S&P Global Ratings

Sustainable1

Environmental, Social, And Governance Evaluation

Sika AG

Summary

Founded in 1910 and headquartered in Baar, Switzerland, Sika AG is a specialty chemicals company that manufactures additives, adhesives, sealants, and other bespoke products for the construction and auto sectors. Operating more than 300 production facilities across 101 countries, Sika has seen above-market expansion in recent years. Sika's 2021 sales increased 17.5% to Swiss franc (CHF) 9.25 billion from CHF7.9 billion in 2020. This growth has been organic and through acquisitions, with MBCC in 2022 being the most notable to date.

The ESG Evaluation of 74 reflects our view that Sika embeds sustainability into its products, delivering environmental benefits to customers who are often in hard-to-abate sectors, such as concrete and roofing. The company fosters collaborations with customers that, in our view, helps it stay relevant to the need for sustainability in the construction and auto sectors. The company currently lags other specialty chemical peers on occupational safety, but is taking steps to address this and expect metrics to improve in the near term. Its governance standards reflect the comprehensive practices common in Swiss companies. In 2022, two female board members were elected, improving the board's gender and nationality diversity.

Sika's customer focus helps it anticipate and adapt to a variety of plausible long-term disruptions, which makes its strategy resilient, in our view. The company's culture fosters an innovative ecosystem where flat hierarchical structures and large teams of engineers are encouraged to develop and execute new concepts. We believe the central position given to sustainability in Sika's strategy will make it more resilient because much of its continued success will hinge on its ability to adapt to changing environmental and social standards. In our view, the company will continue to develop new products that offer enhanced functionality and sustainable performance.

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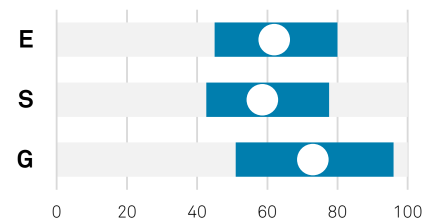
ESG Profile Score

66/100

Preparedness Opinion (Scoring Impact)

ESG Evaluation



Company-specific attainable and actual scores

Strong (+8)

A higher score indicates better sustainability

Component Scores

Environmental Profile		Social Profile		Governance Profile	
Sector/Region Score	**30/50**	**Sector/Region Score**	**28/50**	**Sector/Region Score**	**31/35**
Greenhouse gas emissions	**Good**	Workforce and diversity	**Good**	Structure and oversight	**Good**
Waste and pollution	**Good**	Safety management	**Lagging**	Code and values	**Good**
Water use	**Strong**	Customer engagement	**Strong**	Transparency and reporting	**Good**
Land use and biodiversity	**Strong**	Communities	**Good**	Financial and operational risks	**Neutral**
General factors (optional)	**None**	General factors (optional)	**0**	General factors (optional)	**3**
Entity-Specific Score	**32/50**	**Entity-Specific Score**	**31/50**	**Entity-Specific Score**	**42/65**
E-Profile (30%)	**62/100**	**S-Profile (30%)**	**59/100**	**G-Profile (40%)**	**73/100**

ESG Profile (including any adjustments) **66/100**

Preparedness Summary

Sika's long-term strategy is to enhance its customers' sustainability performance by developing innovative products that require less water or fewer raw materials. The company's strong collaboration with customers allows management and the board to anticipate, often ahead of peers, the technological and secular trends that could disrupt its eight end markets. The overarching aim is to ensure its new products deliver functional and sustainable performance.

We view favorably the company's efforts to embed sustainability throughout the organization via the training and development of its workforce, partnerships with technical universities, and of research and development (R&D) decisions that focus on new products that demonstrate a sustainability benefit before receiving funding.

Capabilities	
Awareness	**Excellent**
Assessment	**Good**
Action plan	**Good**
Embeddedness	
Culture	**Excellent**
Decision-making	**Excellent**

Preparedness Opinion (Scoring Impact) **Strong (+8)**

ESG Evaluation

74/100

Note: Figures are subject to rounding.

Environmental Profile

62/100

Sector/Region Score (30/50)

Unlike the basic and agricultural chemicals sectors, the most material environmental risks for specialty chemicals companies occur primarily in the value chain. The sector's dependence on fossil-fuel-derived feedstocks can lead to high end-of-life-related greenhouse gas (GHG) emissions. It also relies on fossil fuels in the production phase. Waste and pollution, particularly air emissions, such as volatile organic compounds (VOCs), sulfur oxide (SOx), and nitrous oxide (NOx), and plastic pollution from the use and end-of-life disposal phases are also significant environmental risks for the sector.

Entity-Specific Score (32/50)

Note: Figures are subject to rounding.

Greenhouse gas emissions	Waste and pollution	Water use	Land use and biodiversity	General factors
Good	**Good**	**Strong**	**Strong**	**None**

We view Sika's approach to waste and pollution as broadly aligned with the sector average. In 2020, the group started monitoring and consolidating air emissions at the corporate level, which had until this point been monitored locally, and in 2021 it published for the first-time air emissions related to fuel combustion. This contrasts with leading sector peers that demonstrate both longstanding monitoring and detailed targets to reduce air emissions. Furthermore, we view Sika's reduction targets as less ambitious than those of some peers who are focusing on decreasing the amount of waste sent to landfill and reducing waste generation within their supply chains, both seen as leading practices in the sector. The company's pioneering pilot work to enable the use of recycled aggregates in concrete, and its circular business model for roofing membranes stand out in the industry. In our view, these efforts demonstrate Sika's leadership in closed-loop recycling. The company has been carrying out life cycle assessments of its products and achieving environmental product declarations since 2012, in line with industry standards.

Sika's product portfolio demonstrates an active and sustained strategy to enable GHG emissions reductions in hard-to-abate sectors, such as building materials and cement. In 2021, it improved its scope 1 and 2 (market based) emission performance, mainly through the increase of purchased renewable electricity (52.3% in 2021), 28 percentage points above 2020 data, which we view positively. However, its purchasing strategy partly relies on the acquisition of certificates (where alternatives are limited), which is less robust in our view than strategies such as power purchase agreements. Also, we view favorably Sika's investments in on-site renewable generation and anticipate an increasing trend of self-produced renewable electricity. Sika is conducting a scope 3 baseline assessment to identify and measure the most material categories of its value chain emissions and preparing a roadmap to set science-based targets covering its entire value chain. We view positively these efforts, although it still lags advanced peers that have already validated their GHG emission reduction targets.

Sika actively and effectively enables water savings for customers in resource-intensive industries and is proactive when it comes to land use and biodiversity. Although it is not alone in offering cement admixtures that lessen the requirement for water in concrete, we see Sika as a clear leader in achieving these reductions with biobased raw materials. The company's use of agricultural waste products demonstrates to us that it understands land use change and has a proactive approach to improving sustainability across the value chain.

Social Profile

59/100

Sector/Region Score (28/50)

Safety management is a critical issue for companies in the specialty chemicals sector. Equally, as the sector tends to offer more bespoke, less commoditized, products than basic and agricultural chemicals, we see customer engagement as being a material factor. We also consider greater exposure to changes in consumer behavior toward chemicals and plastics a material risk, and believe that social awareness of chemical products, especially around health and environmental issues, will become more influential.

Entity-Specific Score (31/50)

Note: Figures are subject to rounding.

Workforce and diversity	Safety management	Customer engagement	Communities	General factors
Good	**Lagging**	**Strong**	**Good**	**0**

We believe Sika is well prepared to respond to growing needs in customers' sustainable product demand. The company is on track to meet its goal of reaching 80% sales from products that have a positive impact on sustainability (70% sales in 2021), which we view as in line with market best practice. In this regard, the company is starting to market and label its sustainable product offerings as “more performance, more sustainable,” which we believe will increase customers awareness. Sika operates an extensive network R&D facilities with 21 global, 20 regional, and 55 local technology centers. The extensive R&D engine allows Sika’s technologies and products make it an enabler to help the construction and automotive industries reach climate neutrality targets.

Sika’s Vision Zero Strategy has improved employee awareness in terms of health and safety but has not yet translated into improved metrics, which we view as lagging industry peers. The company's lost time accident rate increased by 11.3% in 2021 compared to 2020 data. This is partly due to the inclusion of newly acquired companies and a stronger monthly monitoring of health and safety indicators. We anticipate its metrics to improve once the Vision Zero Program is well established across the entire organization. Finally, Sika manages product safety in accordance with laws and regulations in the jurisdictions where it operates, in line with industry standards. It has avoided legacy product safety litigation from asbestos, which has affected others in the sector.

We view Sika’s approach to workforce and diversity as broadly in line with peers. Its voluntary turnover rate increased to 7.4% in 2021 (6.4% in 2020), which is slightly higher than that of close peers and high for the broader sector, although we understand it stems from employees gaining industry experience alongside advanced technical university degrees. In our view, the long tenure of management (22.5 years) shows both a strong workforce culture and a potential ceiling for career development. Gender balance aligns with the sector average except for senior management roles, where Sika significantly lags peers. However, in 2021, the company established a global Diversity Committee in charge of overseeing initiatives to foster diversity and inclusion, which we believe will have a positive effect on the percentage of management positions covered by women. Sika is less exposed to community risks than other chemical companies because its facilities are smaller (fewer than 20 employees) and the type of operations (mainly mixing and blending) pose less risk of explosions or large releases of toxic chemicals.

Governance Profile

73/100

Sector/Region Score (31/35)

Sika is headquartered in Switzerland, which has high governance standards. It has a local presence in over 100 countries, with almost 18% sales coming from the U.S. and 12.4% from China, where governance risks are slightly higher. We factor this exposure into our overall risk assessment.

Entity-Specific Score (42/65)

Note: Figures are subject to rounding.

Structure and oversight	Code and values	Transparency and reporting	Financial and operational risks	General factors
Good	**Good**	**Good**	**Neutral**	**3**

Sika's board comprises entirely nonexecutive members and the positions of chair and CEO are separate, in line with best practices. The board's diversity of skills and experiences matches well with the company's strategy, in our view. We also view favorably Sika's ambitions to enhance its board members' skills in brand management, e-commerce, digitalization, technology, and sustainability, although these plans have not yet been fully implemented. In 2022, Sika elected two female board members, improving the board's diversity in terms of nationality and gender (to 38% from 13%), which is largely in line with industry and regional peers. Also, Sika established a sustainability committee in February 2022 in addition to the audit and the nomination and compensation committees, which we view favorably and in line with its increasing portfolio of sustainable products.

In our view, Sika encourages accountability, has a comprehensive code of conduct, and undertakes appropriate tracking and investigation of cases of misconduct. The company trains its employees and contractors in this code and requires written acknowledgment from them. Its remuneration structure is balanced, with long-term incentives representing 25% of CEO pay. The pay difference between the CEO and median employee sits in line with European peers'. The balance of variables in CEO compensation results in an approximately 3-to-1 (variable-fixed) ratio, which is also in line with European peers.

We view Sika's transparency and reporting as sector average for sustainability and global best practice for financial and corporate governance. The company intends to use its enabled GHG emission reductions from its products to reduce its customers' emissions. In addition, Sika is defining its targets and plans to submit them for validation to the Science Based Targets initiative. Its membership in Together for Sustainability, a sector initiative to promote homogenous standards in supply chain auditing, and its reporting with reference to the GRI Standards, positions it well among peers. In addition, Sika follows Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and provides relevant disclosure. However, the current absence of independent assurance of nonfinancial data (to be implemented in 2022) constrains our view.

Preparedness Opinion

Strong
(+8)

Preparedness	Low	Emerging	Adequate	Strong	Best in class

In our view Sika is strongly prepared to tackle disruption, owing to a strategy that leverages the company's customer-centric orientation and its ability to provide functional and sustainable technological advantages to its key end markets. Sika identifies eight strategically important target markets: concrete, waterproofing, sealing and bonding, roofing, flooring, refurbishment, industry, and building finishing. The success of its strategy is measured across these end markets and at the country level, and the board frequently reviews progress.

Sika's close engagement with customers enables the board to anticipate disruptive trends, including technological and secular changes. A key enabler for the growth of its product portfolio is reducing weight and materials in its core end markets, which will help with CO2 reductions. Sika's strategic focus is enabling its customers' products and processes to perform better and be more sustainable. This is its core value proposition. A strong training and development on sustainability topics aims to upskill the workforce to ensure it can execute the strategy successfully.

We view favorably the board's interactions with middle management and via site visits, which take place with and without management's presence. Board members actively follow both the megatrends in their industry regarding technological innovations and shifting regulations, and trends arising in customers' industries such as developments in sustainable construction. The board positions the company's strategy to capitalize on opportunities identified, for example by supplying materials essential to new building construction and refurbishment. In our view, the board speaks with fluency on sustainability topics and how the product portfolio is transitioning. Beyond the internal work with customers, Sika is highly active in developing cutting edge technologies with leading technical universities. Examples include modular construction and 3D concrete printing on an industrial scale.

There have been several notable signs that Sika embeds ESG considerations and preparedness within its culture. We note its quick and local response and support extended to communities during the COVID-19 pandemic. For example, in Chile, it helped provide mobile modular-built hospitals to relieve the country's overextended health care system. In South Africa, the company assisted the Department of Health with new hygienic flooring for a quarantine site. Also, its pandemic-related support has not compromised its usual community engagement projects. This shows us that the company's customer-centric and sustainability-focused culture is working.

Sika's decision-making model is decentralized so that local management teams can adapt the central strategy to meet local needs. This includes the global, regional, and local R&D network. The company's key R&D projects focus on high-performance molecules with tailored features, smart refining technology for polymers, and renewable materials, including recycling processes and sustainable construction methods. Its 2030 ambition is to have 100% of the portfolio delivering sustainability benefits to its customers (it was 70% sales as of 2019, as estimated by management). We anticipate Sika will achieve this given that it has already attached sustainability-related requirements to its R&D for more than 10 years. In our view, the 70% is difficult to benchmark given constraints of reporting standards. Still, it demonstrates a clear commitment to embed sustainability throughout the entire organization and stands out among companies in the industry and beyond. To reinforce effective decision-making, in 2019, Sika introduced CO2 reduction targets into management's incentive structure, which demonstrates a clear commitment to achieve its sustainability objectives.

Climate-Related Financial Disclosure

TCFD Recommendations Alignment Assessment:	Not adopted	**Partially adopted**	Adopted

We assessed to what extent the entity has adopted the Financial Stability Board's Taskforce on Climate-related Financial Disclosures' (TCFD) recommendations. We do not opine on the quality of the entity's disclosure or the climate change scenario assumptions, if any, but rather comment on the number of disclosures made, based on the TCFD's suggested disclosure list.

Based on the entity's publicly available information, in our opinion Sika AG has Partially adopted the TCFD recommended disclosures.

We believe Sika has adopted the governance recommendations set by the TCFD as it publicly discloses that its board of directors is responsible to oversee climate-related risks and opportunities through the chair, who bears the ultimate responsibility for climate-related issues. In 2022, the company established a Sustainability Committee, with three board members who will meet at least twice a year, and provide a full report that includes information on climate-related risks and opportunities to the board of directors after each meeting. Furthermore, we believe the company has partially adopted the strategy recommendations by the TCFD as it provides a detailed description of its main climate-related risks and opportunities, but it does not disclose potential quantitative impacts to its business strategy and financial planning, nor provide information on the resilience of its business strategy to these risks. Also, it does not currently classify risks into time horizons.

We believe Sika has also partially adopted the recommendations for risk management, because it provides information on how it identifies and manages climate-related risks and opportunities, including a list of mitigation measures identified. The company discloses metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process including scope 1, 2, and 3 emissions, among others. However, Sika does not disclose the use of an internal carbon price for assessing climate-related impacts. As such, we believe it has partially adopted the recommendations related to metrics and targets.

Governance	Strategy	Risk management	Metrics and targets
Description of the board's oversight of climate-related risks and opportunities.	Description of the climate-related risks and opportunities identified over the short, medium, and long term.	Description of the organization's processes for identifying and assessing climate-related risks.	Disclosure of the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
Adopted	**Not adopted**	**Partially adopted**	**Partially adopted**
Description of management's role in assessing and managing climate-related risks and opportunities.	Description of the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.	Description of the organization's processes for managing climate-related risks.	Disclosure of scope 1, 2 and, if appropriate, 3 GHG emissions, and the related risks.
Adopted	**Partially adopted**	**Partially adopted**	**Adopted**
	Description of the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Description of how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.	Description the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

TCFD Recommendations

Not adopted	Adopted	Adopted

Sector And Region Risk

Primary sector(s)	Chemicals
Primary operating region(s)	United States China Switzerland

Sector Risk Summary

Sika operates in the specialty chemicals sector and is headquartered in Switzerland, with operations mostly concentrated in China, the U.S., and Switzerland. We consider the specialty chemicals sector as having comparatively lower direct environmental and social risks that the basic agrochemicals sectors, and, as such, apply a different sector starting point to our analysis that the wider chemicals sector.

Environmental exposure

The manufacturing of base chemicals, fertilizers, and industrial gases is highly energy intensive, often using hydrocarbons as feedstock. This results in significant greenhouse gas emissions. The chemicals sector is also exposed to waste, pollution, and toxicity. Air emissions other than greenhouse gases include nitrogen oxide, sulfur oxide, and particulate matter. Even more so, solid waste pollution such as plastics, and hazardous or toxic waste are material environmental risks. This is reflected in long-established regulatory oversight that has become more stringent over time. We view the agrichemicals and petrochemicals subsectors as having the highest environmental exposure, with specialty chemicals, paints, and industrial gases having lower exposure. Petrochemical production facilities are among the most energy-intensive, which in many instances leads to rising exposure to emissions regulations, as well as the risk of rising carbon and energy prices. When looking at the value chain, fertilizers and crop-protection chemicals are particularly exposed to high water use, and land and biodiversity risks, as well as climate change and physical risks. Opportunities in the chemicals sector stem from products that enable lightweighting applications, ones used for water treatment and those that improve the efficiency of resources. Innovations in improving the recycling rates of plastics could also be a green development opportunity for chemical companies. Controversy related to fertilizers has arisen because of concerns about their damaging effect on ground waters, biodiversity, and human health, but they also have a role in improving yields and quality of crops.

Social exposure

The key social risks for chemical players are product safety and employee health and safety. Product safety and human health effects can result in hefty regulatory fines, bans, and reputation damage (Bisphenol A for example). Crop-protection chemicals such as glyphosate have attracted litigation related to allegations that they are carcinogenic and harmful to human health. The major human capital risk lies in promoting workplace safety given that chemical manufacturing uses toxic chemicals and inputs and very-high-temperature processes. Companies also need to be prepared for low-probability but potentially high-impact accidents that could injure/poison employees and local communities. Such events can result in financial claims, loss of operational licenses, and community opposition. The chemicals sector is also exposed to changes in consumer behavior driven by environmental and health considerations, notwithstanding the current rising demand for chemical products notably in developed countries and their innovative applications. There has been intense scrutiny about the amount of plastic in the ocean and its effects on marine life, for example. Focusing on innovations that address consumer concerns about environment and health is key in this sector. Consumers, notably in developed economies, are willing to pay a premium for farm produce grown without pesticides or fertilizer, which could affect demand for agrichemical products.

Regional Risk Summary

Switzerland

Switzerland has a strong track record of managing economic crises, along with extremely stable political institutions. It has extensive checks and balances, particularly with obligatory or facultative referenda. There is great respect for the rule of law, free flows of information, and timely and reliable data dissemination. Corporate governance requirements for publicly listed companies are based primarily on the 1911 Swiss Code of Obligations. In June 2020, the Federal Council approved amendments to the Code, which will likely enter into effect in 2022. These include the introduction of a diversity target of 30% for boards of directors and 20% for executive committees, as well as a mandatory binding vote on executive remuneration. The latter reflects the incorporation of the 2014 Swiss Ordinance against Excessive Compensation in Listed Companies. Swiss companies have a single board of directors. Separate audit and nomination committees are recommended, while compensation committees are mandatory. Nevertheless, there is much flexibility for companies to establish their governance structure of choice. The Swiss Code of Best Practice for Corporate Governance, which was first adopted in 2002, offers some high-level, non-binding guidelines. It was revised in 2014 to include a comply-or-explain principle and recommends, among others, that boards comprise a majority of independent directors. In 2016, the Swiss Coalition for Corporate Justice submitted a proposal to increase corporations human rights and environmental protection efforts, which a referendum rejected in 2020. However, parliament approved a counterproposal by the Federal Council, which will likely lead to a mandatory vote on ESG reporting. In 2020, the Federal Council also approved guidelines for sustainable finance practices and transparency. In terms of corruption, Switzerland ranks 4 out of 180 on Transparency International's 2020 Corruption Perceptions Index.

United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations and social indicators. Income inequality is higher than in other OECD countries and has been so for over a century. Social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. This can undermine management oversight. Remuneration continues to be a contentious point because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism. The U.S. ranks 25 out of 180 on Transparency International's 2020 Corruption Perception Index.

China

Social standards are in line with most other major developing economies. The government recently strengthened legal protection for workers and consumers. Chinese corporate governance standards are also on par with other economies at this stage of development. The central government's recent push to reform state-owned enterprise structures in line with good governance practices is a major development. In 2018, China revised its Code of Corporate Governance for listed companies, accounting for OECD requirements and particularly focusing on ESG disclosure and board diversity. Official corruption has lessened over the past few years due to the central government's anti-corruption drive. This effort has also been extended to government-related companies and financial institutions. Still, corruption among private enterprises remains an issue. Although judicial reforms are ongoing, the private sector has yet to trust that the rule of law is significantly improving. The country ranks 78 out of 180 on Transparency International’s 2020 Corruption Perceptions Index.

Appendix

Related Research

- The ESG Risk Atlas: Sector And Regional Rationales And Scores, July 22, 2020
- Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide, July 22, 2020
- Environmental, Social, And Governance Evaluation: Analytical Approach, Dec. 15, 2020
- How We Apply Our ESG Evaluation Analytical Approach: Part 2, June 17, 2020

This report does not constitute a rating action.