SULZER

MEDIA RELEASE

Sulzer Management Ltd
Neuwiesenstrasse 15
8401 Winterthur
Switzerland
Phone +41 52 262 30 00
Fax +41 52 262 31 00

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Sulzer 2018: strong operational performance and significant growth

In 2018, Sulzer achieved significant growth in orders, sales and profitability. Orders were up by 8.4% organically and by 12.5% including acquisitions. Sales showed an organic increase of 7.8% and of 11.9% including acquisitions. The higher volumes, together with a more efficient cost structure resulted in an increase of operational profit (opEBITA) to CHF 322.2 million, up by 18.1% organically and by 26.7% including acquisitions. Profitability (opROSA) grew to 9.5% from 8.4% in the previous year. Free cash flow grew by CHF 47 million to CHF 173.9 million on higher operating income. Sulzer will propose an unchanged ordinary dividend of CHF 3.50 at the Annual General Meeting.

CEO Greg Poux-Guillaume stated: “We delivered on our guidance and achieved strong results in 2018. Throughout the year, Sulzer demonstrated a resilience to external events and an ability to execute faster and better.”

Key figures

millions of CHF	**2018 (New accounting policies)[1]**	**2018 (Previous accounting policies)[2]**	2017	Change in +/–%[3]	+/–% adjusted[4]	+/–% organic[5]
Order intake	**3’531.5**	**3’531.5**	3’155.7	11.9	12.5	8.4
Order intake gross margin	**33.3%**	**33.3%**	34.4%			
Order backlog as of Dec. 31	**1’786.9**	**1’666.9**	1’593.5	4.6		
Sales	**3’364.9**	**3’404.5**	3’049.0	11.7	11.9	7.8
opEBITA	**322.5**	**322.2**	255.4	26.1	26.7	18.1
opROSA	**9.6%**	**9.5%**	8.4%			
opROCEA	**18.1%**	**17.8%**	15.8%			
EBIT	**183.8**	**183.6**	136.5	34.5		
Net income attributable to shareholders of Sulzer Ltd	**113.7**	**113.0**	83.2	35.8		
Basic earnings per share	**CHF 3.56**	**CHF 3.54**	CHF 2.44	45.1		
Free cash flow	**173.9**	**173.9**	127.0	37.0		
Net liquidity as of Dec. 31	**– 239.0**	**– 239.0**	– 225.0			
Employees as of Dec. 31 (number of FTEs)	**15’572**	**15’572**	14’732	5.7		

Abbreviations: EBIT: Operating income, opEBITA: Operating income before restructuring, amortization, impairments and non-operational items, opROSA: Return on sales before restructuring, amortization, impairments and non-operational items (opEBITA/sales), opROCEA: Return on capital employed, before restructuring, amortization, impairments and non-operational items, FTE: Full-time equivalents

[1] According to IFRS 15, see financial review and note 34 of the consolidated financial statements of the Annual Report.
[2] Without consideration of IFRS 15, applying the same accounting policies as in the prior year.
[3] Comparing the results from 2018 with 2017 under previous accounting policies.
[4] Adjusted for currency effects. Comparing the results from 2018 with 2017 under previous accounting policies.
[5] Adjusted for acquisition and currency effects. Comparing the results from 2018 with 2017 under previous accounting policies.

Strong order growth

Order intake increased by 12.5% in 2018, driven by 8.4% organic growth and a CHF 129.0 million contribution from acquisitions.

Order intake in the Pumps Equipment division jumped up by 16.5%, of which 8.6% from organic growth and 7.9% from acquisitions. Organic growth was prevalent in all segments except power, particularly in oil and gas. In the Rotating Equipment Services division, order intake grew by 7.6%, of which 5.8% was organic. Organic growth was boosted by a rebound in the pump service business, which more than made up for the impact of a soft power market in turbo services. Order intake in the Chemtech division grew by 20.5% organically, supported by strong growth across all regions. In the Applicator Systems division, orders increased by 4.2% as a result of the acquisitions of Transcodent and Medmix. However, they remained flat organically, with a 5.4% decline in Beauty offsetting equivalent growth in all the other segments. Beauty was impacted when a major customer switched to a new-generation product, generating a volume gap in 2018.

Geographically, Sulzer grew in the Americas, Europe, the Middle East and Africa, while remaining stable in Asia-Pacific.

Currency translation effects totaled CHF –19.5 million, due to the weaker Russian ruble, Brazilian real and Argentinian peso, and partly offset by the stronger euro.

Higher sales on strong organic growth and acquisitions

Sales amounted to CHF 3’404.5 million in 2018, an increase of 11.9%. This increase was driven by strong organic growth of 7.8% on the back of a higher order backlog entering the year, solid order intake during the year and CHF 126.9 million of acquisition-related sales. Negative currency translation effects totaled CHF 8.3 million.

In 2018, sales grew in all market segments. The most significant increase was recorded in the water segment. It was driven both by organic growth and the JWC acquisition, as well as in the oil and gas segment, and benefitted from an active market and a higher opening backlog. Sales in the power segment grew from the acquisition of Rotec and Brithinee, offsetting a slight organic decline. The industry segment recorded higher sales from both organic growth and acquisitions.

Geographically, sales grew across all regions and particularly in Asia-Pacific. The share of sales in emerging markets increased from 41% in 2017 to 44% in 2018.

Operational EBITA margin increased to 9.5%

Operational EBITA (opEBITA) came to CHF 322.2 million compared with CHF 255.4 million in 2017, an increase of 26.7%. Higher sales, savings of CHF 45 million achieved from SFP and the contribution from acquisitions more than offset the negative margin and mix impact. Operational EBITA margin (opROSA) increased to 9.5% from 8.4% in 2017.

EBIT increased by 34.5%

EBIT amounted to CHF 183.6 million, an increase of 34.5% compared with CHF 136.5 million in 2017. Return on sales (ROS) was 5.4% compared with 4.5% in 2017. Acquisitions resulted in amortizations that were CHF 15 million higher in 2018 than in the year before and non-operational items, restructuring expenses and impairments together increased by CHF 4 million. Non-operational items include SFP costs and acquisition and sanction-related expenses. They also include two largely offsetting entries, a CHF 30.1 million charge for the discontinued “Extended Scope” activity formerly part of Tower Field Services, and a CHF 28.5 million profit from the sale of unquoted real-estate equity instruments, which had previously been measured at cost.

In 2018, net income amounted to CHF 116.1 million compared with CHF 87.2 million in the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 222.7 million compared with CHF 178.3 million in 2017.

Strong free cash flow
Free cash flow came to CHF 173.9 million compared with CHF 127.0 million the year before. This was driven by the higher cash flow from operating activities. Capital expenditures were approximately CHF 15 million higher than in the previous year, while net working capital remained stable despite the growth.

A year of achievements
After a good start in the year with record order intake in Q1, Sulzer was impacted by the sanctions imposed by the US on Renova in early April. The situation was resolved within three working days through the purchase by Sulzer of five million shares from its then majority shareholder Renova. Sulzer placed these shares with international investors in September, thus increasing the free float to 51.2% and realizing a capital gain of around CHF 15 million.

Over the summer, Sulzer further optimized its financing mix and took advantage of favorable market conditions. Between June and September, the company issued four bonds with staggered maturities for a total of CHF 860 million.

In the third quarter, Sulzer received the largest pipeline pump order in the oil and gas market in the US since the downturn. Also in the third quarter, Sulzer inaugurated a brand-new manufacturing site for Applicator Systems in Wroclaw, Poland, augmenting its ability to serve the dynamic adhesives market.

Sulzer closed the year with the gold certificate at the Swiss Digital Economy Awards for BLUE BOX™, an advanced analytics platform for pumps. BLUE BOX uses machine learning and the Internet of Things for the predictive maintenance and performance optimization of customer assets.

Outlook for 2019
Sulzer expects the positive momentum in the oil and gas market to continue in 2019. All other markets are also expected to grow, with the continued exception of power. Sulzer’s early indicators do not show signs of an impending slowdown of the economy in our major markets. The company, therefore, expects to continue its trend of organic growth and improved profitability.

Sulzer has delivered cumulative SFP savings to date of CHF 230 million and is increasing its target by CHF 10 million, which will be achieved in 2019.

For the full year 2019, adjusted for currency effects, order intake is expected to grow organically by 2% to 5% and sales to grow organically by 3% to 5%. Sulzer expects to reach an opEBITA margin (opEBITA in percent of sales) of around 10%.

Changes to the Board of Directors and the Executive Committee

Jill Lee, who had been a Sulzer Board member for seven years and the Chair of the Audit Committee, joined the Executive Committee of Sulzer as Chief Financial Officer as of April 5, 2018. Frédéric Lalanne, the former Chief Commercial and Marketing Officer, was appointed President of the Pumps Equipment division at the end of the year. He replaced Michael Streicher, who took the helm of the water business, reporting to Frédéric. Sulzer thus reduced the size of its Executive Committee to six members.

The Board of Directors welcomed two new members at the Annual General Meeting of April 4, 2018: Hanne Birgitte Breinbjerg Sørensen and Lukas Braunschweiler. They replaced Jill Lee and Thomas Glanzmann, who did not stand for reelection. Renova reduced its Board representation to two representatives as of May 28, 2018, through the resignation of Axel Heitmann. He was not replaced, and Sulzer’s Board of Directors is now composed of seven members.

Proposals by the Board of Directors at the Annual General Meeting

The Board of Directors will propose an unchanged ordinary dividend of CHF 3.50 per share (2018: CHF 3.50) at the Annual General Meeting on April 3, 2019. This represents a 4.5% dividend yield (2018: 3.0%).

The Board of Directors will also propose that all members of the Board of Directors be reelected for a one-year term of office at the Sulzer Annual General Meeting.

Key figures divisions

Details on the performance of the divisions can be found in the Annual Report 2018 (https://report.sulzer.com/ar18).

millions of CHF	**2018 (New accounting policies)[1]**	**2018 (Previous accounting policies)[2]**	2017	Change in +/–%[3]	+/–% adjusted[4]	+/–% organic[5]
Pumps Equipment						
Order intake	**1’372.1**	**1’372.1**	1’180.2	16.3	16.5	8.6
Sales	**1’284.2**	**1’299.9**	1’120.0	16.1	15.5	7.5
opEBITA	**41.4**	**39.7**	– 3.7	n/a	n/a	n/a
opROSA	**3.2%**	**3.1%**	– 0.3%			
EBIT	**– 27.2**	**– 29.0**	– 61.7	53.0		
Employees[6] as of Dec. 31	**5’713**	**5’713**	5’453	4.8		
Rotating Equipment Services						
Order intake	**1’109.7**	**1’109.7**	1’047.7	5.9	7.6	5.8
Sales	**1’063.7**	**1’087.4**	1’029.5	5.6	7.2	5.2
opEBITA	**146.1**	**148.8**	144.0	3.4	4.9	3.0
opROSA	**13.7%**	**13.7%**	13.9%			
EBIT	**130.8**	**133.5**	134.4	-0.7		
Employees[6] as of Dec. 31	**4’721**	**4’721**	4’485	5.3		
Chemtech						
Order intake	**600.1**	**600.1**	501.5	19.7	20.5	20.5
Sales	**563.2**	**563.4**	478.0	17.9	18.6	18.6
opEBITA	**50.0**	**48.8**	25.0	94.8	94.6	94.7
opROSA	**8.9%**	**8.7%**	5.2%			
EBIT	**14.5**	**13.3**	11.0	21.0		
Employees[6] as of Dec. 31	**3’063**	**3’063**	2’878	6.4		
Applicator Systems						
Order intake	**449.6**	**449.6**	426.3	5.4	4.2	0.3
Sales	**453.8**	**453.8**	421.6	7.7	6.3	2.4
opEBITA	**95.7**	**95.7**	86.8	10.2	9.5	5.7
opROSA	**21.1%**	**21.1%**	20.5%			
EBIT	**63.8**	**63.8**	63.2	0.9		
Employees[6] as of Dec. 31	**1’864**	**1’864**	1’716	8.6		

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[4] Adjusted for currency effects. Comparing the results from 2018 with 2017 under previous accounting policies.
[5] Adjusted for acquisition and currency effects. Comparing the results from 2018 with 2017 under previous accounting policies.
[6] Number of full-time equivalents (FTE).

Abbreviations:

EBIT:	Operating income
opEBITA:	Operating income before restructuring, amortization, impairments and non-operational items
opROSA:	Return on sales before restructuring, amortization, impairments and non-operational items (opEBITA/sales)

Annual results online: https://www.sulzer.com

Annual report online: https://report.sulzer.com/ar18 --

Annual results presentation

*Sulzer will host an **annual results presentation** today at 09.00 a.m. CET at the Park Hyatt Zurich (Chicago & Shanghai Room on the mezzanine floor), Beethovenstrasse 21, 8002 Zurich, Switzerland.*

The presentation can be followed by webcast (audio slides) or by dialing-in to the conference call. To access the webcast or to dial in to the conference call, use the following links and numbers, respectively:

Webcast	*www.sulzer.com/ar18-webcast*

Dial-in

Local – London, United Kingdom:	*+44 (0) 207 107 0613*
National free phone – United Kingdom:	*0800 279 3956*
Local – New York, United States of America:	*+1 (1)631 570 5613*
National free phone – United States of America:	*001 (1)866 291 4166*
Local – Geneva, Switzerland:	*+41(0)58 310 5000*
National free phone – Switzerland	*080 000 1752*

Please dial in 5 minutes before the start of the conference call.

Playback webcast
The playback of the webcast will be available shortly after the event under the same link.

Key dates in 2019

April 3	*Annual General Meeting 2019*
April 17	*Order intake Q1 2019*
July 24	*Midyear results 2019*
October 23	*Order intake Q1 – Q3 2019*

Sulzer's core strengths are flow control and applicators. We specialize in pumping solutions and services for rotating equipment, as well as separation, mixing and application technology. Our customers benefit from a network of over 180 production and service sites in about 50 countries around the world. Sulzer has been headquartered in Winterthur, Switzerland, since 1834. In 2018, we achieved sales of more than CHF 3.4 billion with around 15'500 employees. Our shares are traded on the SIX Swiss Exchange (SIX: SUN). www.sulzer.com

Inquiries:

Investor Relations: Christoph Ladner, Head of Investor Relations
Phone +41 52 262 30 22, christoph.ladner@sulzer.com

Media Relations: Rainer Weihofen, Media Spokesperson
Phone +41 52 262 36 09, Mobile +41 79 653 86 85, rainer.weihofen@sulzer.com