

The Sulzer logo is rendered in a bold, dark blue, sans-serif typeface. It is positioned in the upper right quadrant of a white rectangular area that serves as a background for the text.

**SULZER**

# **Annual Results 2018**

Greg Poux-Guillaume, CEO | Jill Lee, CFO | February 14, 2019

## **THE SAFE HARBOR STATEMENT UNDER THE US PRIVATE SECURITIES LITIGATION REFORM ACT 1995**

**This presentation may contain forward-looking statements, including but not limited to, projections of financial developments, market activities or future performance of products and solutions, containing risks and uncertainties. These forward-looking statements are subject to change based on known or unknown risks and various other factors, which could cause the actual results or performance to differ materially from the statements made herein.**



**Business Review**

**Financial Review**

**Outlook**

## 2018 a very successful year despite challenges

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- Strong year on all operational metrics
- US sanctions resolved within 3 business days and with no long-term impact. Free float rebuilt to 51%
- Sulzer dewatering pumps helped save “Wild Boars” football team in Thailand
- 5 million shares and CHF 860m of bonds placed successfully, company fully refinanced
- Largest O&G contract won since downturn (pipeline pump order in North America in Q3)
- Sulzer’s Blue Box™ pumps advanced analytics platform won the 2018 Gold Digital Economy Award
- Environmental breakthrough with first EU-funded “Steelanol” project with Sulzer separation technology



# Financial highlights

Delivered at or above guidance

**SULZER**

- **Orders +12.5%** (+8.4% organically)
- **Sales +11.9%** (+7.8% organically)
- **opEBITA margin at 9.5%** (+110bp)
- Cumulative **SFP savings of CHF 230m**
- **Financing mix optimized** with 2 dual tranche bond issuances in July and October
- Add-on **acquisitions** continued:
  - **JWC** strengthens PE Water
  - **Medmix** initiates APS Pharma segment
  - **Brithinee** expands the RES service offering to Californian wind farms
- **Free Cash Flow up 37%** to CHF 174m
- **Net debt/EBITDA below 1.0**



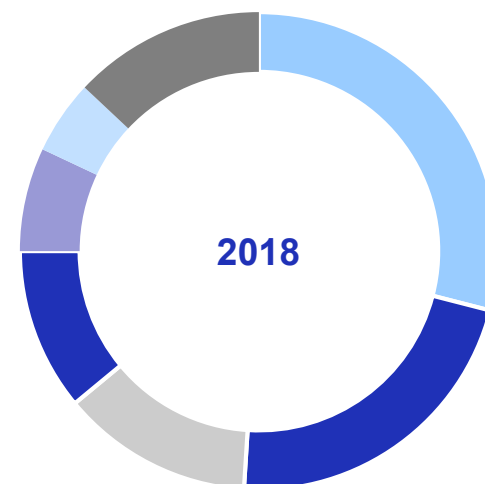
# Pumps Equipment

## Strong growth and margin improvement

### Key figures

In CHF millions	2018	2017	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	1'372	1'180	16.3%	16.5%	8.6%
Sales	1'300	1'120	16.1%	15.5%	7.5%
opEBITA	40	-3.7	n.m.	n.m.	n.m.
opROSA	3.1%	-0.3%			

### Order intake by market



### Highlights

- Strong order intake backed by O&G recovery, allowing for more order selectivity
- Largest order in O&G received since the downturn (booked in Q3 2018)
- Order intake gross margin down for the division but up in Energy (O&G + Power)
- Acquisition of JWC (orders CHF 87m, sales CHF 85m) strengthened the Water portfolio with industry leading grinders, shredders and screens
- Higher sales volumes combined with lower cost base driving opEBITA margin

1. Adjusted for currency effects  
 2. Organic: adjusted for currency and acquisition effects

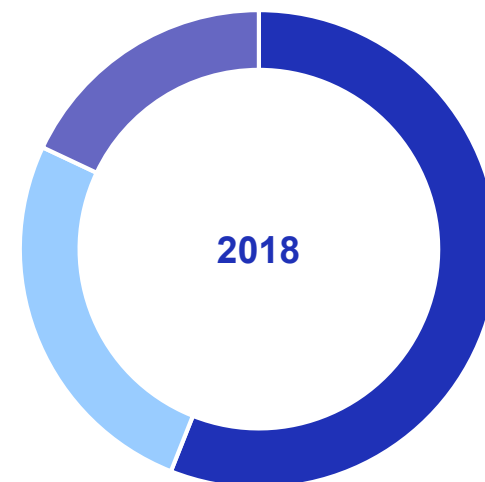
# Rotating Equipment Services

## Strong Pumps Services more than offset decline in Turbo Services

### Key figures

In CHF millions	2018	2017	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	1'110	1'048	5.9%	7.6%	5.8%
Sales	1'087	1'030	5.6%	7.2%	5.2%
opEBITA	149	144	3.4%	4.9%	3.0%
opROSA	13.7%	13.9%			

### Order intake by product line



### Highlights

- Strong order momentum in Pump Services and Electromechanical Services, more than offset 9% decline in Turbo Services
- Pumps Services orders driven by O&G market rebound
- OpEBITA up on higher sales volumes
- OpROSA slightly down, impacted by competitive pricing in Turbo Services, particularly in the Americas
- Acquisition of Brithinee in November expands Electromechanical offering in Southern California

- 56% Pump Services
- 26% Turbo Services
- 18% Electromechanical Services

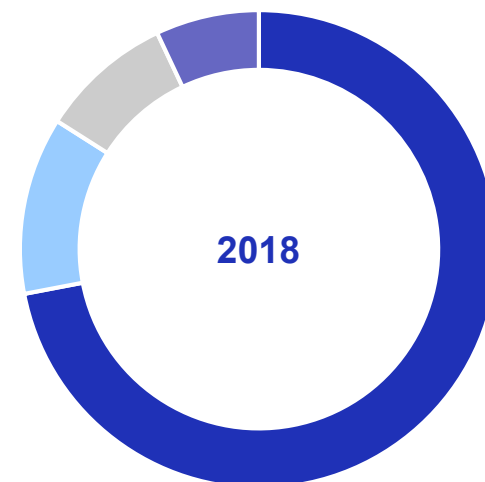
1. Adjusted for currency effects  
 2. Organic: adjusted for currency and acquisition effects

## Very strong growth and margin improvement

### Key figures

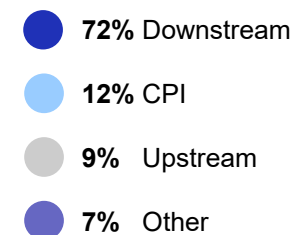
In CHF millions	2018	2017	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	600	502	19.7%	20.5%	20.5%
Sales	563	478	17.9%	18.6%	18.6%
opEBITA	49	25	94.8%	94.6%	94.7%
opROSA	8.7%	5.2%			

### Order intake by market



### Highlights

- Very strong order growth in Separation Technology, boosted by larger orders (e.g. Steelanol, VIEC frames)
- Tower Field Services resized to ca. CHF 100m on discontinued Extended Scope
- Discontinued Extended Scope Business exceptional charge booked as non-op
- Significant increase in opEBITA driven by higher volumes, increased productivity and favorable product mix, positively impacting opROSA
- Good market momentum and competitive cost base post SFP



1. Adjusted for currency effects  
2. Organic: adjusted for currency and acquisition effects

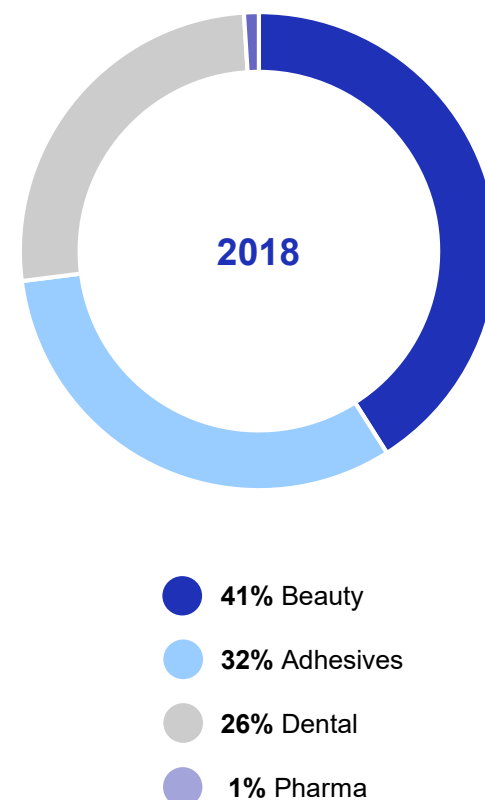


## Growth in orders, sales and margin despite Beauty gap

### Key figures

In CHF millions	2018	2017	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	450	426	5.4%	4.2%	0.3%
Sales	454	422	7.7%	6.3%	2.4%
opEBITA	96	87	10.2%	9.5%	5.7%
opROSA	21.1%	20.5%			

### Order intake by market



### Highlights

- Orders up organically 5% excluding Beauty
- Beauty volume (-5%) and profitability impacted by decision of significant customer to stop a Generation 1 product early to move to Gen 2 in 2019
- OpEBITA increased by higher Dental volumes, also driving mix in opROSA
- New factory in Poland opened for Industrial Adhesives applicators
- Acquisition of Medmix in August initiates Pharma segment

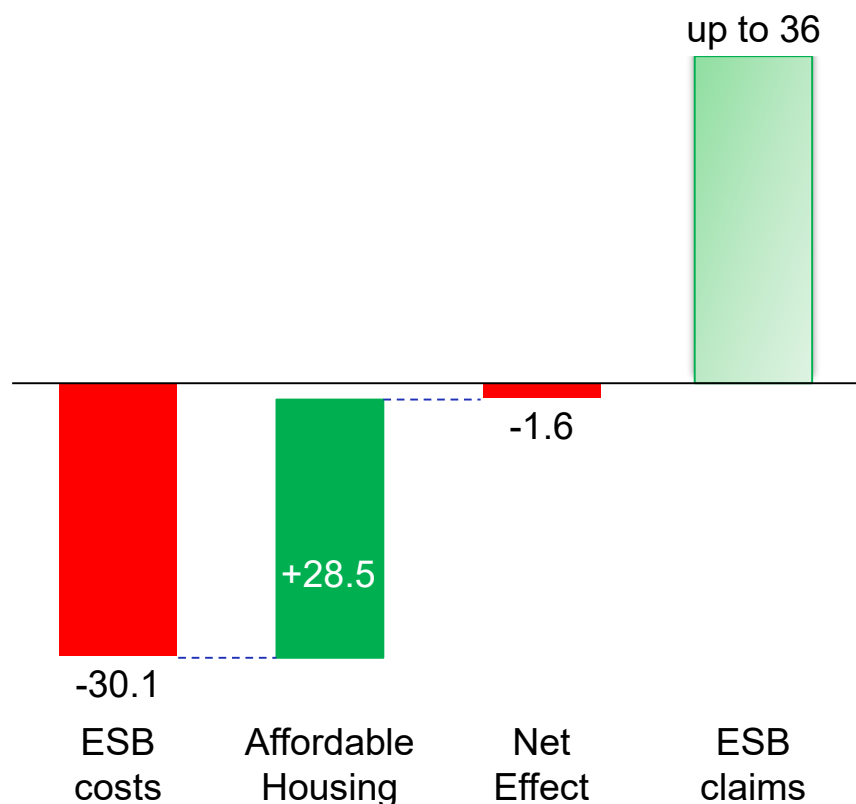
1. Adjusted for currency effects

2. Organic: adjusted for currency and acquisition effects

# Main non-operational one-offs

## Neutral net effect

(in CHF millions)



### ESB costs and claims

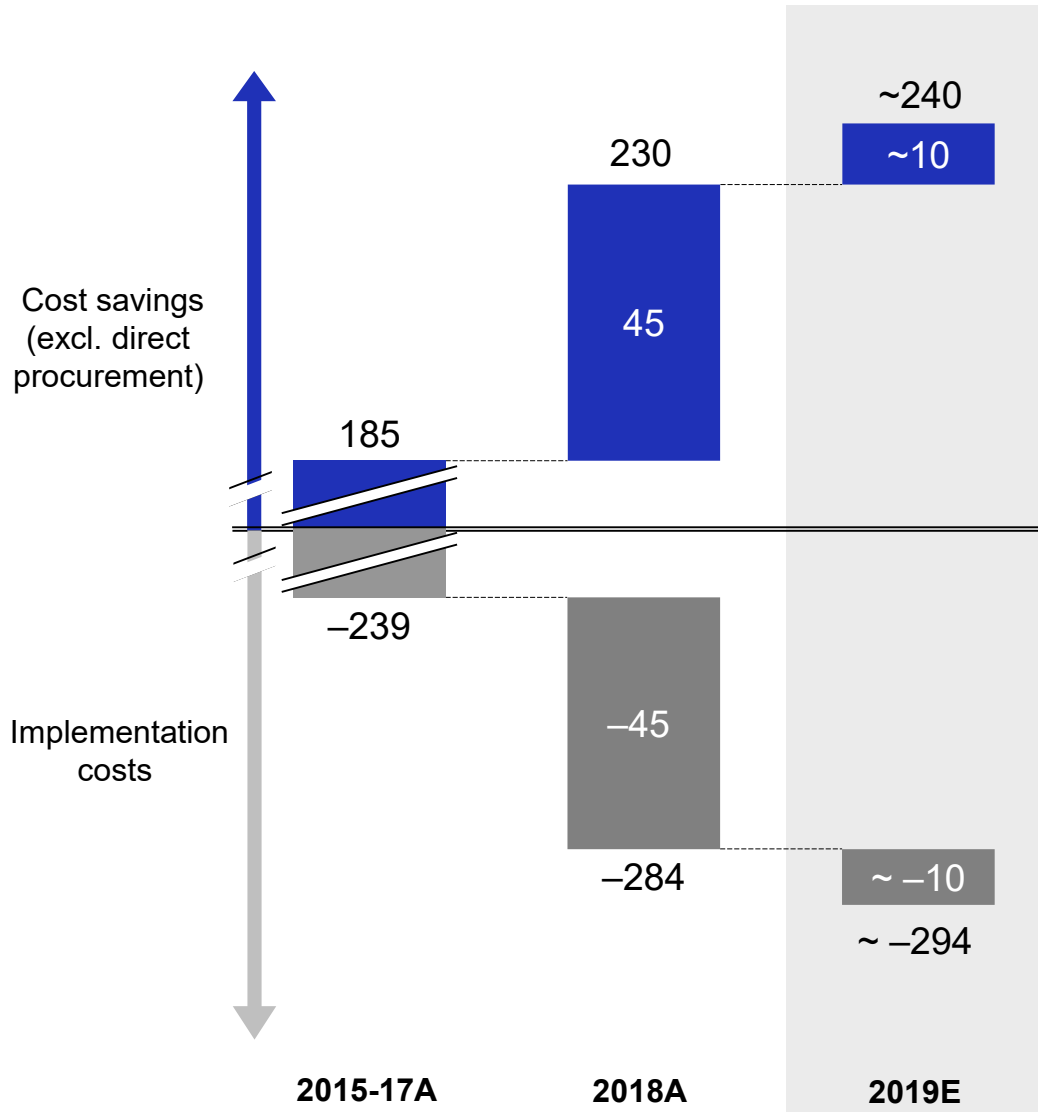
- Chemtech booked a CHF 30.1m charge for its discontinued “Extended Scope Business” (ESB) within TFS, upon main contract handover to client
- Charge is due to two contracts in the Middle East with significant scope and schedule disputes
- Sulzer has booked all costs and has submitted claims of up to CHF 36m
- Settlement typically takes at least 2 years

### Affordable Housing

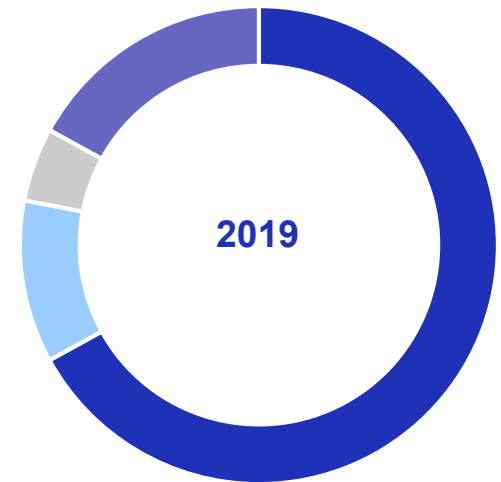
- Sulzer sold an unquoted equity instrument related to affordable housing historically provided to Sulzer employees for a profit of CHF 28.5m
- It was previously measured at cost

## One year early and CHF 40m above initial target

(in CHF millions)



### Additional savings

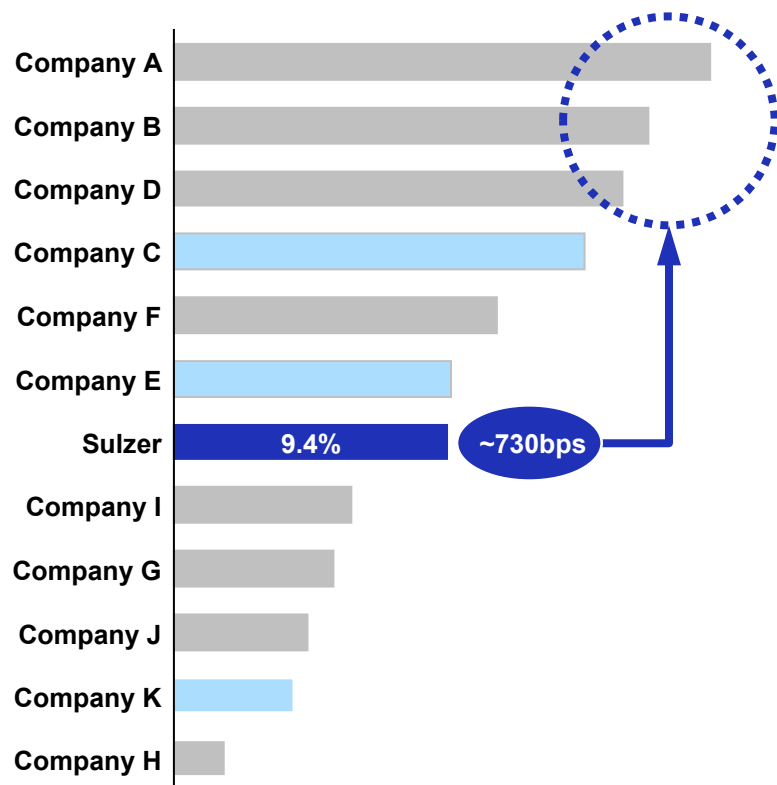


- 67% Indirect Procurement
- 11% PE operational excellence
- 5% SG&A
- 17% Other

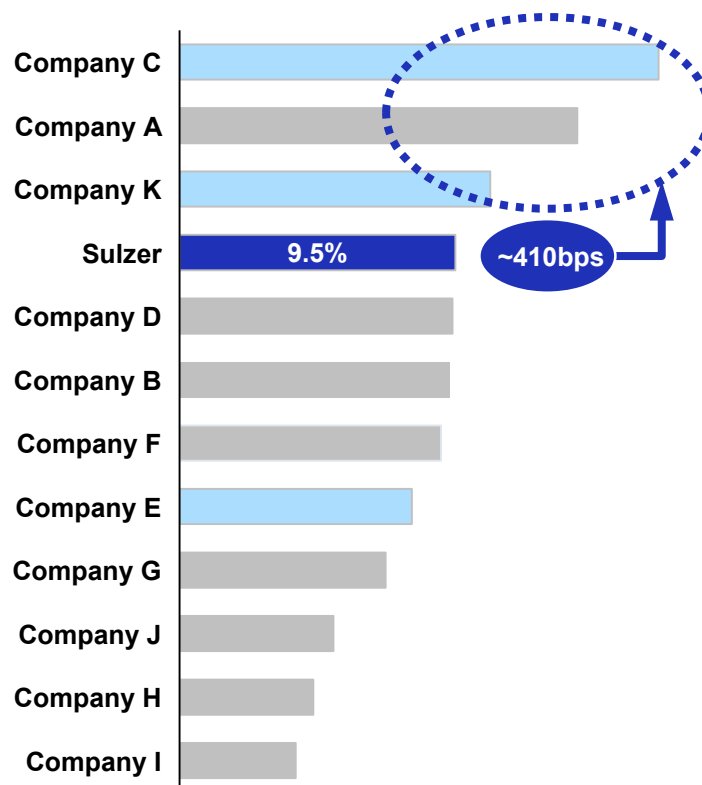
# League Table

## Continuing to move up

### 2014 profitability comparison



### Expected 2018 profitability<sup>1</sup>



Companies with no oil and gas exposure

1. Based on actual and Bloomberg consensus estimates as of February 4, 2019 and own calculations

# Sulzer senior leadership

## Renewed, stable and experienced

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**Greg Poux-Guillaume**

CEO



**Jill Lee**

CFO



**Armand Sohet**

CHRO



**Frédéric Lalanne**

Division President  
Pumps Equipment



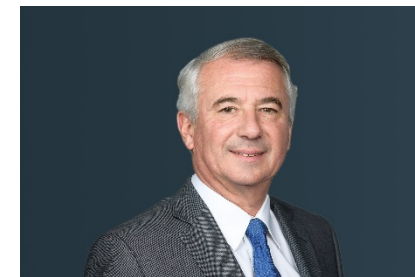
**Daniel Bischofberger**

Division President  
Rotating Equipment Services



**Torsten Wintergerste**

Division President  
Chemtech



**Amaury de Menthiere**

Division President  
Applicator Systems

### 2018 changes

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- Jill Lee appointed CFO (previously member of Sulzer's Board)
- Frédéric Lalanne appointed PE President (previously CCMO)

# Sulzer governance

## Board dominated by independents



**Peter Löscher**

Chairman of the Board  
Chairman of the Strategy  
Committee



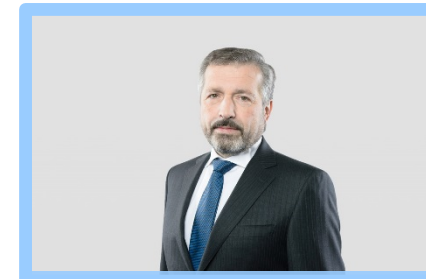
**Matthias Bichsel**

Vice Chairman of the Board  
Member of the Strategy  
Committee



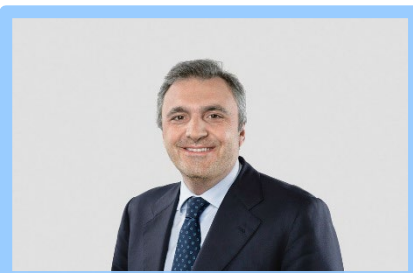
**Dr. Lukas Braunschweiler**

Member of the Strategy  
Committee



**Mikhail Lifshitz**

Member of the Strategy  
Committee



**Marco Musetti**

Member of the Nomination and  
Remuneration Committee  
Member of the Audit Committee



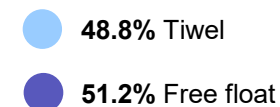
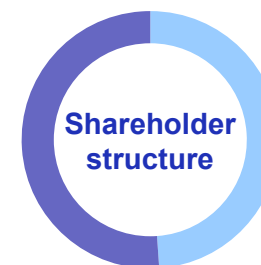
**Gerhard Roiss**

Chairman of the Nomination and  
Remuneration Committee  
Member of the Audit Committee



**Hanne Birgitte Breinbjerg  
Sørensen**

Chairwoman Audit Committee  
Member of the Nomination and  
Remuneration Committee



■ Tiwel representative



**Market Review**

**Financial Review**

**Outlook**

## Back to profitable growth

### Key figures

In CHF millions	2018	2017	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	3'532	3'156	11.9%	12.5%	8.4%
Order intake gross margin	33.3%	34.4%			
Order backlog (Dec 31)	1'667	1'594	4.6%		
Sales	3'405	3'049	11.7%	11.9%	7.8%
opEBITA	322	255	26.1%	26.7%	18.1%
opROSA %	9.5%	8.4%			
EBIT	184	137	34.5%		
ROS %	5.4%	4.5%			
Core net income	223	178	25.0%		
Core EPS (in CHF)	6.88	5.11	37.0%		
Free cash flow	174	127	37.0%		
FTEs (Dec 31)	15'572	14'732	5.7%		

### Commentary

- Orders: acquisition impact 129m; FX impact –19.5m
- Order intake gross margin down on mix effect (higher share of new equipment and margin pressure in Power)
- Sales: increased on higher order backlog entering the year, strong order intake during the year and acquisitions contributing 127m; FX impact –8.2m
- opEBITA increase driven by higher volumes and savings from SFP

1. Adjusted for currency effects  
 2. Organic: adjusted for currency and acquisition effects

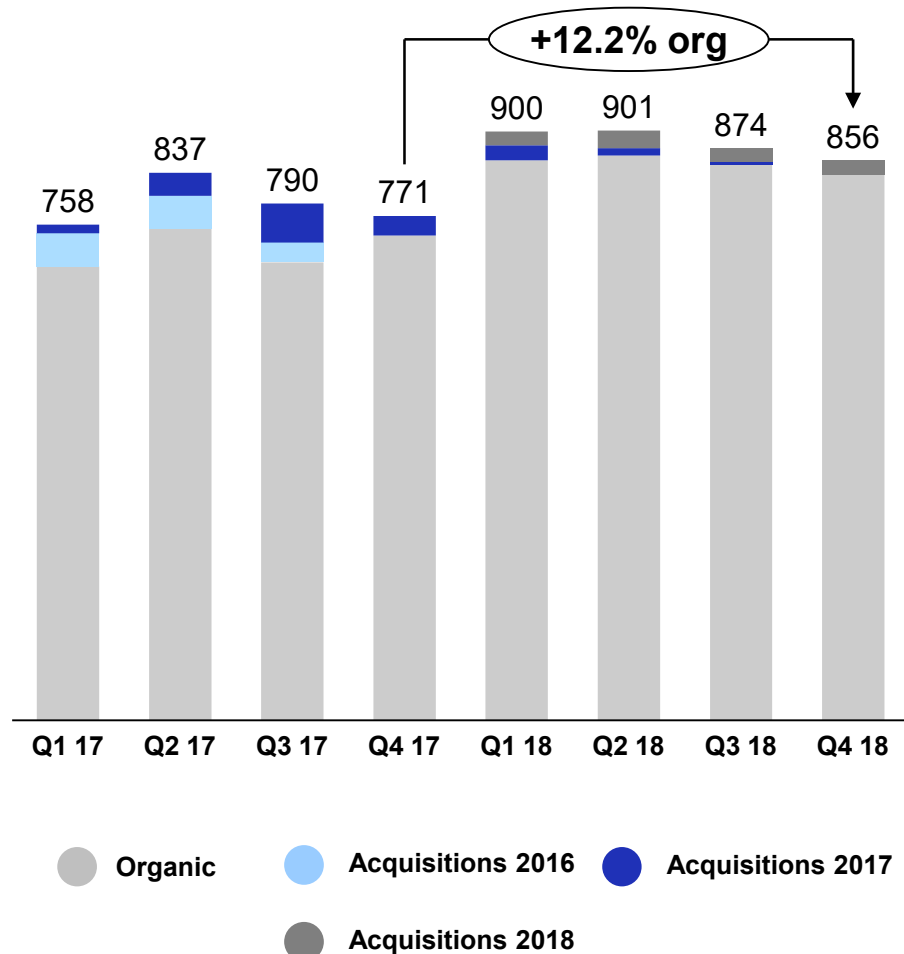


# Quarterly order development

Q4 orders up 15.1%<sup>1</sup> YOY and 12.2% organically<sup>2</sup>

(in CHF millions)

## Quarterly order intake



## Commentary

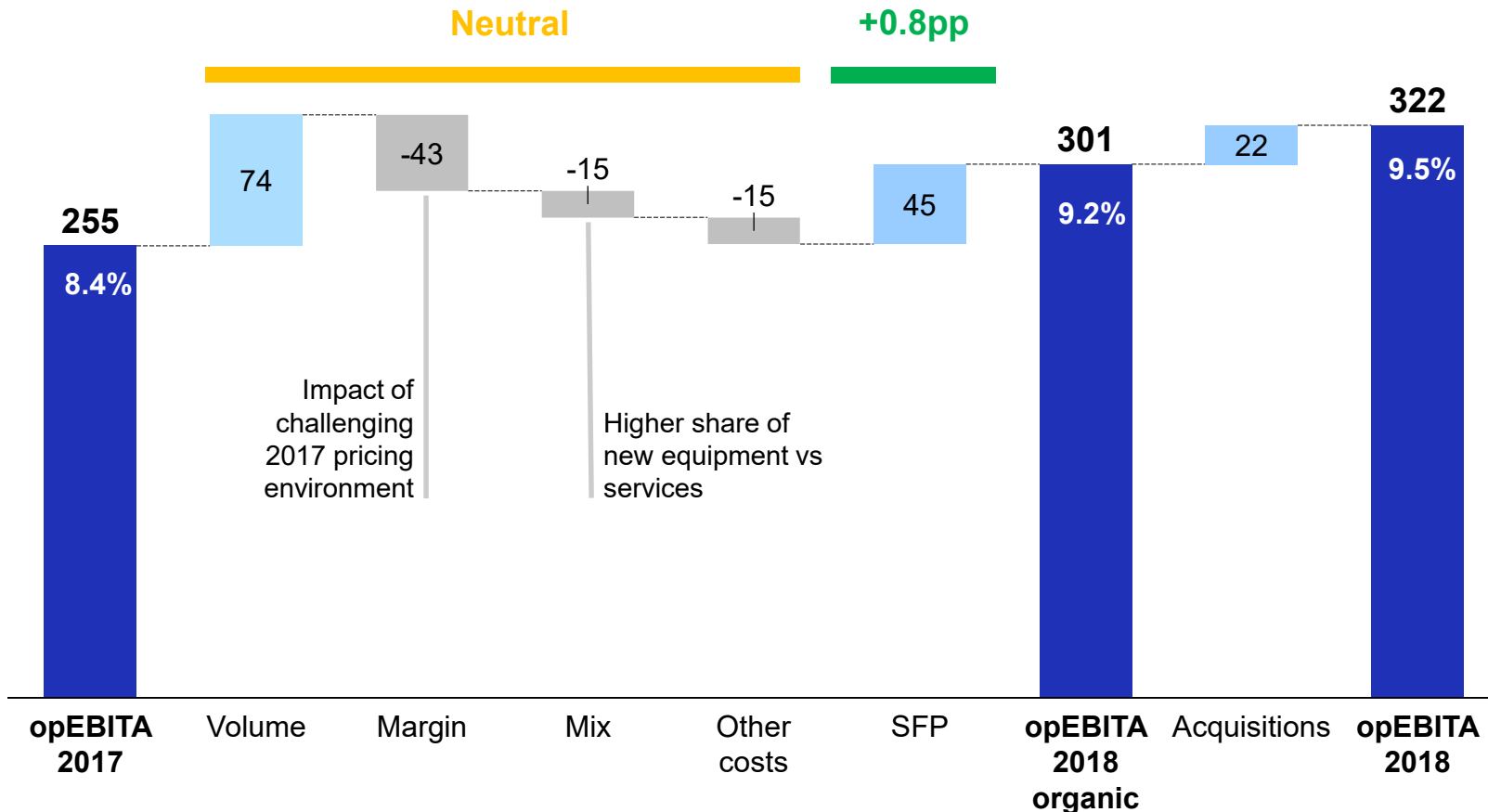
- Q4 organic order intake driven by RES (+23%), Chemtech (+18%) and PE (+8%), whereas APS was slightly negative (-3%)
- Growth driven by O&G +41% and General Industry +8%, Water flat and Power down -20%
- FX impacted negatively (CHF -31m), acquisitions contributed CHF 22m

1. Adjusted for currency effects  
 2. Organic: adjusted for currency and acquisition effects

# OpEBITA / opROSA

## Volume and cost savings more than offset margin and mix headwinds

(in CHF millions )

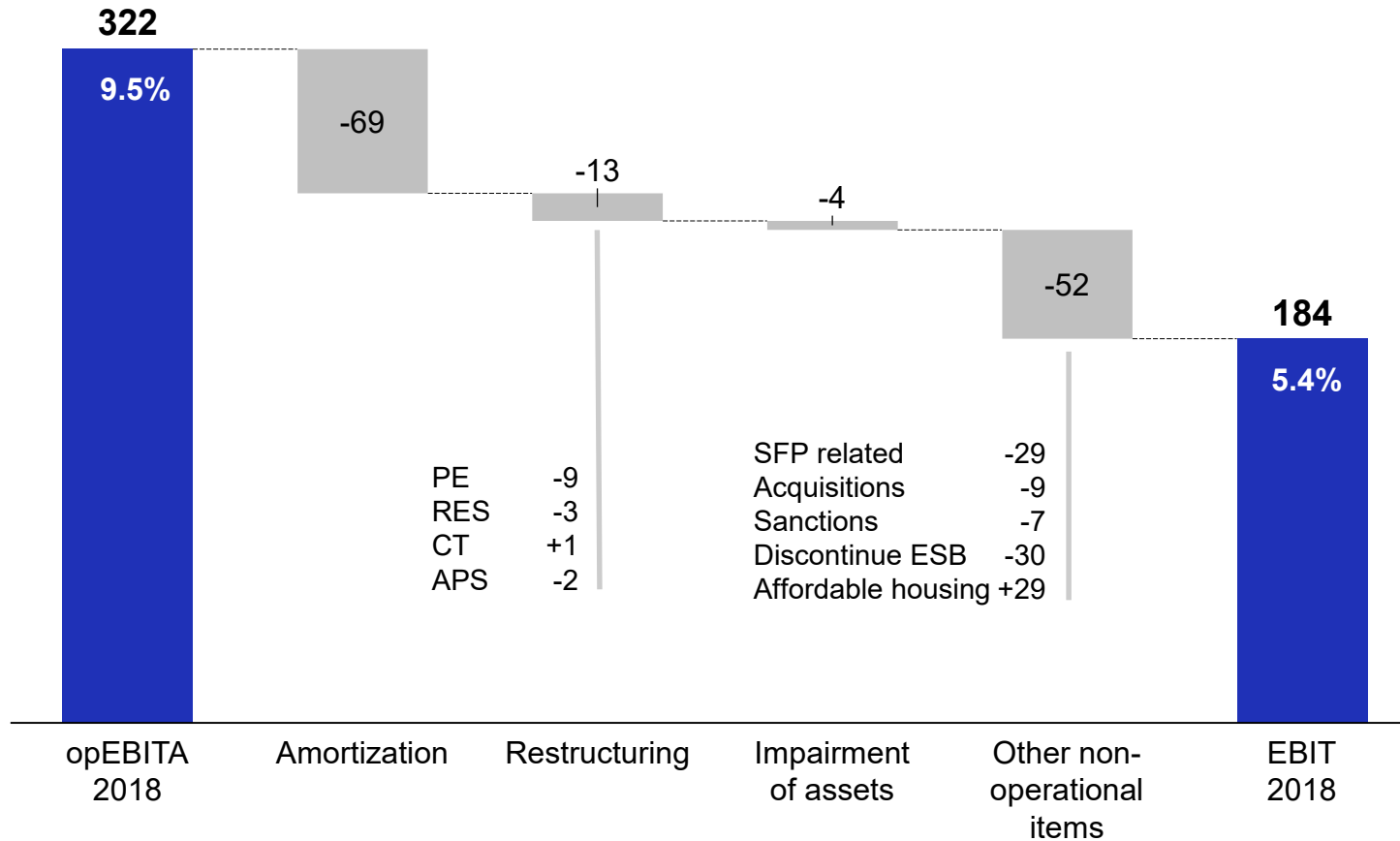


# opEBITA to EBIT

## EBIT impacted by SFP costs of CHF 45m

(in CHF millions)

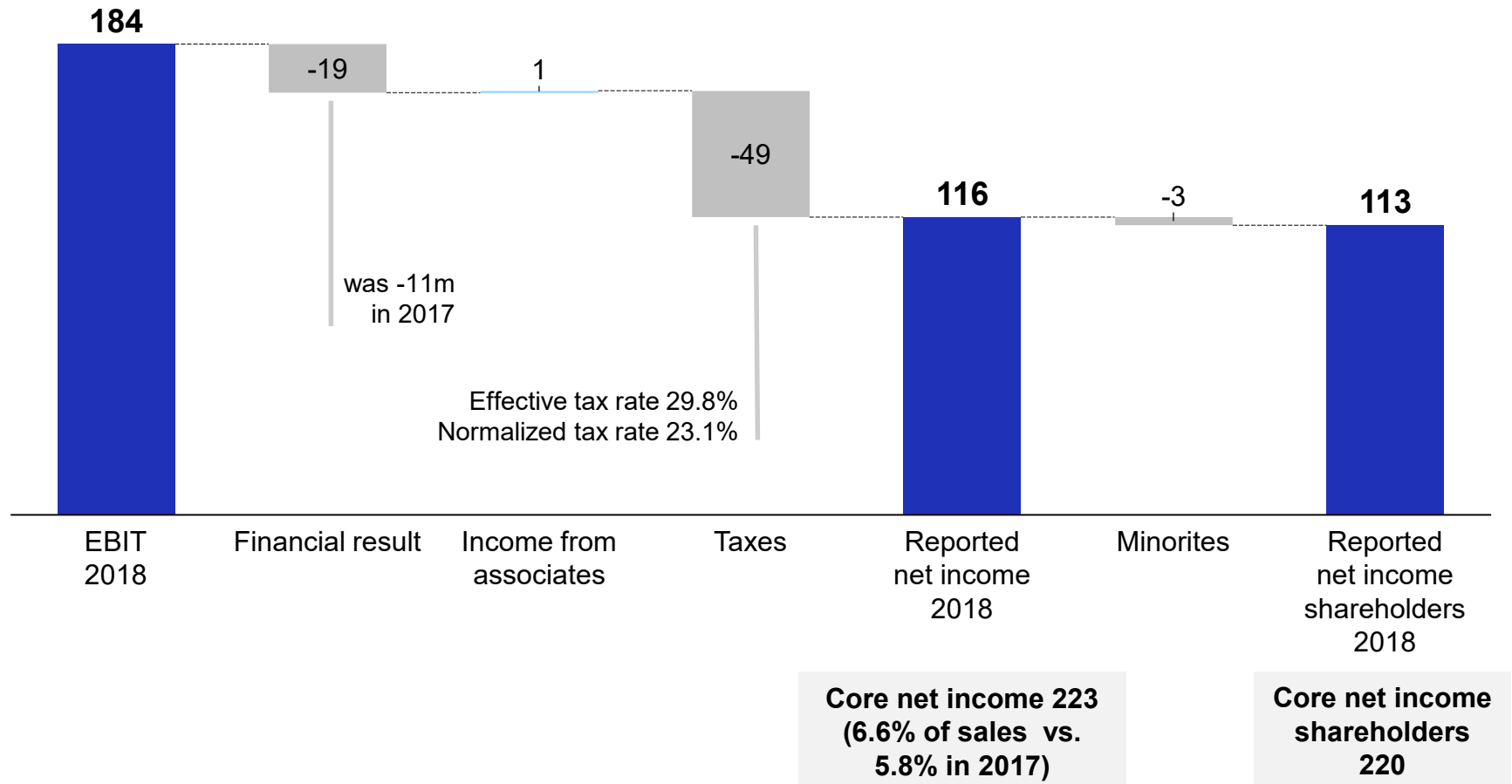
### Operational EBITA to EBIT



# EBIT to net income

## Normalized tax rate 23.1% (30bps improvement)

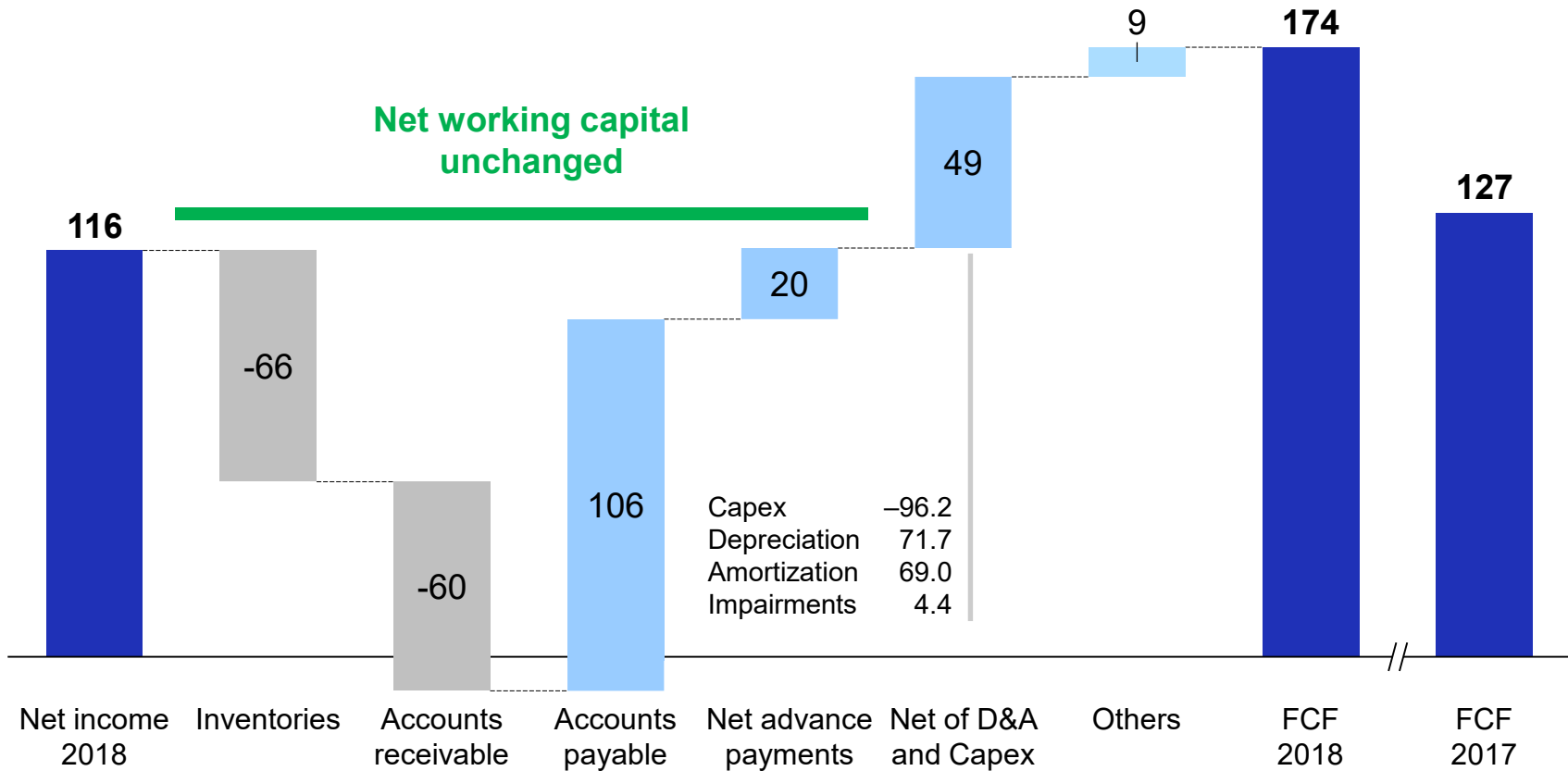
(in CHF millions)



# Free Cash Flow

## NWC flat despite order growth

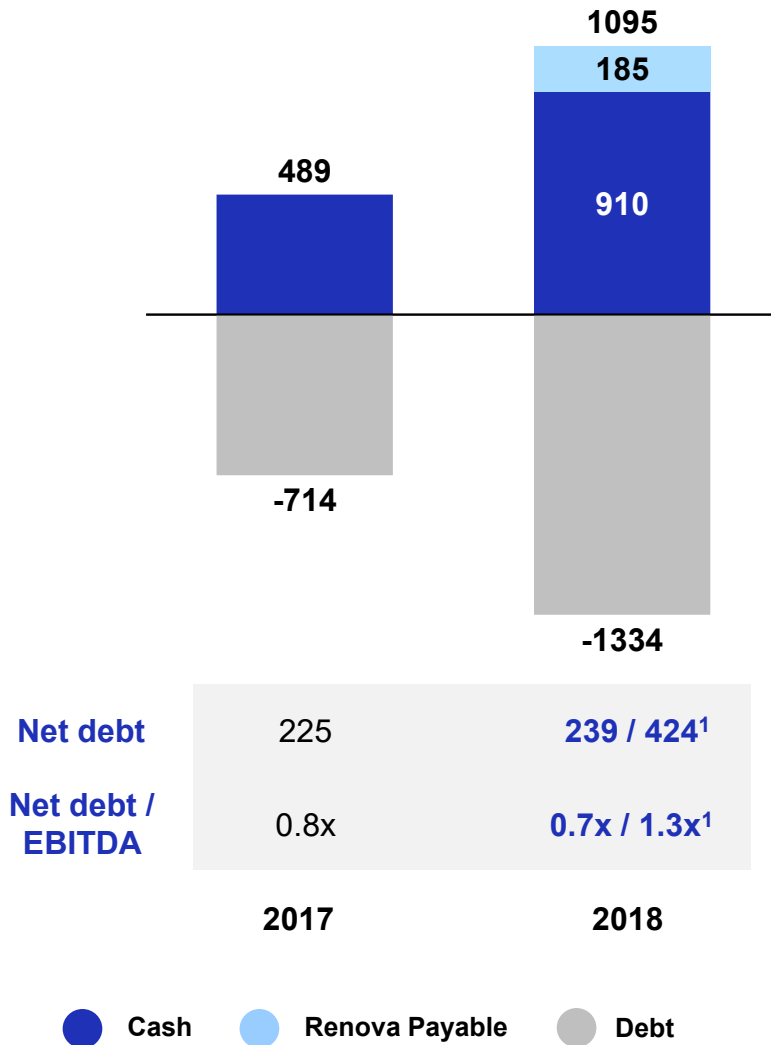
(in CHF millions)



# Balance Sheet

## Solid balance sheet supports profitable growth

(in CHF millions)



### Balance sheet December 2018:

- Total net debt of: CHF 239m
- FCF of CHF 174m (CHF 127m in 2017)
- Ordinary dividend payment of CHF 43m (dividend to Renova held back, CHF 76m Payable)
- Acquisition payments of CHF 218m
- Non-interest bearing CHF 109m Payable to Renova linked to share repurchase

### Bond issuances:

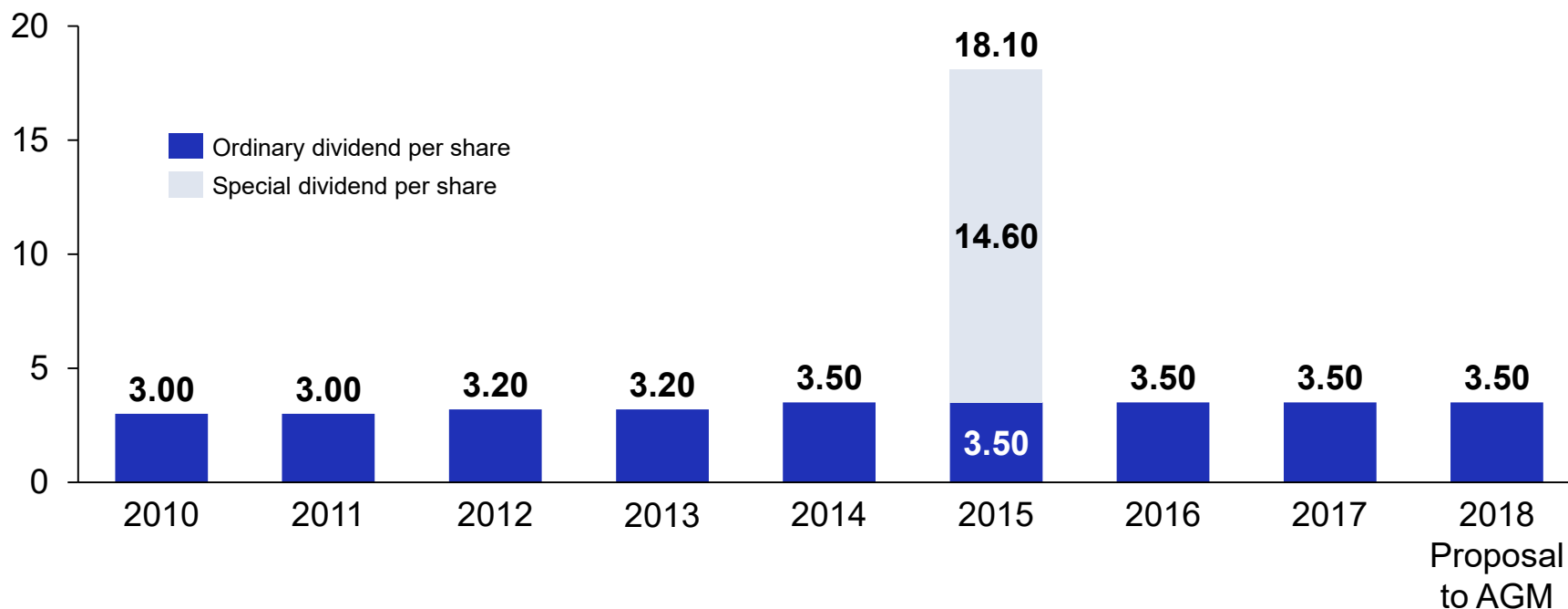
- July: CHF 400m bonds via dual tranche
  - First tranche CHF 110m, 2 years, 0.25% coupon
  - Second tranche CHF 290m, 5 years, 1.3% coupon
- October: CHF 460m bonds via dual tranche
  - First tranche CHF 210m, 3 years, 0.625% coupon
  - Second tranche CHF 250m, 6 years, 1.6% coupon

1. Excluding cash owed to Renova

# Dividend

## Unchanged ordinary dividend of CHF 3.50 proposed

### Dividend (CHF)



### Dividend yield<sup>1</sup>

2010	2.1%	2011	3.0%	2012	2.2%	2013	2.2%	2014	3.3%	2015	3.7%	2016	3.3%	2017	3.0%	2018	4.5%
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1. Dividend yield = ordinary dividend per share / share price on Dec 31.

**Market Review**

**Financial Review**

**Outlook**



# Market Outlook 2019

GI



29%

- APS markets growing at GDP+
- Positive trends for Industry in pumps & service

Water



12%

- Solid growth in Municipal Water
- Engineered Water projects lumpy

Power



12%

- Continuing price pressure in gas turbine service
- Fossil power plant market has adjusted at low level
- Nuclear active aftermarket, lumpy new equipment

Oil &  
Gas



47%

- Upstream (11%): sustained CAPEX patterns (depletion, demand growth)
- Midstream (6%): active market despite North American legal challenges
- Downstream (23%) & CPI (6%): good momentum (cheaper feedstock, CPI boom)

# Financial guidance 2019 as of February 14, 2019

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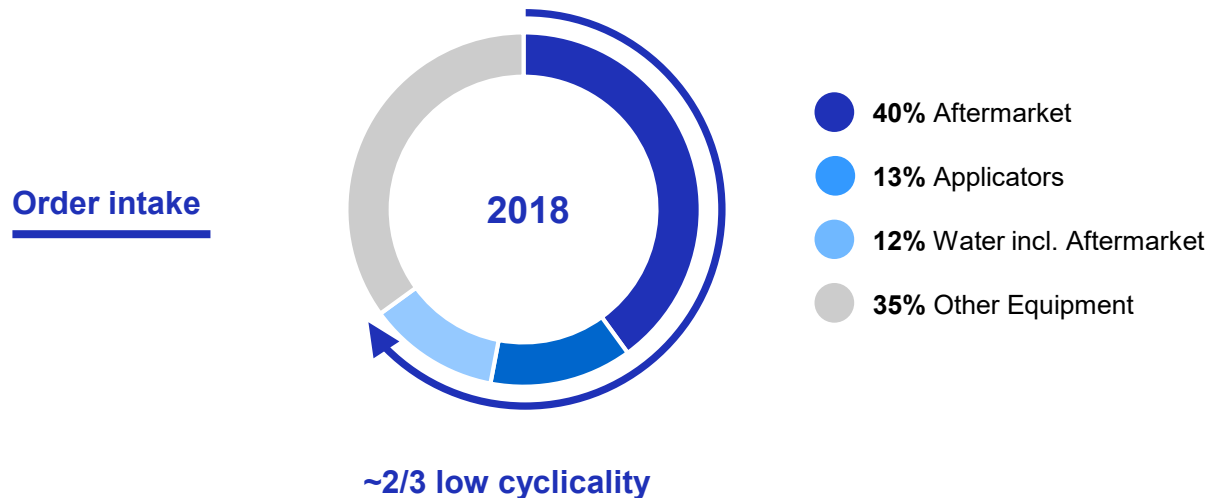
<b>Order Intake<sup>1</sup></b>	<b>up 2% – 5%</b>
<b>Sales<sup>1</sup></b>	<b>up 3% – 5%</b>
<b>Operational ROSA<sup>2</sup> %</b>	<b>around 10%</b>

1. Adjusted for currency effects  
2. Operational EBITA divided by sales

# Summary

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- Successful year with results **at or above guidance**.  
Guidance for orders increased twice and for sales once despite sanctions
- Increased **SFP** commitment achieved one year ahead of schedule  
Additional CHF 10m in savings to come in 2019
- All markets expected to grow in 2019 except Power
- Volume rebound and competitive cost base continue to drive **profitability upswing**



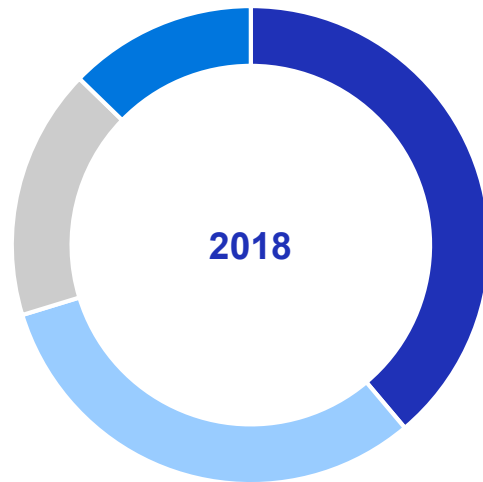
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**SULZER**

**Q&A**

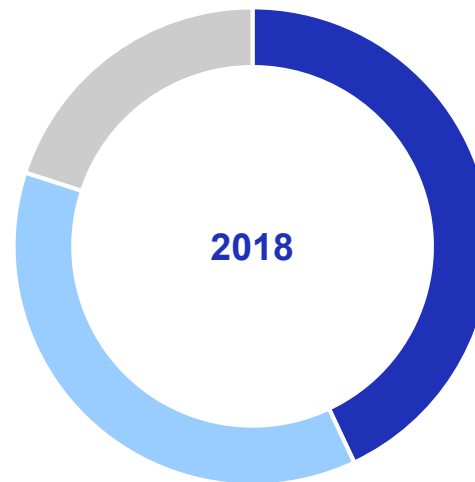
# Order intake split 2018

Order intake by division



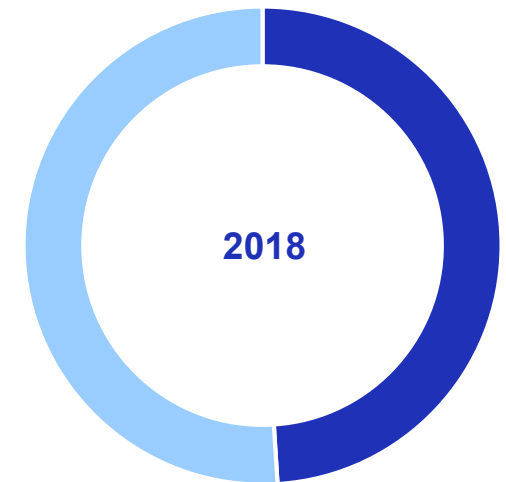
- **39%** Pumps Equipment
- **31%** Rotating Equipment Services
- **17%** Chemtech
- **13%** Applicator Systems

Order intake by region



- **43%** Europe, Middle East, Africa
- **37%** Americas
- **20%** Asia-Pacific

Order intake by type (excl APS)



- **49%** Equipment
- **51%** Aftermarket

## OpEBITA to EBIT bridge for divisions 2018

In CHF millions	PE	RES	CT	APS	Other	Total
<b>opEBITA</b>	<b>39.7</b>	<b>148.8</b>	<b>48.8</b>	<b>95.7</b>	<b>-10.9</b>	<b>322.2</b>
<i>as % of sales</i>	3.1%	13.7%	8.7%	21.1%	–	9.5%
Amortization	-35.5	-7.4	-5.2	-19.6	-1.3	-69.0
Impairments	-0.7	–	–	-3.7	–	-4.4
Restructuring	-8.8	-3.4	+1.1	-1.6	-0.4	-13.1
Other non-operational items	-23.5	-4.4	-31.4	-6.9	14.3	-52.0
<b>EBIT</b>	<b>-29.0</b>	<b>133.5</b>	<b>13.3</b>	<b>63.8</b>	<b>2.0</b>	<b>183.6</b>
<i>as % of sales</i>	-2.2%	12.3%	2.4%	14.1%	–	5.4%

# 9 acquisitions in 3 years for sales of CHF ~450m

## Small to mid size add-ons at reasonable multiples

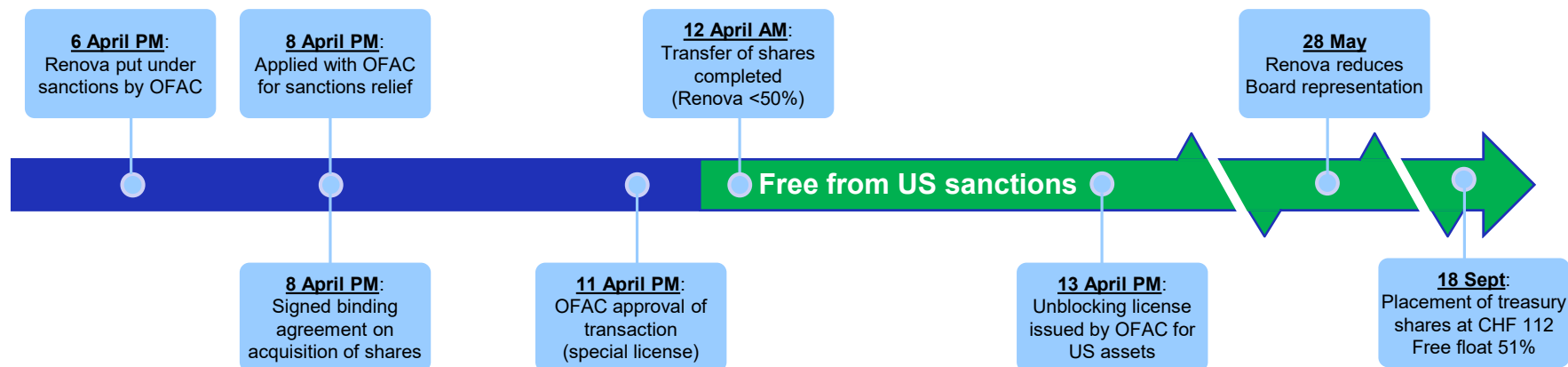
	(in CHF million)	Sales <sup>1</sup>	EBITDA margin	EV paid	EV/ EBITDA	Consolidated from	Division
2018		10	positive	~4	—	Nov 6, 2018	RES
		mid single digit	positive	low single digit	—	Sept 1, 2018	APS
		81	>20%	212	~10x <sup>3</sup>	Jan 11, 2018	PE
		19	>30%	75	<10x <sup>2</sup>	Sept 29, 2017	APS
		35	~20%	28	4x	June 30, 2017	RES
2017		mid single digit	—	4	—	Feb 1, 2017	CT
		120	break even	85	—	Feb 1, 2017	PE
		160	~18%	280	9.6x	Aug 23, 2016	APS
		20	~16%	22	7x	April 4, 2016	APS
2016							

1. Acquisition impact on sales in 2016: Cox 15m; Geka 63m;  
 Acquisition impact on sales in 2017: Cox 6.9m; Geka 124m; Ensival Moret 100m; Rotec 37m; VIEC 3.3m; Transcodent 4.4m  
 2. Incl. synergies  
 3. Expected 2018 EBITDA; EV adjusted for tax asset of USD 25m

# Sanctions timeline recap

## Free from all sanctions, no restrictions for shareholders

### Timeline



### Highlights

- **Sulzer free from US sanctions in 3 days**, no conditions, no reporting obligations
- **Sulzer acquired 5 million shares** from Renova for CHF 109.13 per share, **placed on September 18 at CHF 112** for a capital gain of CHF ~15m
- **Renova at 48.8%**, blocked from any Sulzer financial instrument purchase, **minority Board representation**
- OFAC confirmed (license) that **US persons can buy Sulzer shares** with no restrictions
- **No long term impact** (orders in the US up 15% YOY organically in Q2, 20% in Q3 and 30% in Q4)



# Currency exposure order intake 2018

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