

**SULZER**

# Annual Results 2020

Greg Poux-Guillaume, CEO | Jill Lee, CFO | February 24, 2021



# 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.

*Note on Alternative Performance Measures (APM): all bridges from APM to reported figures can be found in the financial section of Sulzer's annual report 2020.*

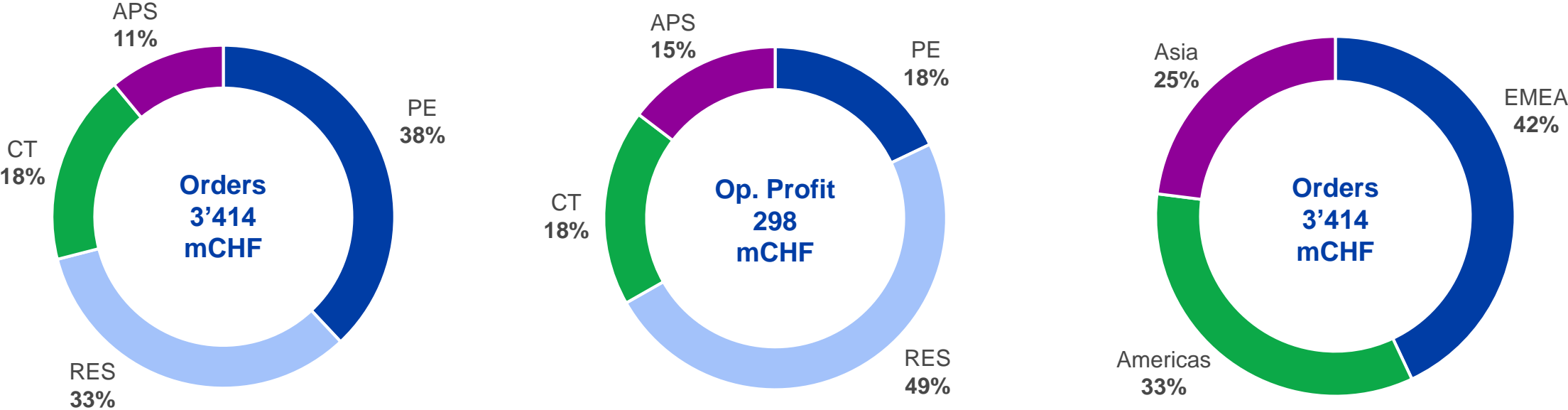
# Business Review

## 2020 highlights

- Orders resilient at -2.2% (-3.8% organic), sequentially up in Q4
- Sales -4.6% (-5.6% organic)
- APS recovery accelerated in Q4 with YoY organic growth of +5%
- Op. profitability 9.0%, down 100 bps YoY on lower APS volumes
- Op. profitability of businesses other than APS up 10 bps YoY despite lower sales, on stable pricing, good execution and significant cost takeout
- FCF hit record of 272m on inventory and receivable management
- Unchanged dividend of CHF 4 per share proposed to AGM
- Acquisitions of Haselmeier and Nordic Water strengthen focus areas Medical in APS and Water in PE

# 2020 Orders and Profit split

Service (RES) and Asia (China!) grew, Applicators suffered from lockdowns



**Highlights**

- Service (RES) grew organically and maintained its profitability despite customer site access restrictions
- Pumps (PE) increased profitability despite lower volumes, Nordic Water acquired, Water now bigger than slumping Energy
- Chemtech (CT) maintained profitability, Asia (+15%) and Sustainable Solutions (biopolymers, recycling, etc.) now driving growth
- Applicators (APS) hammered by market freeze in Q2 but impressive sequential recovery with Q4 +5% YoY, Haselmeier acquired

# Pumps Equipment (PE)

Energy resizing and strong execution lead to higher margin on lower volumes

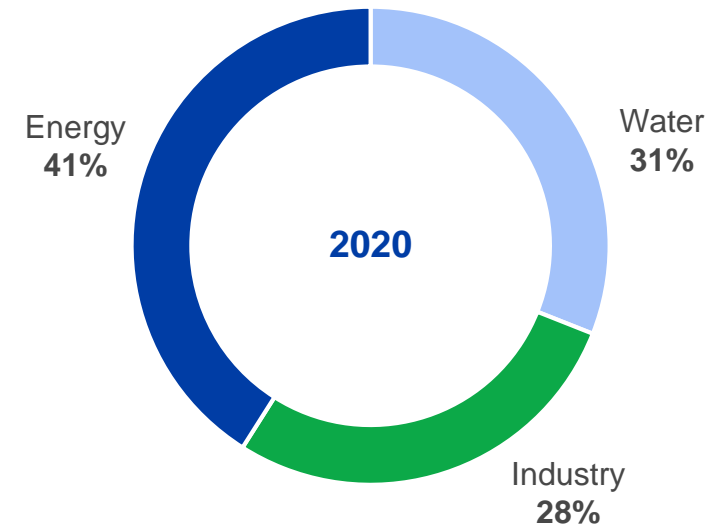
## Key figures

In CHF millions	2020	2019	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	1'298	1'459	-11.1%	-4.1%	-2.9%
Sales	1'296	1'477	-12.2%	-5.7%	-4.5%
EBIT	-16	12			
Operational profit (opEBITA)	55	60	-7.5%	-2.7%	4.2%
<i>operational profitability</i>	4.3%	4.0%			

## Highlights

- **Orders:**
  - **Water** up 2% (adj. for two large engineered water orders in Saudi in 2019)
  - **Industry** flat, Pulp & Paper decline offset by other process industries
  - **Energy** down 2% (high H1, low H2) on fewer investments and high selectivity
- **Sales** decline driven by Energy, Water up by 3%, Industry stable
- **Op. Profitability** up by 30 bps on cost management and good execution

## Order intake by market



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

# PE – Water segment

Water now largest segment after acquisition of Nordic Water

## Nordic Water transaction rationale

- Leading provider of screening, sedimentation and filtration solutions for municipal and industrial water treatment
- Sales CHF80m and EBITDA 13m expected in 2021 with 200 people
- Sales and aftermarket synergies as minimal product overlap and complementary geographies
- Completes our wastewater product portfolio (pumps, mixers, blowers, grinders, screens, sedimentation, filtration)
- Water treatment growing at 4-6% a year
- EV CHF 128m. Closed February 1, 2021

## Nordic Water products at every step of waste water plant process

Treatment step	Nordic Water solution	
Pre / primary		Screens
Secondary		Sedimentation
Tertiary		Filtration

# PE – Energy segment

Resized for lower volumes, margin focus unchanged

## Comment

- Order intake gross margins (OIGM) in PE division up 100 bps in 2020 on increase in Energy and mix
- Energy market has corrected, trough in H2 2020, will rebound slightly sequentially in 2021
- PE Energy downsized by a third, ahead of correction:
  - Closure of Belgium expected completion end '21
  - Significant downsizing of Portland (USA)
  - Significant downsizing of Brazil
- Capacity / cost structure in line with market outlook
- Main focus remains on OIGM through selectivity
- Debottlenecking allows for rebound if and when

## Order intake and Order intake gross margin in PE Energy

(in CHF millions.)





# Rotating Equipment Services (RES)

Grew organically and defended margins during the pandemic

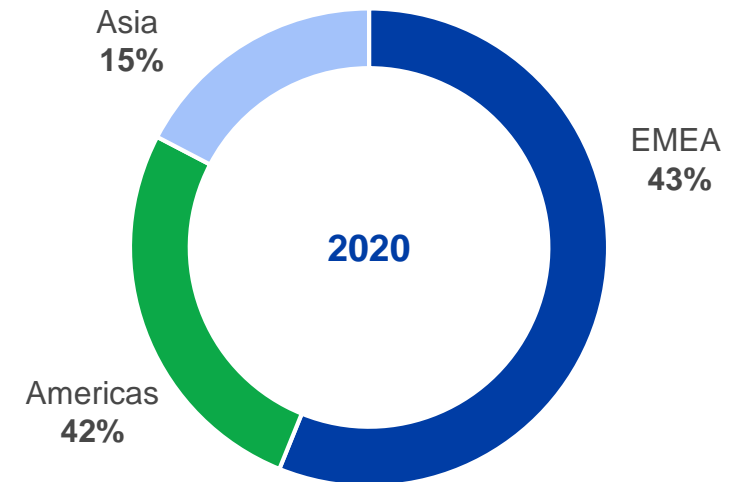
## Key figures

In CHF millions	2020	2019	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	1'131	1'193	-5.2%	2.5%	0.6%
Sales	1'078	1'167	-7.6%	0.1%	-1.1%
EBIT	126	152			
Operational profit (opEBITA)	150	165	-8.6%	0.6%	-0.5%
<i>operational profitability</i>	<i>13.9%</i>	<i>14.1%</i>			

## Highlights

- **Orders** +0.6% organic despite customer site access restrictions
- Orders up in Asia-Pacific and Americas and stable in EMEA
- **Sales** stable despite customer requested delays
- **Op. profitability** stable demonstrating resilience of business model
- Some pent up demand to be released post lockdowns

## Order intake by region



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

# RES – *in situ* services

Sulzer refurbishes 4 x 20 MW propulsion motors on sister cruise ships during pandemic

- Modern cruise ships are powered by highly efficient electric propulsion systems
- If one of a pair of motors develops a serious fault, vessel to remain at next port until repairs completed
- Motor OEM could only propose complete stator replacement, implying cutting out the hull in dry dock
- **Sulzer repaired the motors *in situ* turnkey**, pulling its specialized resources from worldwide service network
- Work performed in record time by technical team from Australia and the UK. High voltage coils were supplied by Sulzer's Birmingham coil shop
- Sulzer ensured the safety of its staff by keeping the engineers in their own 'bubble' while on the vessel
- Good example of how a **unique value proposition** with high customer NPV creates commercial opportunities



# Chemtech (CT)

Profitability stable despite lower Sales, China booming and Renewable picking up

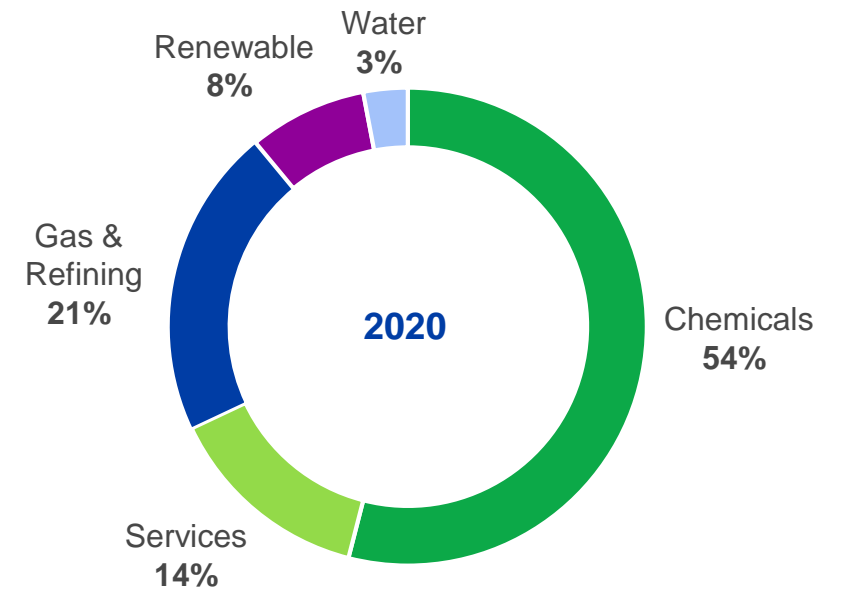
## Key figures

In CHF millions	2020	2019	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	621	670	-7.3%	-1.1%	-6.9%
Sales	593	664	-10.7%	-4.8%	-9.7%
EBIT	36	54			
Operational profit (opEBITA)	57	64	-10.8%	-4.1%	-12.7%
<i>operational profitability</i>	9.6%	9.6%			

## Highlights

- **Orders** stable as China boom (+29%) and business transfer from PE mitigated shift in larger projects and impact of site access restrictions
- **Sales** down on impact from lockdowns, particularly for our factory in India
- **Op. profitability** stable at 9.6% despite lower sales on cost discipline, will exceed 10% as market rebounds
- **Renewable** (biopolymers, recycling, etc.) close to CHF 50m, will grow significantly in next few years

## Order intake by market



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

# CT – Renewable

Sulzer leadership in biopolymers processes – converting sugar into bioplastics

## Bioplastics from polylactic acid (PLA)

- Our proprietary separation technology for lactide production selected for Chinese B&F PLA in Bengbu, **first fully integrated sugar-to-PLA plant in China**
- Bioplastics from polylactic acid (PLA) are 100% recyclable and a sustainable alternative to conventional plastics
- The processing equipment enables the production of large volumes of high-quality lactide from corn glucose (30'000 tons per year)
- The plant uses our innovative hybrid technology to reach high purity levels for outstanding thermal and mechanical bioplastic properties

## B&F PLA plant, first integrated sugar-to-PLA plant in China



# Applicator Systems (APS)

Stalled in Q2, rebounded in H2 (Q4 orders +5% YoY), push into Medical Devices

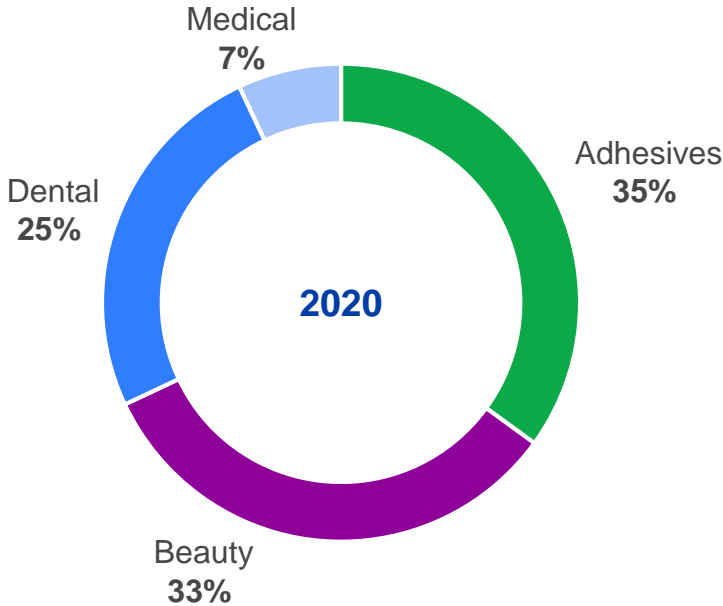
### Key figures

In CHF millions	2020	2019	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
Order intake	365	425	-14.2%	-11.0%	-14.2%
Sales	351	421	-16.5%	-13.4%	-15.2%
EBIT	20	40			
Operational profit (opEBITA)	45	88	-49.3%	-48.6%	-47.9%
<i>operational profitability</i>	<i>12.7%</i>	<i>21.0%</i>			

### Highlights

- Significant impact of lockdowns in Q2 (dental and beauty temporarily down 80%)
- Strong rebound in H2 on reopening and restocking, **Q4 orders +5% org. YoY**
- Op. profitability down on volume drop, no pricing impact, expect full recovery
- Optimized cost base and completed Beauty transformation (Bamberg closed)
- **Boosted Medical** segment with **acquisition of Haselmeier**, a Swiss-German developer and manufacturer of drug delivery devices

### Order intake by market



Note: one quarter of Haselmeier only

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

# APS – Medical segment

## Acquisition of Haselmeier boosts growth targets for medical segment

### Haselmeier transaction rationale

- Designs and produces injection pens for subcutaneous application, e.g. fertility, growth hormones, diabetes, rare diseases
- Latest product (D-flex) allows for faster customization and certification
- Products based on **own IP** (~200 patents), not a CDMO
- Grow APS medical segment beyond Medmix medical device (bone & tissue repair) business **into drug delivery devices**
- Synergies through our expertise in precision injection molding
- Transaction closed on October 1, 2020
- **Ambitious targets for 2025:**  
more than double sales from EUR 35m in 2019 to 90m and increase EBITDA margin from 15% to 30%

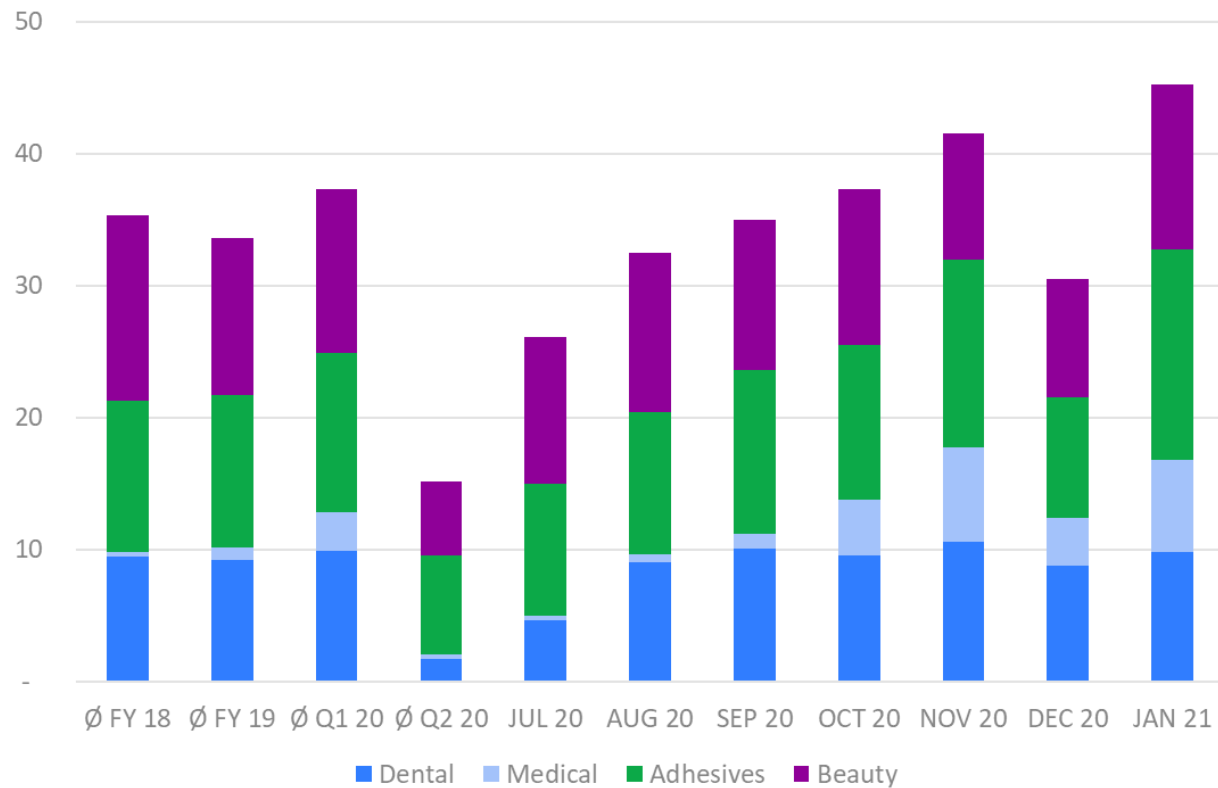
### Attractive and versatile product portfolio (own IP)



# APS – volumes recovery

Strong rebound in H2 carrying into 2021

## Monthly order intake in current FX



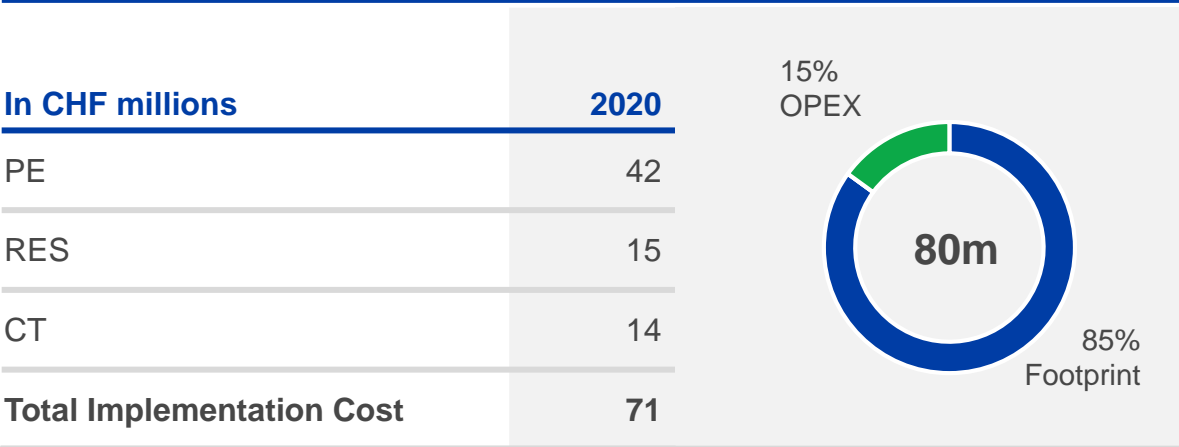
## Comment

- APS markets stalled in Q2 amid lockdowns: no dentists + no retailers = no sales
- Strong recovery started in summer 2020 and carried into Q4 and 2021
- December always lower on maintenance work and holidays (plant shutdowns)
- Medical segment boosted from Q4 '20 onwards with integration of Haselmeier
- 2021 guidance assumes full volume recovery by the summer, with some geographical differences (e.g. dental US slower to recover)

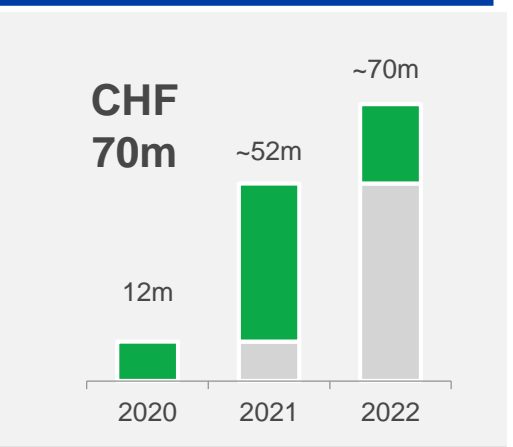
# Structural cost savings plan in Energy

CHF 70m savings target, on track, uplift mostly expected in 2021

**Cost**



**Savings**



**Measures**

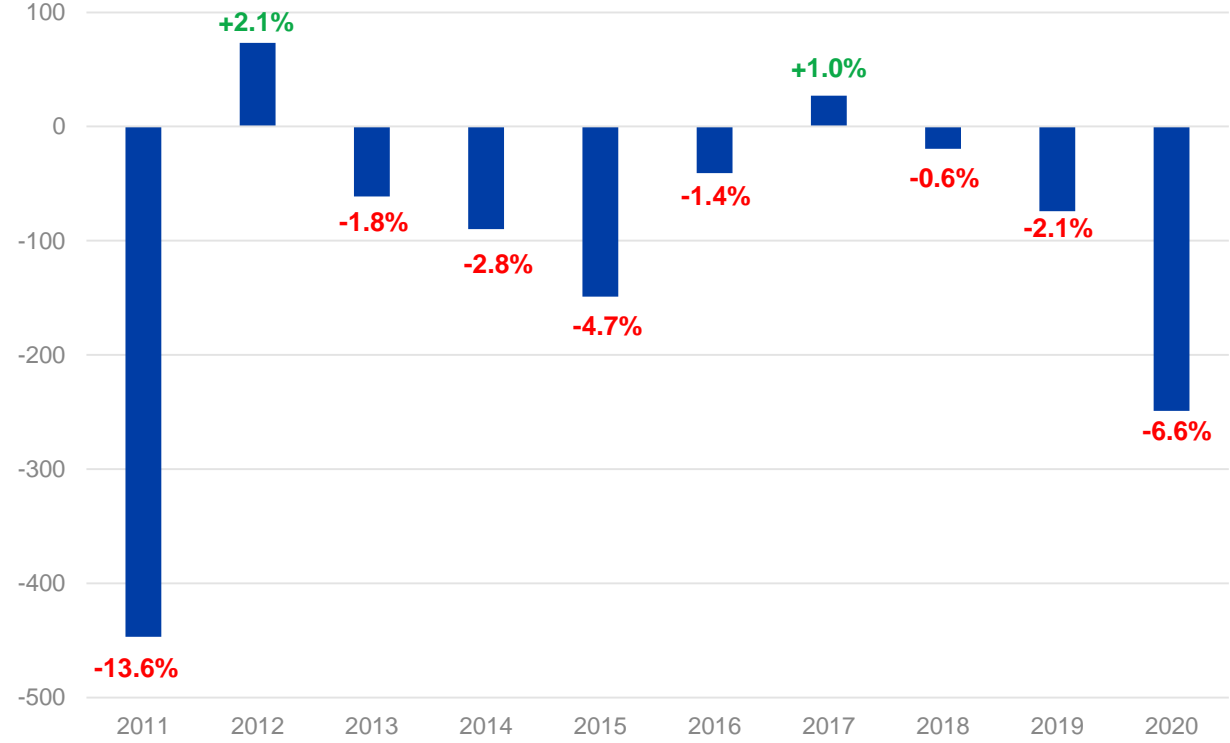
- Closure of a PE Energy factory in Belgium; completion expected in end '21
- Significant downsizing of PE Energy factories in Portland (USA) and Brazil
- Closure of a CT factory in the USA
- Closure of a large RES Turbo Service facility in Europe
- Resizing of Corporate and Divisions overheads
- Other local actions



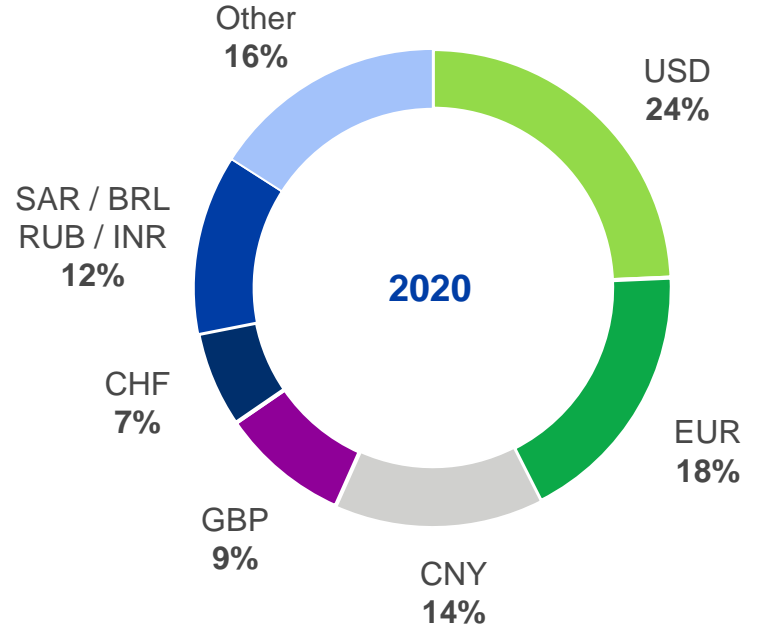
# FX translation impact

FX reduced reported Sulzer Order Intake by CHF1bn over last 10 years

**FX impact on orders in CHFm and as %**



**Currency split (orders)**



# Financial Review

# Overview

Resilient orders and profitability, aggressive restructuring, record FCF

## Key figures

In CHF millions	2020	2019	YOY	adj. <sup>1</sup>	org. <sup>2</sup>
<b>Order intake</b>	<b>3'414</b>	<b>3'747</b>	<b>-8.9%</b>	<b>-2.2%</b>	<b>-3.8%</b>
<i>Order intake gross margin</i>	34.0%	33.6%			
Order backlog (Dec 31)	1'759	1'793	-1.9%	+5.4%	
<b>Sales</b>	<b>3'319</b>	<b>3'729</b>	<b>-11.0%</b>	<b>-4.6%</b>	<b>-5.6%</b>
<b>Operational profit (opEBITA)</b>	<b>298</b>	<b>371</b>	<b>-19.8%</b>	<b>-13.7%</b>	<b>-14.4%</b>
<b>Operational profitability</b>	<b>9.0%</b>	<b>10.0%</b>			
EBIT	151	241			
ROS %	4.5%	6.5%			
Core net income	200	258			
Core EPS (in CHF)	5.9	7.5			
<b>Free cash flow</b>	<b>272</b>	<b>213</b>	<b>+27.5%</b>		
FTEs (Dec 31)	15'054	16'506			

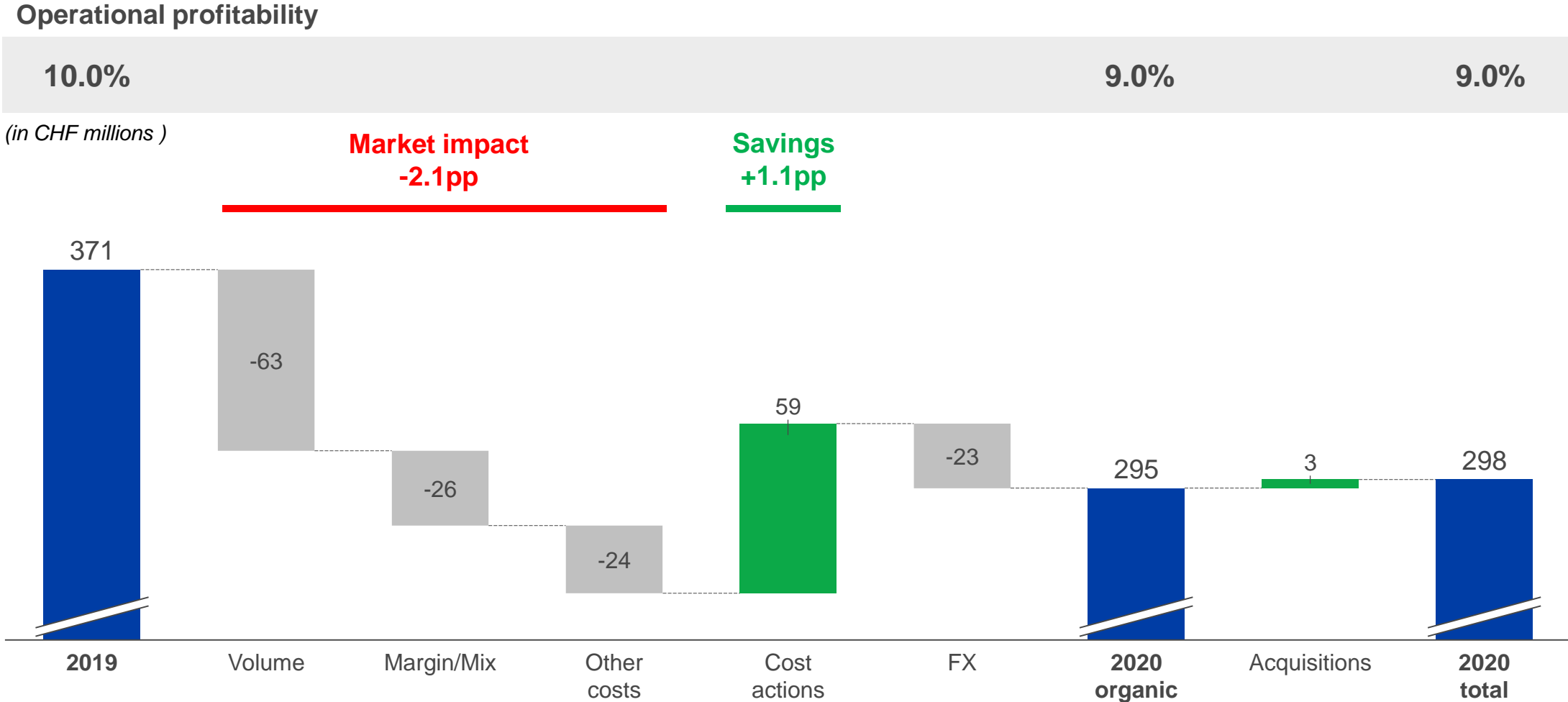
## Comment

- FX impact on order intake -249m, acquisitions contributed 58m
- Order intake gross margin increased on order selectivity and pricing discipline
- Backlog continued to rise
- Sales declined due to limited site access, temporary closures of factories and outlets
- Op. profitability down 100 bps solely on negative mix effect from lower sales in APS, profitability of other Sulzer businesses ex APS up 10 bps
- Record free cash flow on strong inventory and receivables management
- Headcount reduction on hiring discipline, attrition and resizing

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

# Operational Profit

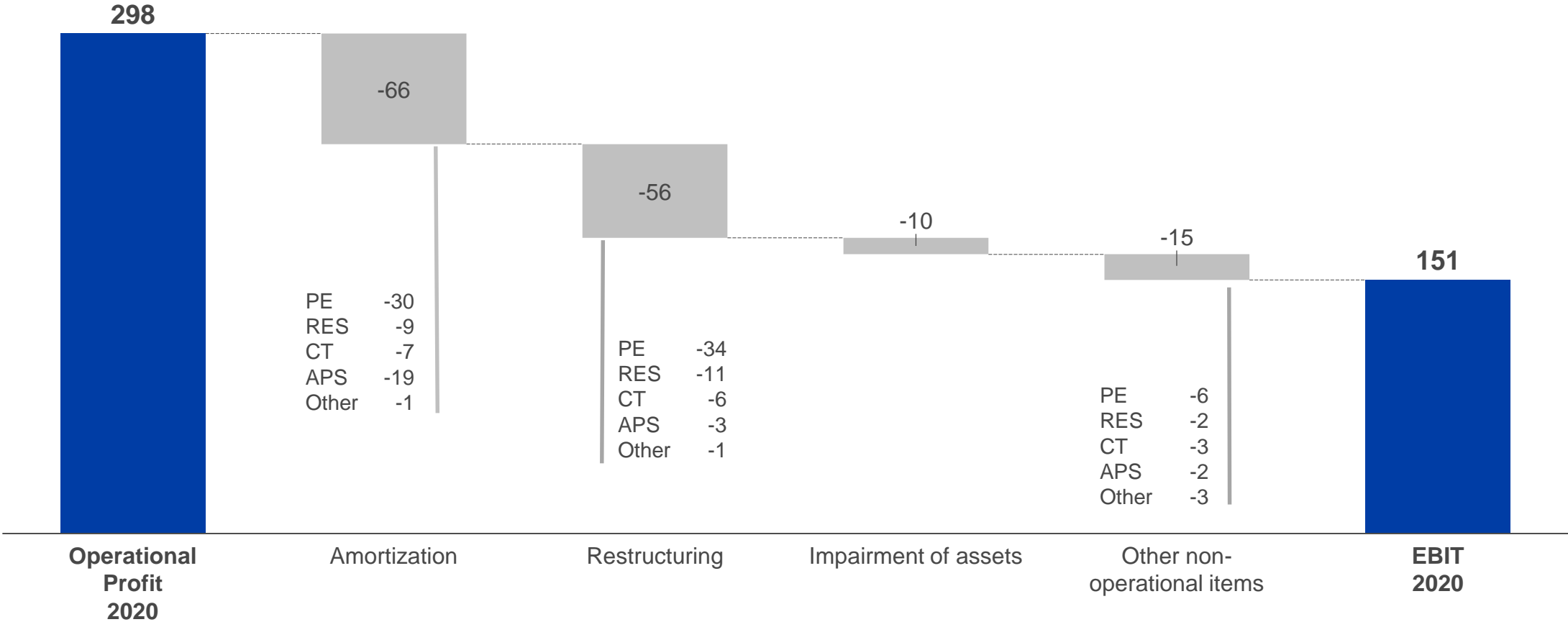
Drop in operational profitability limited to 100bps on rigorous cost actions



# Operational Profit to EBIT

Restructuring related one-offs of CHF 81m

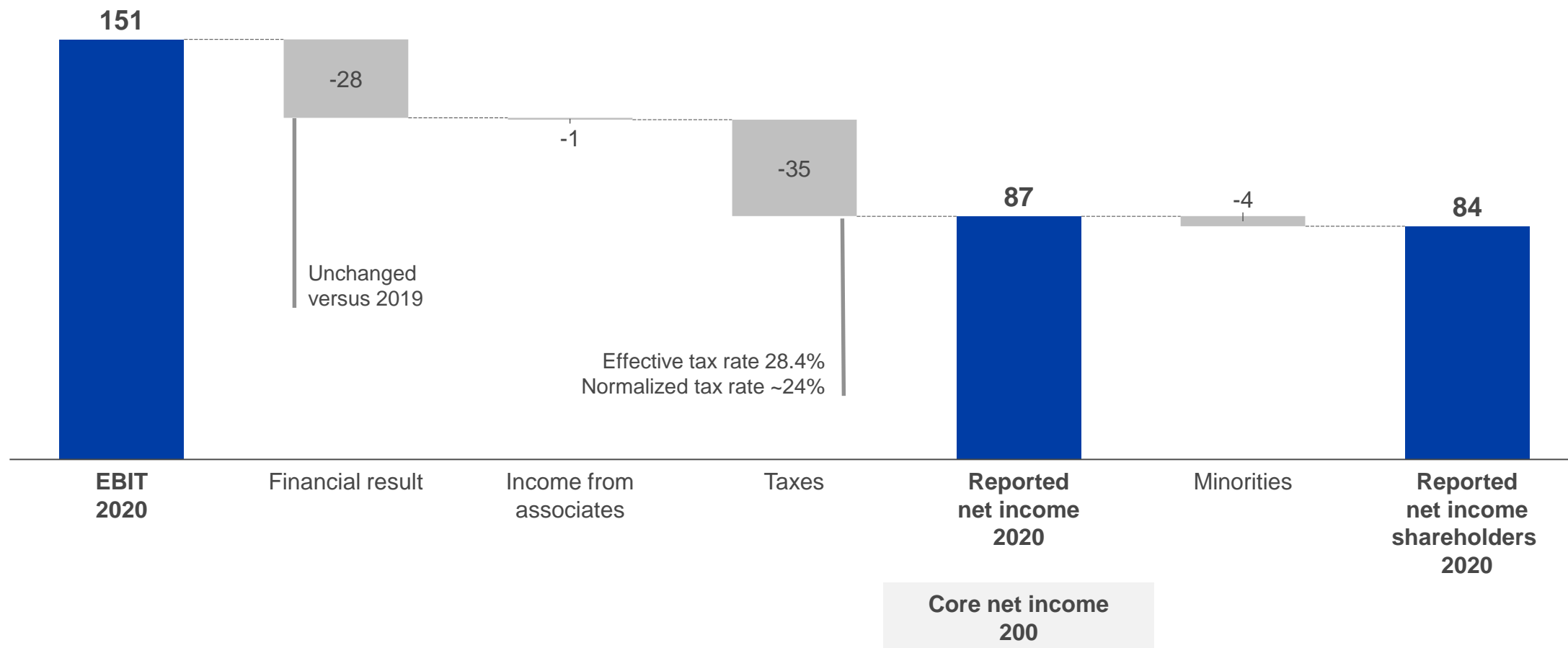
(in CHF millions)



# EBIT to Net Income

Net income down on APS Covid impact and one-off restructuring

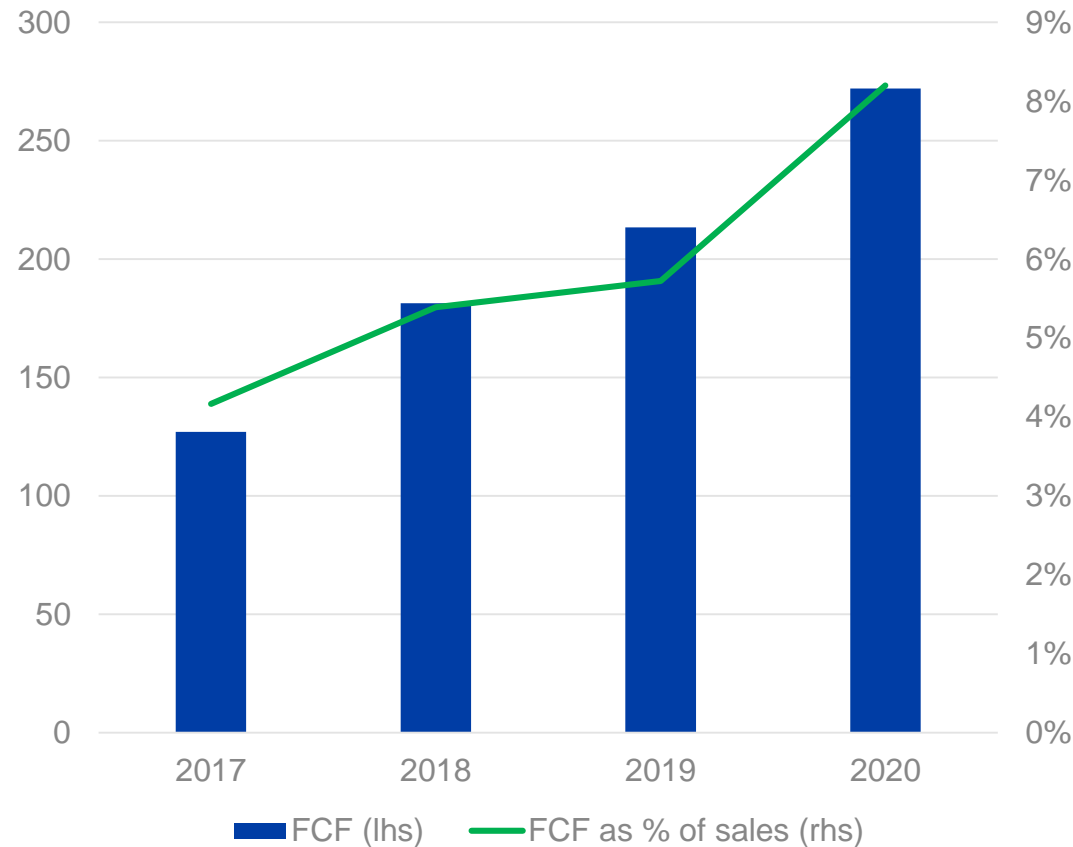
(in CHF millions )



# Free Cashflow

FCF up 28% - hitting new record

**FCF in CHF m and FCF as % of sales**



**EBITDA to FCF 2020 (in CHFm)**

<b>EBITDA</b>	<b>328</b>
Change in Net Working Capital <sup>1</sup>	11
Change in non-Net Working Capital <sup>2</sup>	30
<b>Total Cashflow from Operating Activities</b>	<b>369</b>
PP&E Capex <sup>3</sup>	-89
Purchase of Intangibles	-7
<b>Free Cashflow</b>	<b>272</b>

<sup>1</sup> Trade working capital (AR, inventory, AP) reduced 41m despite APS rebound inventory, and offset by contract WIP 30m on project timing

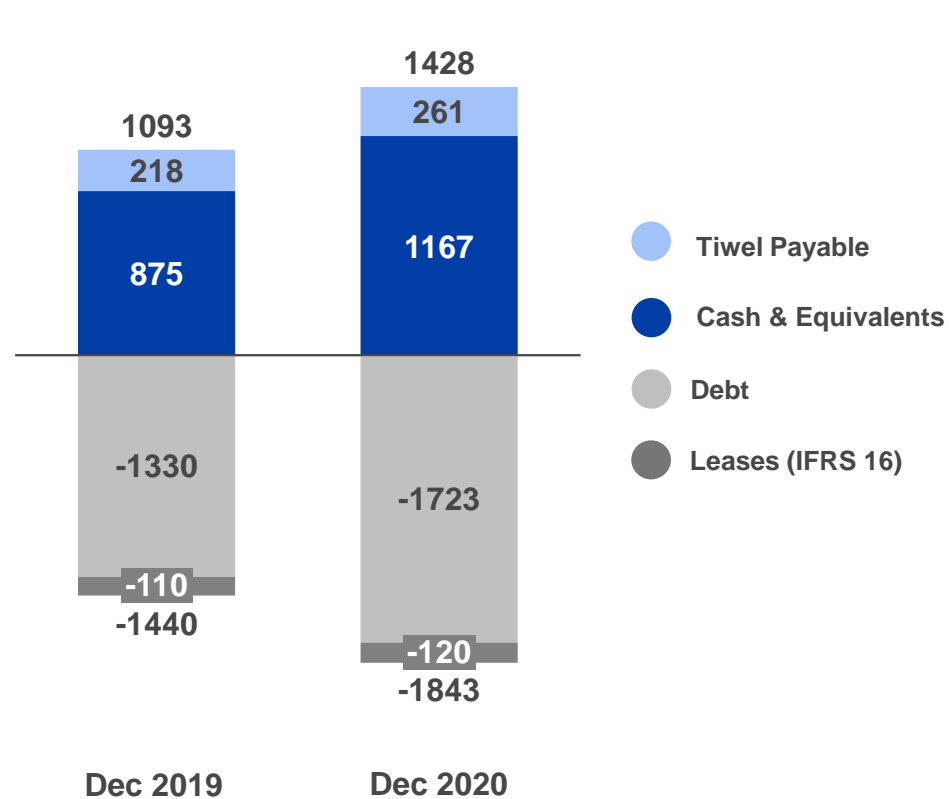
<sup>2</sup> Positive impact mainly from timing of payment for provisions (most restructuring related), offset by interests and taxes paid in the year

<sup>3</sup> Include payment of 17m on completion of APS Bechhofen plant expansion. Net 72m new PP&E additions on cut of capex plan by 60m.

# Balance sheet

Solid balance sheet continues to support selective acquisitions

(in CHF millions )



	Dec 2019	Dec 2020
<b>Net debt</b>	<b>347</b>	<b>415<sup>1</sup></b>
<b>Net debt / EBITDA</b>	<b>0.8x</b>	<b>1.3x<sup>1</sup></b>

## Balance sheet December 2020:

- Total net debt CHF 415m
- FCF CHF 272m
- 2019 ordinary dividend cash out of CHF 93m (net dividend to Tiwel held back = CHF 43m)
- Tiwel payable now 261m, not interest bearing, no maturity
- Acquisition payment of EUR 100m (Haselmeier)
- Bonds: repaid 110m and issued 500m in 2020

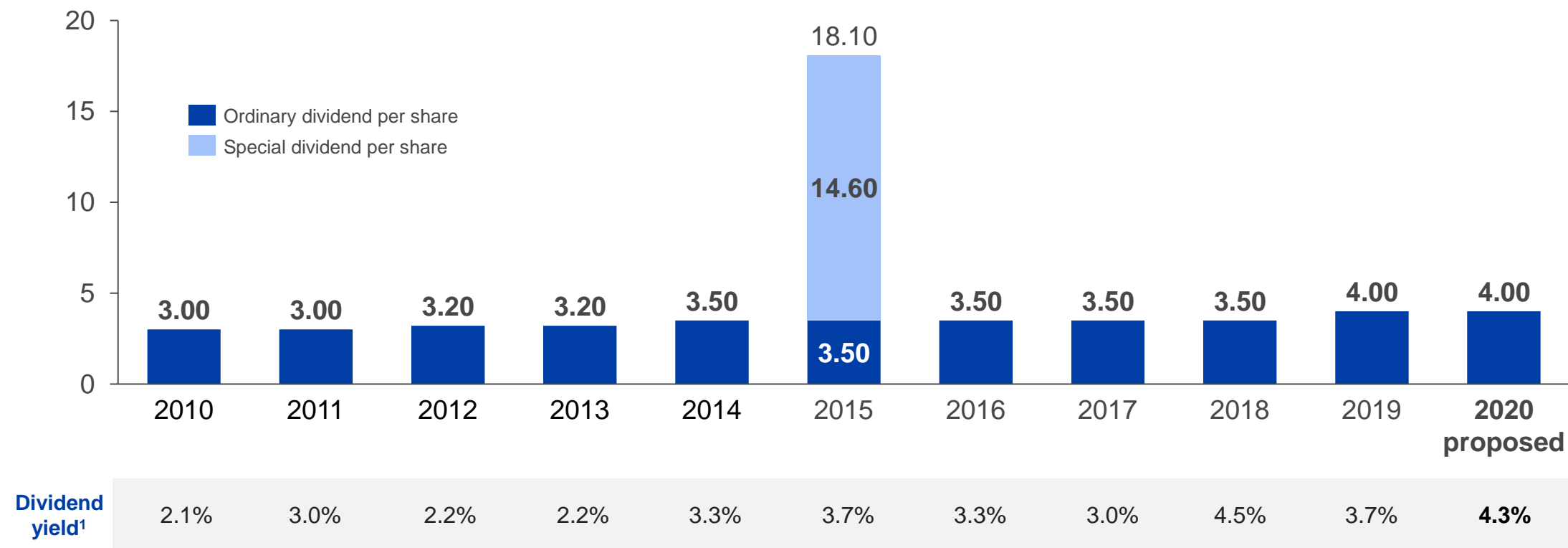
1. CHF 676m and 2.1x excluding 261m cash held on behalf of Tiwel



# Dividend

Proposal for an unchanged 2020 dividend of CHF 4.00

## Dividend (CHF)



1. Dividend yield = ordinary dividend per share / share price on Dec 31.

# Outlook

# Financial guidance 2021

As of 24/02/21, adjusted for FX, including acquisitions already closed

Order Intake	Sales	Operational Profitability %
up 3% – 6%	up 5% – 7%	close to 10.0%

- Energy market with high H1 '20 baseline; impact of ca. -2.5pp<sup>1</sup>
- Other segments to grow, range wider on timing uncertainty due to pandemic
- APS at “cruising altitude” by summer '21
- Acquisitions closed (Haselmeier, Nordic Water) to contribute ca. +2.5pp<sup>1</sup>

- APS rebound to high teens in '21, > 20% in '22
- Other Divisions op. profitability flat or up
- Partial reversal of CHF60m FY20 OPEX squeeze, offset by additional CHF 40m structural savings

<sup>1</sup> expected impact in percentage points on full year 2021 total Sulzer order intake

# Takeaways

- Sulzer demonstrated the resilience of its model in 2020
- YoY profitability drop limited to temporary impact of APS
- APS rebound well underway, Q4 orders > 2019
- Sulzer will exit pandemic stronger on CHF70m structural cost savings and acquisitions in Medical APS and Water PE
- Growth to resume in '21, profitability close to '19 level
- Outlook brightening but pandemic still a factor of uncertainty
- Continuing good dividend yield supported by strong cash generation and solid balance sheet

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