

Christopher Rossbach

Managing Partner, J. Stern & Co.





J. STERN & Co.

The Value of Long-Term Investing

INVESTING SUMMARY



September 2016

OUR FIRM

- We are a Private Investment Office, based in London and Zurich, building on the 200-year old banking heritage of the Stern family
- We invest globally across various strategies, and offer our clients direct lending and off-market investment opportunities
- Our services are designed for families, entrepreneurs, trusts, charities and foundations
- We pursue a fundamental, research-intensive approach to investments, whether quoted or unquoted
- Our clients derive clear benefits from investing alongside the Stern family – from their investment approach, their long-term track record, network and experience
- Clear, simple and transparent



OUR INVESTMENT PHILOSOPHY

- Our philosophy extends the approach followed by the Stern family for over 60 years
- We pursue a research-intensive approach, seeking long-term real returns across economic and market cycles
- We make decisions without giving weight to index composition, country weightings or momentum
- This unconstrained approach is founded on:
 - the skills of our in-house research team
 - our belief that certain industries and sub-asset classes should simply be avoided
- We seek value through differentiated investment ideas, including those with a low correlation to traditional asset classes
- We invest in businesses that we have selected with rigour, not 'markets'
- We aim to deliver above-average performance with below-average total costs



Invest for the long-term

Do your own research

Invest only in quality

COMPANY OVERVIEW



- Sika is a Swiss-based global leader in sealing, bonding, damping, reinforcing and protecting. The construction division accounts for 79% of sales, the industry division accounts for 21% of sales. In 2015 sales were CHF 5.5bn, EBIT was CHF 673m. The market cap is CHF 12 bn. The company has no debt.
- In Construction, Sika's products include concrete additives that allow cement to be pumped to great heights, waterproofing membranes for roofs and tunnels, and a full range of products that allow for the refurbishment and repair of damaged concrete structures. In Industry, they also includes sophisticated adhesives and sealants for the automotive and other industries.
- Sika has tremendous revenue growth opportunities ahead:
 - *In the US and in Europe* the company is likely to benefit from accelerating growth in non-residential construction over the next five years.
 - *In emerging markets* Sika's business will be driven by ongoing investment in construction and infrastructure.
 - *In China and elsewhere* Sika will be one of the key beneficiaries of the epochal investment boom that has taken place since 2000. Sika is uniquely positioned with its expertise and comprehensive range of concrete repair and waterproofing products.



SIKA AT A GLANCE



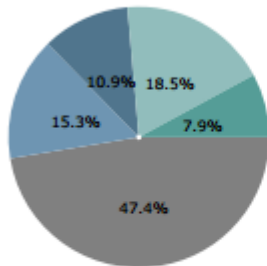
- CHF 5.5bn in sales in 2015
- Operating in 97 countries
- More than 170 factories

SIKA IN 97 COUNTRIES



NET SALES BY REGION

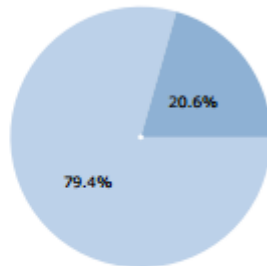
Total net sales 2015: CHF 5489 mn



EMEA 47.40%
North America 15.30%
Latin America 10.90%
Asia/Pacific 18.50%
Other segments and activities 7.90%

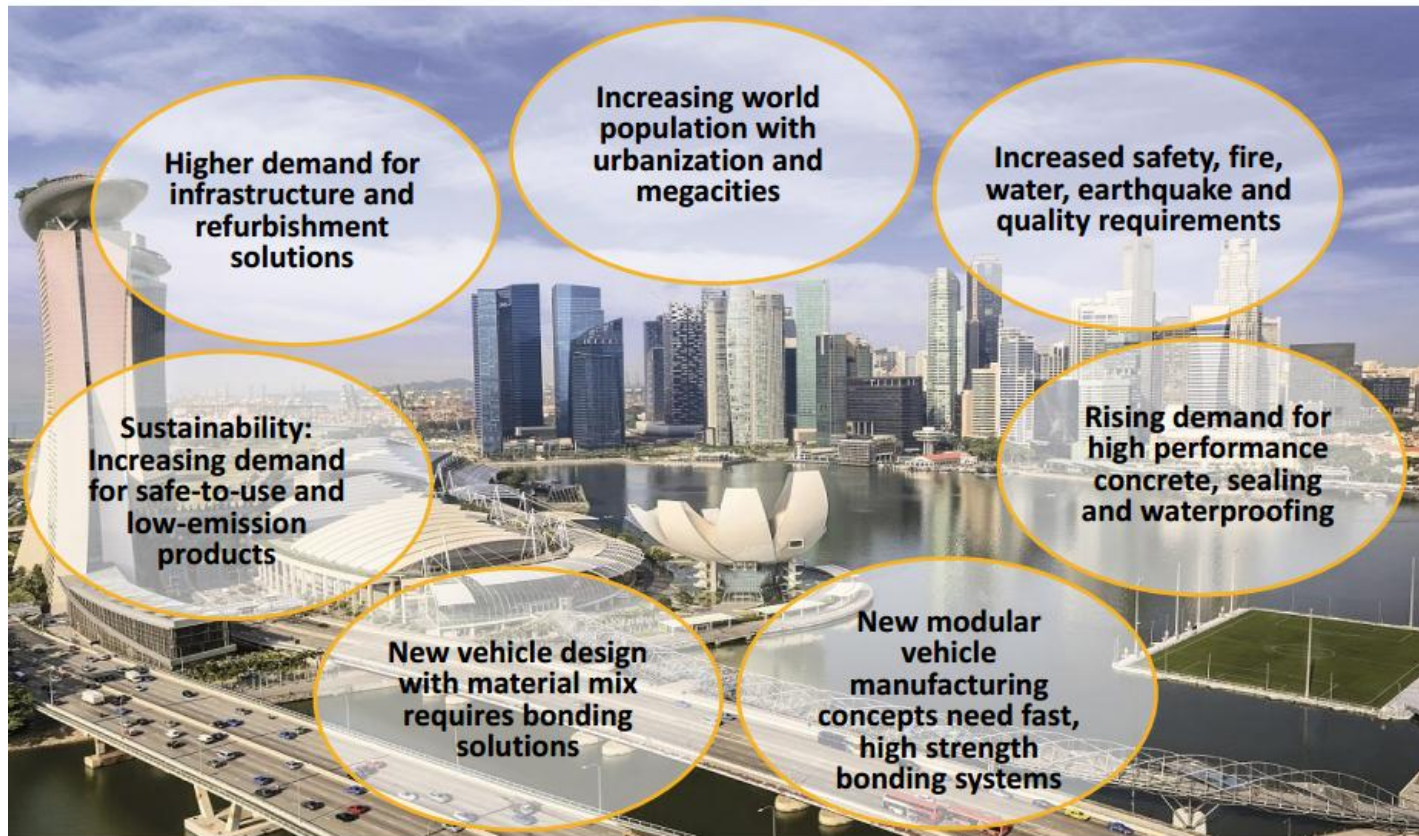
NET SALES BY MARKET

Total net sales 2015: CHF 5489 mn



Construction 79.40%
Industry 20.60%

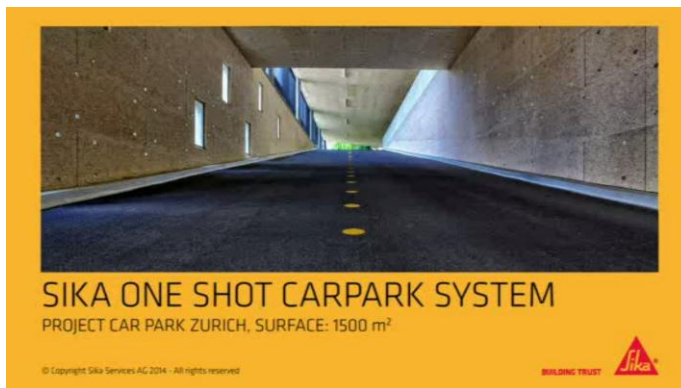
MEGATRENDS DRIVE OUR GROWTH: URBANIZATION, NEW VEHICLE DESIGN & SUSTAINABILITY



INVESTMENT THESIS



- Sika's business is a key beneficiary of global economic growth and investment.
- Its products are critical for sophisticated construction or refurbishment, including buildings, tunnels, bridges, highways and other infrastructure. It can grow its sales at 5-10% a year over the long-term and its earnings at a higher rate.
- Critically, around 50% of the business in Sika's construction division are related to refurbishment. Its growth potential from the refurbishment of concrete structures in China and elsewhere is enormous.
- Sika's share price increased from 500 to 4,800 since the early 2000s. The company has significant value generation potential from here. Given its small size relative to its addressable market it could double over the next five to ten years.
- The company is subject to a hostile takeover of the founding family's 16% economic/52% voting stake by St. Gobain.
- The outcome will significantly impact the prospects and value of the company.
- Long-term shareholders are actively involved in seeking to preserve shareholder value. However investors must be aware of the significant risks attached to the situation.

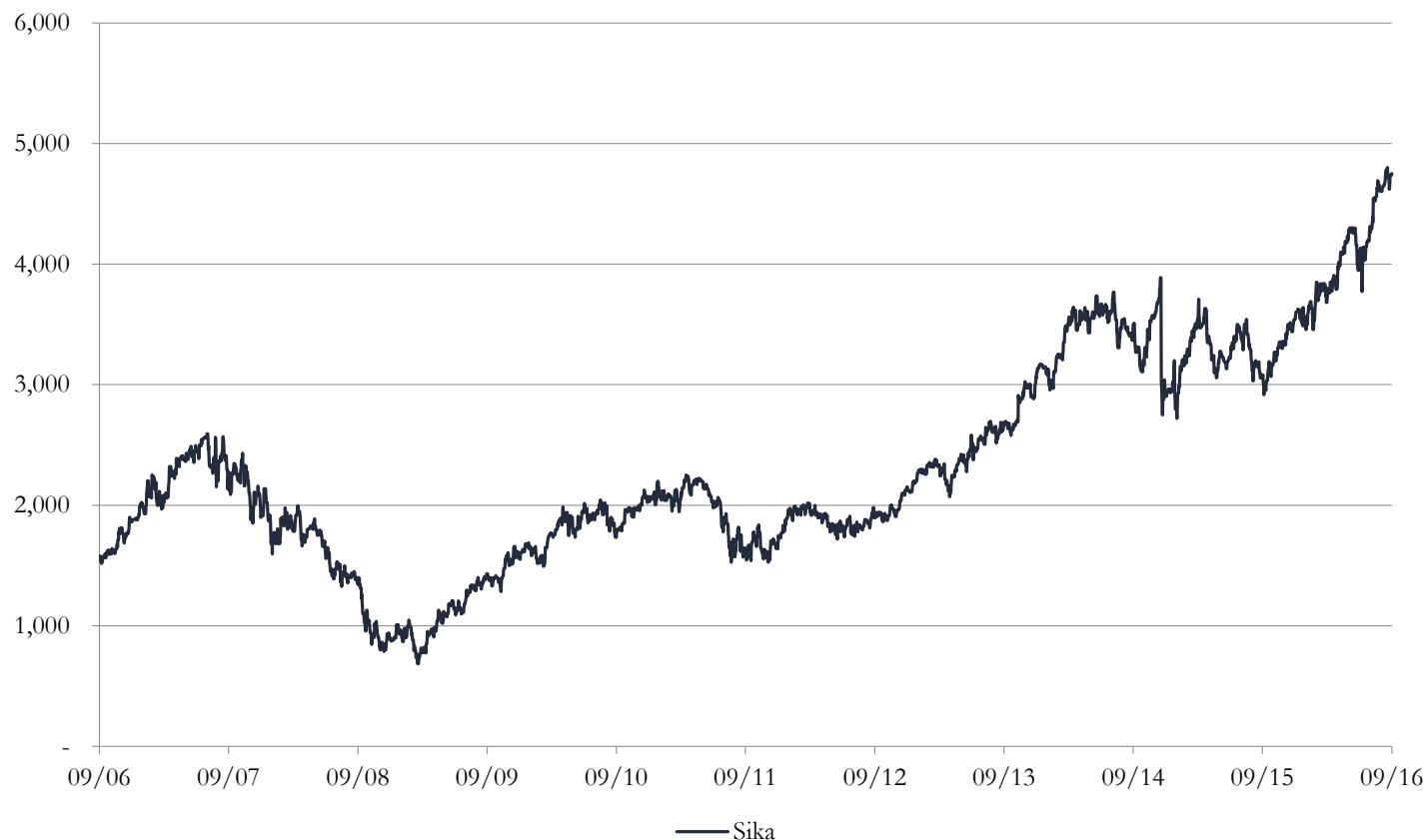


KEY STATISTICS



Share Price	CHF 4,750.00
Market Cap	12bn
Enterprise Value	12bn
52 Week High	4,800.00
52 Week Low	2,917.00
PE 2016E	21.9x
PE 2017E	19.9x
EV/EBITDA 2016E	12.6x
EV/EBITDA 2017E	11.7x

SHARE PRICE 2006-2016



LONG TERM PE GRAPH



STRATEGIC PLAN 2018

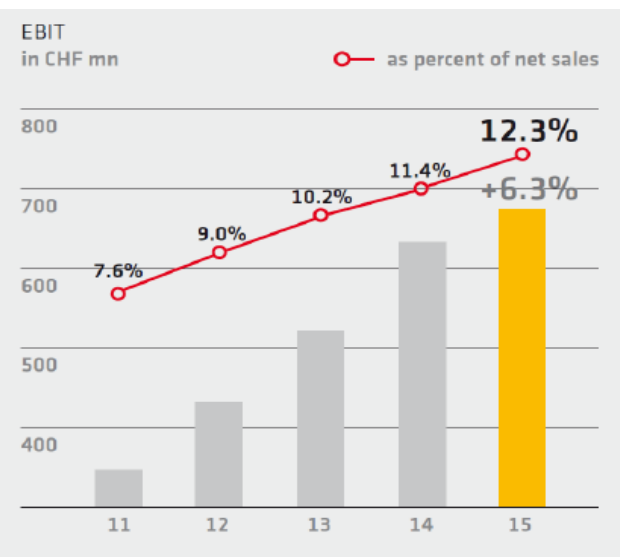
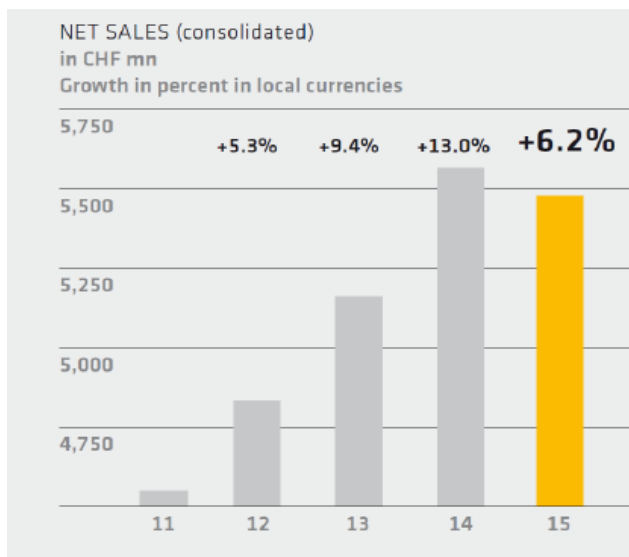


Key objectives outlined in 2012

- 6-8% revenue growth per year
- 6-8 new plants per year
- 100 national subsidiaries by 2018
- 12-14% operating profit per year
- >8% operating free cash flow per year
- 25% return on capital employed by 2018

Already achieved by 1H16

- ✓ Average organic growth of 8.5% per annum
- ✓ EBIT margin has grown from 8.6% to an all time high of 12.6%
- ✓ 51 new plants opened
- ✓ 20 new national subsidiaries
- ✓ 333 new patents files; 20 technology centers
- ✓ 19 acquisitions adding CHF 587 in sales



Business

- CHF 4.4 bn in 2015, up from CHF 3.7 bn in 2011
- Waterproofing, sealing, strengthening, bonding of concrete and other building structures
- Critical components for structural stability and safety
- Comprehensive and integrated product range
- Low cost compared to risk/benefit of product failure
- Sold directly through close relationships with key project designers
- Products for new construction and refurbishment

Drivers

- New construction and refurbishment of existing buildings and infrastructure.
- Residential and non-residential construction
- New infrastructure development in emerging markets
- Refurbishment of infrastructure in the US and Europe.
- Technological advances and higher regulatory requirements.

KEY PROJECT

WESTGATE SHOPPING CENTRE, OXFORD, UK



Project Description
Shopping Center in Oxford

Sika Products
Waterproofing: 35,000 m² of
SikaProof® plus accessories

KEY PROJECTS

FOLLOBANEN TUNNEL, OSLO, NORWAY



Project Description
Two-tube railway tunnel, 50 km total
Construction period: 2014-2021

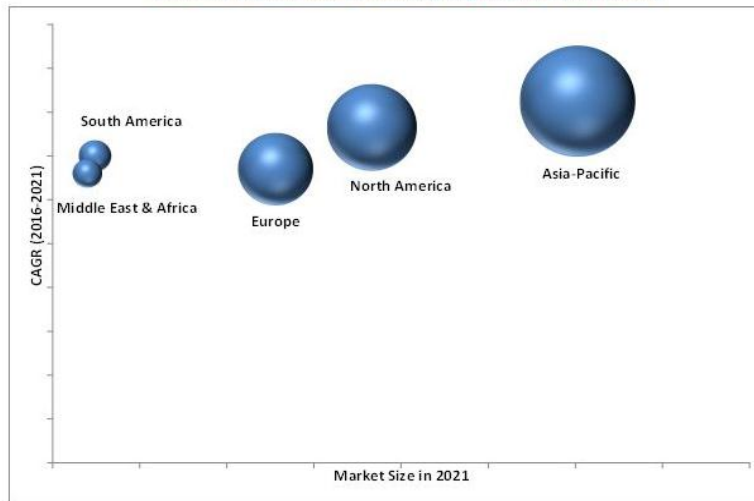
Sika Products
Concrete admixtures:
Sika® ViscoCrete® PC-35
Sika Rapid C-100
Waterproofing:
Sikaplan® WT 2200-22HL2

CHINA REFURBISHMENT OPPORTUNITY

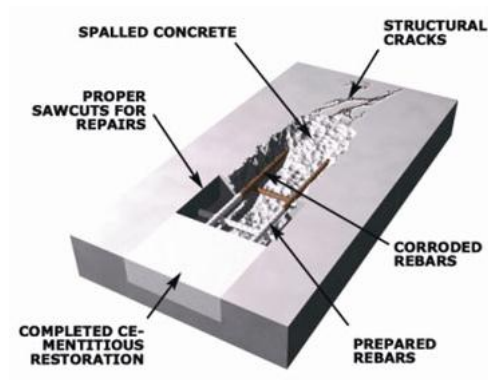


- Urbanization, residential floor and non-residential floor space have all more than quadrupled since 1980. Many if not most of these buildings are now crumbling.
- Sika is the global leader and only specialist in integrated concrete repair and refurbishment.

Concrete Repair Mortars Market, by Region, 2021 (USD Billion)



Source: marketandmarkets.com, August 2016

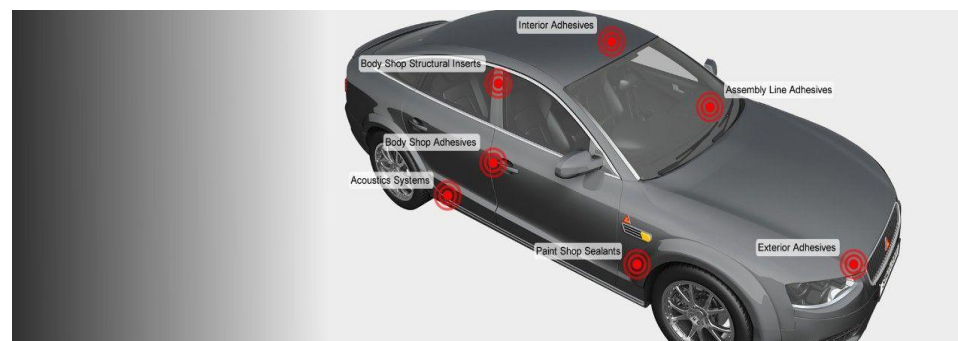
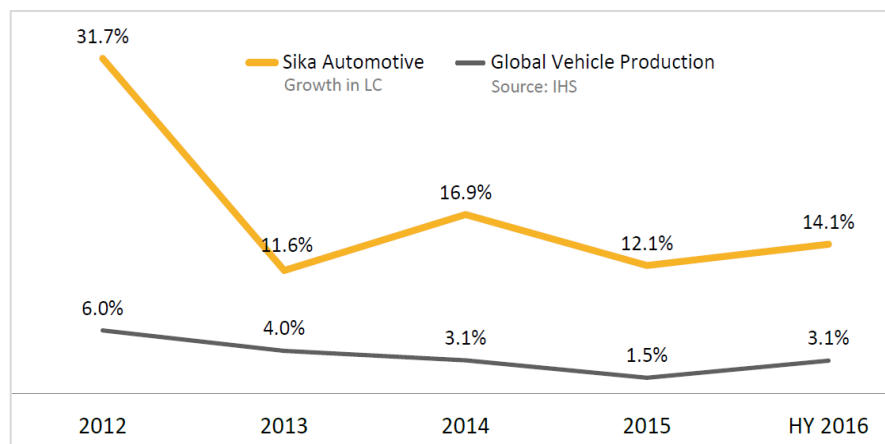


Business

- CHF 433 m in 2015, up from CHF 263 m in 2011
- Average growth since 2012 at 14% per annum
- Average growth in China automotive business since 2012 at over 40% per annum
- Content examples in key models: BMW 7 series CHF 60, Jaguar XF CHF 100, VW Golf CHF 40, Tesla Model S CHF 70, Great Wall Haval CHF 50, Chrysler Pacifica CHF 40

Drivers

- Lighter weight vehicles requiring lighter weight materials
- Mixed material bonding solutions (aluminum, carbon fiber etc) and increased use of specialty adhesives and noise, vibration & harshness resistant solutions
- Tighter crash resistance regulations
- Hybrid & electric cars have unique body structures that require refined reinforcement solutions to ensure crash performance
- Average content per vehicle expected to increase by 50% by 2020



TAKEOVER ATTEMPT BY ST. GOBAIN



- Sika is subject to an exploitative takeover by French building material company St. Gobain and the founding family.
- Cascade Investments and the Bill & Melinda Gates Foundation Trust are leading shareholder resistance.
- The key issue is the change in registration of the family's registered shares that give it 52% of the vote with 16% of the capital.
- The board argues that by statute registration is at the discretion of the board in the interest of the company.
- A first court decision is expected in October.

FINANCIAL TIMES

April 19, 2015 7:23 pm

A cautionary tale of power, votes and second-class shares

Christopher Rossbach

The value of a company must be shared with all, writes Christopher Rossbach



Google, was one of the first in Silicon Valley to issue second-class shares

Four years into the downturn that followed the dotcom boom, two computer scientists greeted Wall Street with a brazen offer that was to make them and their investors rich: a stake in a company that would be beyond ordinary shareholders's influence, perhaps for as long as its founders lived.

The screenshot shows the Sika Group website. The top navigation bar includes 'Contact | Worldwide |' and 'BUILDING TRUST'. Below this, there are tabs for 'SIKA GROUP', 'SYSTEMS & SOLUTIONS', and 'MEMBER AREA'. A search bar is present with the text 'Enter keyword'. The main content area displays the title 'CHRISTOPHER ROSSBACH, J. STERN & CO.' and a video player showing a Sika flag. A sidebar on the left lists various links: 'Stock Overview', 'Why invest in Sika', 'Chart Tool', 'Company Factsheet', 'Bonds and Rating', 'Annual Report 2015', 'Corporate Governance', 'General Meetings', 'Annual General Meeting 2016', 'General Info', 'Dividend', 'Agenda', 'Speeches', 'Documents', 'Voting', 'Links', 'Contact', 'Annual General Meeting 2015', 'Extraordinary General Meeting 2015', 'Archive', 'Presentations', 'Publications', 'Media Releases', 'Financial Calendar', 'Mailing List', and 'Contact'.



Guten Tag. Mein Name ist Christopher Rossbach. Ich bin geschäftsführender Gesellschafter der J. Stern & Co. Wir sind eine private Vermögensverwaltung in London und Zürich. Wir verwalten Vermögen mit einem langfristigen Ansatz für eine Schweizer Familie und andere langfristige Investoren.

SUMMARY



- Sika is a compelling long-term investment opportunity that offers both quality and value.
- It is the global leader and only specialist in integrated concrete repair and refurbishment.
- Management and board have an outstanding track record of generating value for shareholders.
- The company has strong competitive advantage from scale, technology and track record.
- There is scope for it to significantly increase revenues and profits from growth in its core construction and automotive businesses and operating leverage off its increased global manufacturing footprint.
- Fiscal stimulus and infrastructure investment in Europe and the US will provide support for business, as will continued investment and refurbishment in China.
- The valuation reflects the high quality of its business. Returns will be driven by increases in earnings not multiple although the market does not appreciate the extent of the earnings potential.
- Any investor has to be aware that the takeover by St. Gobain is a significant risk but the board is confident in its position and even an adverse decision is still subject to safeguards under Swiss law.

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