in the construction, building, and manufacturing industries. In everything Sika does, the company strives to provide a seal of quality which employees, customers, and all stakeholders can rely on.

Corporate strategy

Sika's corporate strategy was developed and launched in 2019. In addition to ambitious financial targets, important elements include a focus on operational efficiency, and increase in market penetration, and the targeted orientation on environmentally friendly products and sustainability. The new strategy 2028 will be presented in 2023.

Sika's strategy is based on six pillars

Sustainability

With its defined sustainability targets for the reduction of energy and water consumption, as well as waste, Sika will be minimizing its need for resources and the environmental impacts of the production process. Sika's overriding goal is to reduce CO₂eq emissions per ton sold by 12% by 2023.

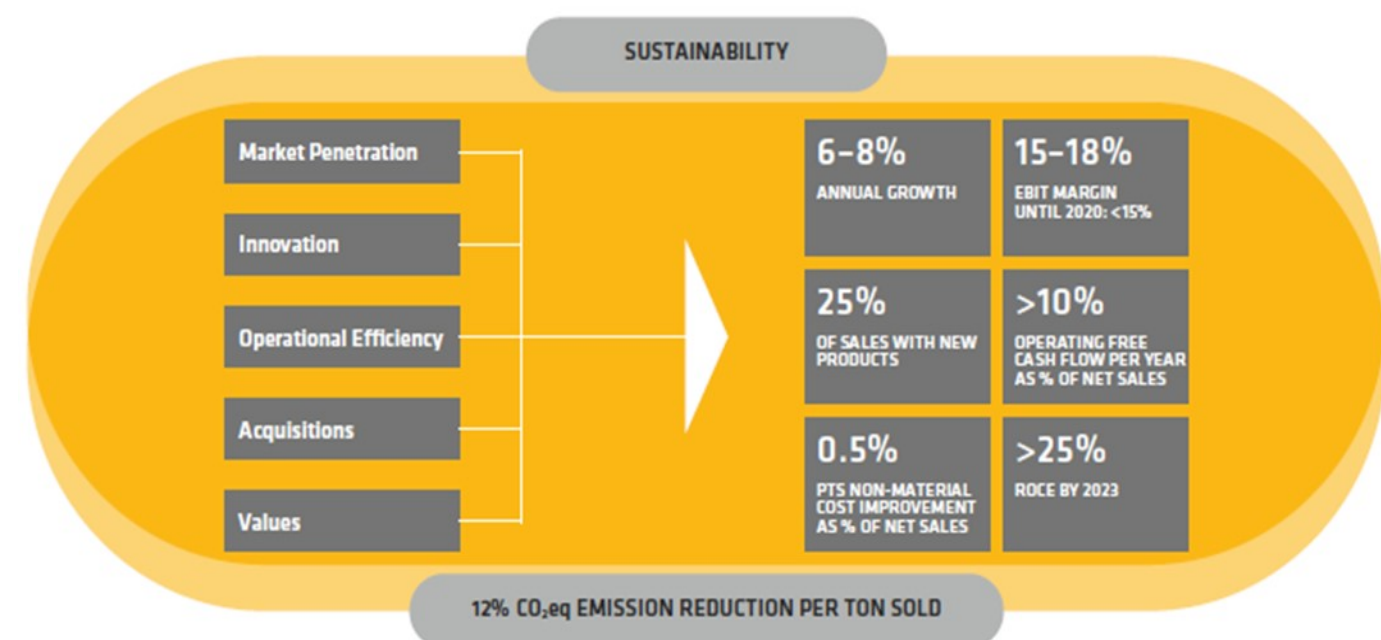
Market penetration

One strategic pillar of Strategy 2023 is to increase market penetration. Growth drivers include targeted sales of a comprehensive product portfolio with complete systems, increased presence in the distribution channels, key projects management, and the continued expansion in emerging markets.

Innovation

By 2023 Sika aims to generate 25% of sales with products that have been launched on the market in the last five years. Innovation is always determined by the needs of customers. These needs feed into both fundamental and applied research. Furthermore, the company has committed itself to ensuring that every new product must

Fig.4: The six pillars of Sika's strategy
Source: Sika



offer a higher performance as well as additional sustainability benefits. Already today, Sika offers its clients a broad spectrum of environmentally friendly product technologies.

Operational efficiency

To a significant extent, the improvement of margins will be achieved through operational efficiency. Projects in the areas of operations, logistics, procurement, and product formulation should result in an annual improvement in operating expenses equivalent to 0.5% of sales.

Acquisitions

Acquisitions are an important element of Sika's growth strategy, enabling the company to enhance its core business with complementary technologies, improved market access, or expanded distribution channels. The focused approach allows Sika to establish the acquired businesses as platforms for additional growth.

Values

Sika's strong corporate culture lays the foundation for its success. Customer First. Courage for innovation. Sustainability & Integrity. Empowerment & Respect; and Manage for Results. These are the values that drive business activity and are put into action by the company's employees.

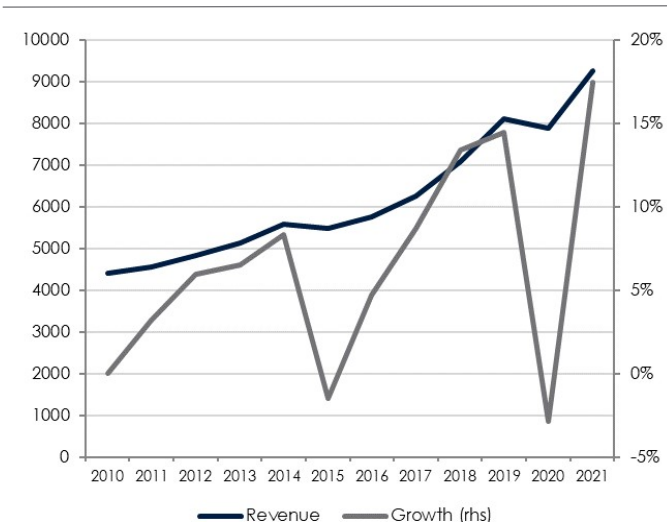
Financial analysis

Revenues

Sales have increased by 17.5% in 2021, a nice rebound after a lacklustre 2020. The company's turnover is now higher than the 2019 pre-covid level. Sika was able to grow in all regions thanks to the resilience of the construction sector. In addition, sales of Sika product solutions via e-commerce platforms saw an above-average increase. It is worth mentioning that the company can compensate the lack of organic growth by its acquisition strategy. In 2019, 13% of the 16.3% revenue growth was due to acquisitions, and in 2020 organic growth actually was negative and the 3.4% growth in sales was the result of acquisitions.

Fig.5: Evolution of sales

Source: Sika

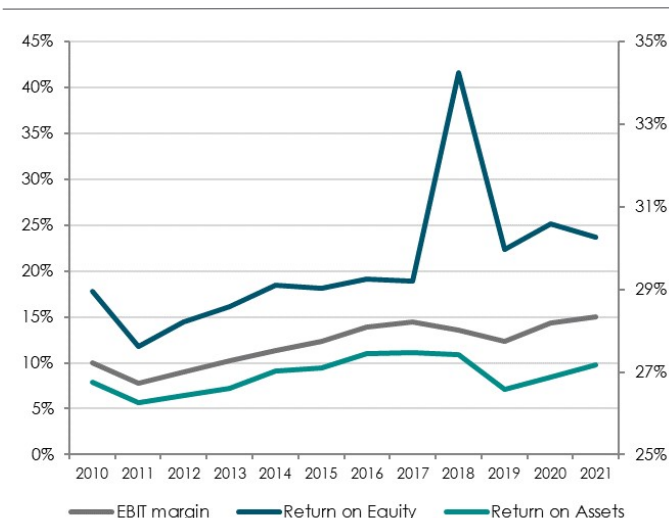


Profitability

The group's profit reached an all-time high despite an extremely steep increase in raw material costs. Thanks to price increase, rigorous cost management and economies of scale, efficiency gains, and synergies from acquisitions, Sika was able to substantially improve EBIT and margins. In 2018 Sika acquired various companies or parts of companies. These acquisitions had to be amortized against equity which resulted in a somewhat "artificial" increase in the return on equity.

Fig.6: Evolution of profitability

Source: Sika

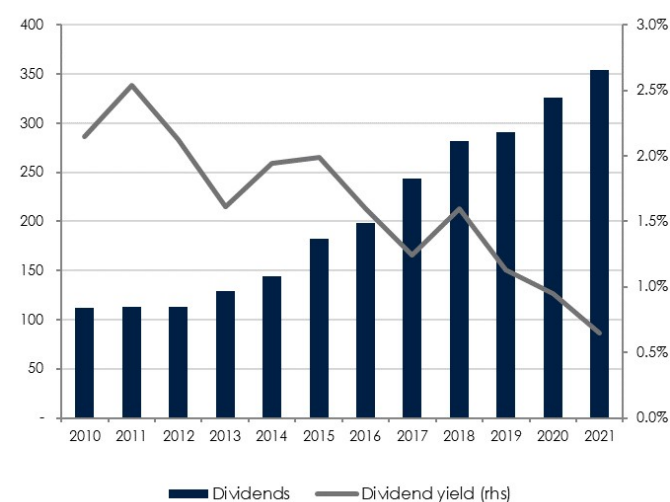


Capital distribution

Given the record results, Sika's Board of Directors has proposed a 16% increase in the gross dividend to CHF 2.90 per share (previous year: CHF 2.50). This increase was approved on April 12, 2022 at the Annual General Meeting

Fig.7: Dividends and Dividend yield

Source: Sika



Strong balance sheet

The ratio of net working capital to net sales increased

Fig.9: Sika's governance structure

Source: Sika

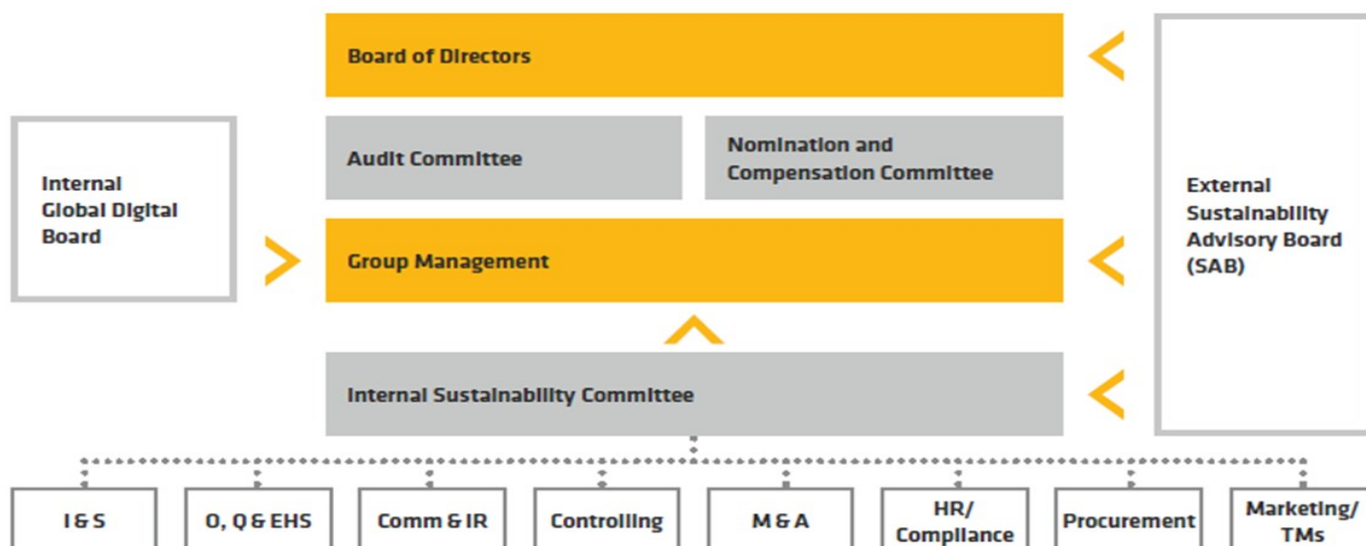
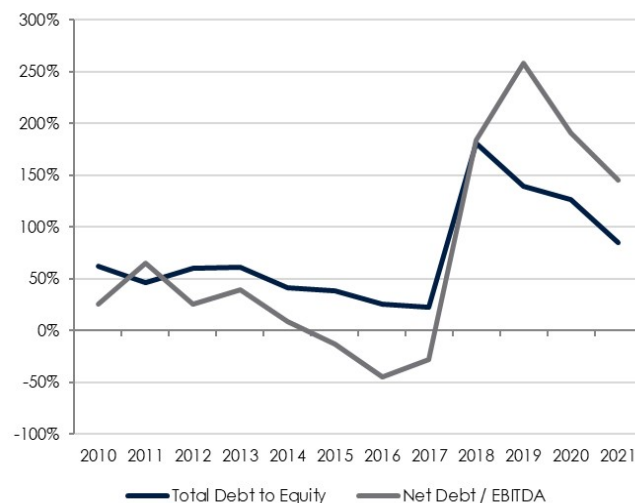


Fig.8: Debt to Equity ratio

Source: Sika



slightly in 2021 to 18.4%. The rise is attributable to the higher value of inventories due to increased raw material prices. At the end of 2021, cash and cash equivalents amounted to CHF1'175 million. Net debt was reduced further to CHF2'538.9 million, and Net Debt to EBITDA fell to 145%. The total debt to equity ratio decreased again and now stands at 84.6%. Return on capital employed was significantly higher at 20.1% and was back over 20% (previous year: 16.6%).

ESG considerations

Since 2016 Sika has established an External Sustainability Board, which provides an independent expert view regarding the direction and implementation of Sika's sustainability strategy and gives further input on sustainability issues to the group's management. In 2021, the main topics discussed were the scope 3 assessment project and net zero roadmap; sustainable solutions and the circular economy; the topic of biodiversity; the updated Supplier Code of Conduct; the outcome of the COP26 in Glasgow; and Sika's contribution to the UN Sustainable Development Goals. In addition to the External Advisory Board, the company established in 2021 the internal Sika Sustainable Committee, which steers and coordinates all sustainability-related projects aimed at achieving sustainability targets and monitoring proper implementation of the sustainability strategy throughout the group. It also prepares the decision-making of Group Management on such topics. The committee is chaired by the Chief Innovation and Sustainability Officer and meets monthly. It includes the following corporate functions: Innovation and Sustainability; Operations; Quality & EHS; Communication and Investor Relations; Controlling; Mergers & Acquisitions; Human Resources & Compliance; Procurement; Marketing and Target Markets.

Investment case

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SWOT analysis

Strengths

- Leading market position in most application areas
- Highly diversified, innovative product portfolio
- Successful and prudent growth strategy
- Good track record of successful acquisitions

Weaknesses

- Change in raw material prices can be passed on to customers only with a lag
- Customer base in cyclical markets

Opportunities

- Market penetration of concrete admixtures in China, the largest cement market, is still very low
- Fragmented markets offer acquisition potential
- Economies of scale boost margins

Threats

- Acquisition strategy involves risks
- As the market grows, its appeal for larger competitors increases too