Business review

Strong performance on all KPIs

Note: If not otherwise indicated, changes from the previous year are based on organic figures (adjusted for currency effects, acquisitions and divestitures/deconsolidations).

All divisions demonstrated strong performance, with order intake growing by 13.9% and sales achieving a year-on-year increase of 13.2%. Operational profitability reached 11.1%, showing a significant improvement of 110 basis points compared with 2022. Free cash flow amounted to CHF 301.3 million, up by CHF 243.0 million from CHF 58.3 million.

Orders and sales growing double-digit in all divisions

Group order intake increased by 13.9% compared with 2022 and reached CHF 3'580.3 million, which represents the highest amount of order intake over the last decade. Given the strong appreciation of the Swiss franc against most currencies Sulzer operates in, currency translation effects had a negative impact on order intake of CHF 276.1 million. The impact from divestitures and deconsolidations was CHF 46.9 million. The order intake gross margin[1] increased by 0.4 percentage points to 33.9%.

In the Flow Equipment division, order intake grew by 11.2%, with a significant contribution from large orders booked in the beginning of 2023 supporting energy transition and energy security. Positive end-market development in the Americas contributed to order intake growth of 19.8% in the Services division. Order intake in the Chemtech division increased by 10.5%, driven by large order bookings in the first half of the year and strong fundamentals in its products and components business.

As of December 31, 2023, the order backlog amounted to CHF 1'946.8 million (December 31, 2022: CHF 1'844.7 million). Negative currency translation effects on backlog totaled CHF 162.1 million.

1) Order intake gross margin is defined as the expected gross profit of order intake divided by order intake.

Order intake

millions of CHF	2023	2022
Order intake	3'580.3	3'425.4
Order intake gross margin	33.9%	33.5%
Order backlog as of December 31	1'946.8	1'844.7

Sales reached CHF 3'281.7 million in 2023, an increase of 13.2% compared with the previous year. Negative currency translation effects totaled CHF 247.8 million and the impact from divestitures and deconsolidations accounted for CHF 71.1 million.

In the Flow Equipment division, sales increased by 10.9%, with all business units, particularly Industry, benefitting from the high order backlog and the general stabilization of the supply chain. Sales in Services also grew, leading to an overall increase of 14.5%, with all regions contributing. In Chemtech, sales were up by 15.5% thanks to solid execution of the high order backlog.

"Our strong performance in 2023 demonstrates the value of our solutions and expertise to essential industries. Demand for our critical services and products is strong in both our traditional and evolving markets."

Thomas Zickler
Chief Financial Officer

Healthy gross profit margins

Gross profit margin increased from 29.5% in 2022 to 33.0% in 2023, driven by operational excellence and a more profitable product mix, while 2022 was impacted by Russia-related write-offs. Along with increased sales volumes, margins improved and gross profit reached CHF 1'084.6 million (2022: CHF 939.6 million).

Operational profitability up 110 basis points to 11.1%

Higher sales volumes and better margins led to an operational profit increase of 25.3% and amounted to CHF 365.6 million (2022: CHF 317.6 million). This translates into record operational profitability for the last ten years of 11.1%, up by 110 basis points compared with the previous year (2022: 10.0%). All divisions successfully increased operational profitability.

- Flow Equipment: 8.0% (2022: 6.6%) on higher sales, better margins and excellence in manufacturing
- Services: 14.8% (2022: 14.2%) based on ongoing price management and cost discipline
- Chemtech: 12.3% (2022: 10.8%) given strong sales growth and a favorable margin mix across the portfolio

Bridge from operational profit to EBIT

millions of CHF	2023	2022
Operational profit	**365.6**	**317.6**
Amortization	–36.6	–38.8
Impairments on tangible and intangible assets	–0.2	–44.5
Restructuring expenses	–3.0	–0.1
Non-operational items [1]	3.8	–122.8
EBIT	**329.7**	**111.4**

1) Non-operational items include significant acquisition-related expenses, gains and losses from the sale of businesses or real estate and certain non-operational items that are non-recurring or do not regularly occur in similar magnitude.

Return on sales of 10.0%

By December 31, 2023, EBIT amounted to CHF 329.7 million, compared with CHF 111.4 million in 2022, which included CHF 147.3 million write-offs relating to the exit from Russia and the closure in Poland. Return on sales (ROS) was 10.0%, compared with 3.5% by December 31, 2022. In 2023, the definitive deconsolidation of Russian business activities was booked and resulted in a minor gain, which was recorded as a non-operational item. Restructuring expenses of CHF 3.0 million were also incurred, mostly related to the reorganization of the Flow Equipment division.

Calculation of return on sales (ROS) and operational profitability

millions of CHF	2023	2022
EBIT	329.7	111.4
Sales	3’281.7	3’179.9
Return on sales (ROS)	**10.0%**	**3.5%**
Operational profit	365.6	317.6
Sales	3’281.7	3’179.9
Operational profitability	**11.1%**	**10.0%**

Financial results

Total net financial expenses amounted to CHF 22.2 million compared with CHF 1.6 million in 2022.

Total net interest expense decreased by CHF 5.7 million as a result of higher interest income on cash and cash equivalents. Fair value changes on financial assets and liabilities had a positive impact of CHF 5.1 million (CHF 24.0 million in 2022) and currency exchange losses amounted to CHF 17.9 million (CHF 6.6 million in 2022). In the previous year, this figure was influenced by a positive impact of CHF 21.0 million arising from unhedged intercompany loans to Russian entities, prior to their classification as "held for sale." Other financial income amounted to CHF 2.5 million (CHF –1.5 million in 2022).

Effective tax rate of 24.2%

Income tax expenses decreased to CHF 73.8 million (2022: CHF 79.0 million) despite higher pre-tax income. This could be achieved thanks to an improved utilization of tax losses, obtained R&D tax credits and successfully concluded tax audits. The effective tax rate (ETR) decreased from 73.8% (excluding Russia and Poland: 30.7%) in 2022 to 24.2% in the financial year 2023.

Higher net income and core net income

In 2023, net income amounted to CHF 230.5 million. This compares to CHF 28.0 million in the previous year when the Russia and Poland related exit costs of CHF 133.7 million affected Sulzer’s bottom line. Core net income, excluding the tax-adjusted effects of non-operational items, totaled CHF 257.9 million compared with CHF 213.1 million in 2022. Basic earnings per share increased from CHF 0.85 in 2022 to CHF 6.76 in 2023.

Bridge from net income to core net income

millions of CHF	2023	2022
Net income	**230.5**	**28.0**
Amortization	36.6	38.8
Impairments on tangible and intangible assets	0.2	44.5
Restructuring expenses	3.0	0.1
Non-operational items [1]	–3.8	122.8
Tax impact on above items	–8.5	–21.1
Core net income	**257.9**	**213.1**

1) Non-operational items include significant acquisition-related expenses, gains and losses from the sale of businesses or real estate and certain non-operational items that are non-recurring or do not regularly occur in similar magnitude.

Better balance sheet efficiency

Note: If not otherwise indicated, balance sheet movements from the previous year are based on nominal figures.

Total assets as of December 31, 2023, amounted to CHF 4’369.5 million, which is a decrease of CHF 250.7 million from December 31, 2022. This is mainly attributable to the repayment of borrowings, more efficient use of working capital management and increased defined benefit assets.

Non-current assets increased by CHF 101.7 million to CHF 1’685.9 million. Negative foreign exchange impacts of CHF 38.9 million on goodwill, together with a decrease in other intangible assets of CHF 37.5 million, were offset by an increase in defined benefit assets of CHF 169.2 million. Current assets decreased by CHF 352.4 million, including CHF 30.4 million attributable to the deconsolidation of the Russian operations that were previously classified as "held for sale." Cash and cash equivalents decreased by CHF 221.7 million and were significantly influenced by a bond repayment. Working capital related assets, such as inventories, supplier advances, trade account receivables and contract assets, decreased overall by CHF 85.5 million.

Total liabilities decreased by CHF 320.7 million to CHF 3’270.8 million as of December 31, 2023. This decrease was mainly supported by a bond repayment of CHF 290.0 million. Trade accounts payable also decreased by CHF 73.1 million, whereas an increase was recorded for contract liabilities (CHF 68.7 million). Liabilities previously classified as "held for sale" (CHF 25.4 million) were derecognized as a result of the deconsolidation of the Russian business.

Equity increased by CHF 70.0 million to CHF 1’098.6 million. Increases from net income (CHF 230.5 million) and the remeasurement of defined benefit plans (CHF 128.8 million) were partly offset by negative currency translation effects (CHF 146.0 million), dividend distribution (CHF 119.2 million) and the acquisition of non-controlling interests (CHF 22.8 million).

Net debt decreased from CHF 234.6 million in 2022 to CHF 172.3 million in 2023, largely due to strong operational cash flow. The net debt to EBITDA ratio improved from 0.87 in 2022 to 0.39 due to the increase in EBITDA and the reduction in net debt.

Record free cash flow

At CHF 301.3 million (2022: CHF 58.3 million), free cash flow significantly improved and was in excess of CHF 300 million for the first time in over a decade.

Thanks to higher net income, efficient working capital management and lower tax payments, cash flow from operating activities increased by CHF 243.0 million to CHF 362.2 million (2022: CHF 119.2 million).

Bridge from cash flow from operating activities to free cash flow

millions of CHF	2023	2022
Cash flow from operating activities	**362.2**	**119.2**
Purchase of intangible assets	–6.1	–8.7
Proceeds from the sale of intangible assets	0.0	0.0
Purchase of property, plant and equipment	–59.5	–61.2
Proceeds from the sale of property, plant and equipment	4.6	9.0
Free cash flow (FCF)	**301.3**	**58.3**

Cash outflow from investing activities amounted to CHF 104.8 million, compared to CHF 87.8 million in 2022. At CHF 61.0 million, the net cash outflow for purchases and proceeds from the sale of property, plant and equipment, and intangible assets was similar to the previous year (2022: CHF 60.9 million). In addition, acquisitions and divestiture/deconsolidation related outflows amounted to CHF 45.7 million.

Cash outflow from financing activities totaled CHF 448.6 million, compared with CHF 285.4 million in 2022. This mainly consisted of the bond repayment of CHF 290.0 million and dividend payments of CHF 81.2 million.

Overall, the net change in cash and cash equivalents since January 1, 2023, amounted to CHF -250.3 million, including exchange losses of CHF 59.0 million.

Outlook for 2024

Despite a global environment characterized by uncertainty, Sulzer has delivered strong financial results across all its divisions and is well-positioned for growth in the coming year and beyond. For 2024, Sulzer expects year-on-year organic order intake growth of 2 to 5%. The first half of the year is expected to see a slow development of order intake compared to the very strong first half of 2023, with performance picking up in the second half of the year – this expectation reflects the nature of the project business in Sulzer’s markets. Further, Sulzer expects organic sales growth of 6 to 9% and operational profitability to continue its upwards trajectory to around 12% of sales.

Abbreviations

EBIT: Earnings before interest and taxes
ROS: Return on sales
EBITDA: Earnings before interest, taxes, depreciation, amortization and impairment
FCF: Free cash flow
For the definition of the alternative performance measures, please refer to the “Supplementary information”

Continued strong order growth and profitability

Note: If not otherwise indicated, changes from the previous year are based on organic figures (adjusted for currency effects, acquisitions and divestitures/ deconsolidations).

The Flow Equipment division returned a strong performance in 2023. Order intake increased by 11.2%, driven by stronger markets and extraordinarily large orders booked in the first half of 2023. Profitability rose by 140 basis points year on year. Robust sales growth of 10.9% can be attributed to a strong backlog combined with improvements in execution and supply chain stabilization. The division continues to focus on operational efficiency across its business units to meet the growing demand for infrastructure and services in support of the energy transition.

Investments in growth, productivity and sustainability

The Flow Equipment division continues to see strong activity in the energy markets, driven by future-proven solutions that reliably support customers in the green energy transition. Water and Industry remain strategic markets, with sales continuing to grow profitably.

The division has maintained a strategic commitment to advancing research and development efforts, with a primary focus on pioneering new transition technologies such as for biofuels and energy storage. In 2023, Sulzer pumps were selected to enable a 100% renewable and carbon-free biofuel facility in the ambitious smart city of NEOM, Saudi Arabia, with a capacity projected at some 220’000 tonnes of carbon-free, green hydrogen per year.

The Flow Equipment division is also expanding its American water business, investing in its product manufacturing and testing facilities to support planned water and wastewater infrastructure development across the country in compliance with the U.S. Infrastructure Investment and Jobs Act. Water and sanitation remain pivotal to the division on a global scale. In Bahrain, for example, Sulzer’s advanced filtration systems have upgraded a key wastewater treatment plant, enabling it to process 250,000 m^3/day of wastewater for local agricultural irrigation. In 2023, the division also expanded its flow equipment manufacturing plant in Riyadh, Saudi Arabia, to meet the growing demand for infrastructure development in the region.

New organizational structure

To better serve customers and improve operational excellence, the Flow Equipment division was strategically reorganized, effective January 1, 2024. With an emphasis on growth, the new and more customer-centric structure consolidates the Water and Industry business units into a single unified entity, now called the Water & Industrial business unit. Desalination was integrated with the existing Energy business, leading to the establishment of the Energy & Infrastructure business unit. The reorganization will support the division in achieving the profitable growth objectives outlined in Sulzer 2028.

Key figures Flow Equipment

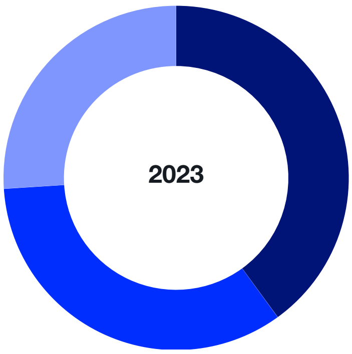
millions of CHF	2023	2022	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	1’466.5	1’419.2	3.3	10.6	11.2
Order intake gross margin	30.2%	30.2%			
Order backlog as of December 31	878.3	850.1	3.3		
Sales	1’354.4	1’323.0	2.4	9.4	10.9
EBIT [3]	74.1	32.6	> 100		
Operational profit	108.2	87.4	23.8	27.5	27.8
Operational profitability	8.0%	6.6%			
Employees (number of full-time equivalents) as of December 31	5’465	5’263	3.8		

1) Adjusted for currency effects.
2) Adjusted for acquisition, divestiture/deconsolidation and currency effects.
3) 2022 was impacted by write-offs related to Russia and Poland.

Strong order intake

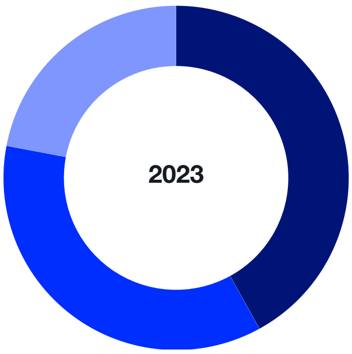
The Flow Equipment division continued its strong growth trajectory with orders increasing by a significant 11.2% in 2023. This was driven by large one-time orders in the first half coupled with strong expansion in energy transition and security solutions.

Order intake by market segment



- 40% Energy
- 34% Water
- 26% Industry

Order intake by region



- 42% Europe, the Middle East and Africa
- 36% Americas
- 22% Asia-Pacific

Sustained growth in profitability

The Flow Equipment division experienced strong overall growth in sales (10.9%), with all business units contributing. This was primarily driven by enhanced execution, supply chain stabilization and productivity investments. Operational profitability increased by 140 basis points from 6.6% to 8.0%, mainly driven by an increased focus on price realization against inflation, disciplined control of operational expenditures and improved commercial and operational excellence.

Safety performance in 2023

The Flow Equipment division achieved the best safety performance result in 2023 that it has achieved in over 15 years. The division continued to affect a positive downwards trend in its accident frequency rate (AFR), reporting 0.95 cases per million working hours compared to the previous year (2022: 1.1). The accident severity rate (ASR) decreased significantly to 16.9 lost days per million working hours, down from 33.3 in the previous year.

The division participated in a Group-wide “Stop Work" campaign in 2023 that gave stop-work authority to any employee observing a tangible risk of injury. Holding safety paramount, the Flow Equipment business units delivered an excellent, sustained safety performance to achieve these good results.

Abbreviations

EBIT: Earnings before interest and taxes
For the definition of the alternative performance measures, please refer to “Supplementary information”

Record growth, rising profitability

Note: If not otherwise indicated, changes from the previous year are based on organic figures (adjusted for currency effects, acquisitions and divestitures/ deconsolidations).

In 2023, the Services division achieved its strongest growth in recent history and continues to strengthen its portfolio as the most complete player in the market. Driven by ongoing demand for energy and our customers' efforts to optimize their operations, order intake rose by 19.8% compared to 1.6% in 2022. Sales also grew by 14.5% in 2023, supporting an overall increase in profitability to 14.8%.

Improving sales and operational effectiveness

The Services division continues to strengthen its offering by applying new technologies and investing in its service infrastructure. In 2023, a new Service Center was opened in Germany to better serve customers in the Dresden area and wider region. Substantial upgrades were also made in Houston and Batton Rouge, both in the USA. These investments support faster, more sustainable and differentiated service offerings for our customers.

Robust market momentum in 2023, combined with strong execution by the service teams, helped the division reach more customers and achieve exceptional revenue growth. In Nigeria, for example, the division delivered a turnkey solution on a compressor, after which a long-time pump customer expanded its service support to include turbines and motors. Also in Africa, the division is working with water utility companies to deliver planned refurbishments to some dozen pump sets that power critical water infrastructure.

While reducing downtime and costs for customers, the division's retrofit solutions are also providing benefits in improved sustainability. For a floating production storage and offloading (FPSO) vessel being relocated to the North Sea, the division recently delivered an innovative retrofit that reduces the power utilization of the water injection pumps. In China, a modular retrofit solution helped a gas turbine powerplant reduce its nitrogen oxide (NOx) emissions, delivering efficiency gains, longevity and emissions compliance. In Indonesia, the division's critical turbine repair at a hydropower plant is enabling cleaner energy production and significant cost savings.

Key figures Services

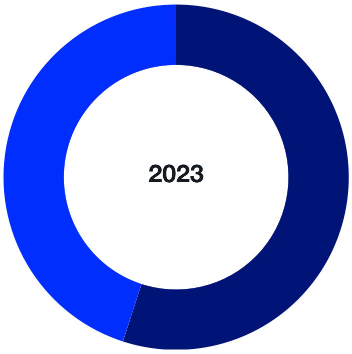
millions of CHF	2023	2022	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	1'271.3	1'171.3	8.5	18.5	19.8
Order intake gross margin	38.7%	38.9%			
Order backlog as of December 31	547.3	492.9	11.0		
Sales	1'154.8	1'117.0	3.4	12.6	14.5
EBIT [3]	179.6	54.0	> 100		
Operational profit	171.3	159.0	7.8	19.4	20.8
Operational profitability	14.8%	14.2%			
Employees (number of full-time equivalents) as of December 31	4'630	4'559	1.5		

1) Adjusted for currency effects.
2) Adjusted for acquisition, divestiture/deconsolidation and currency effects.
3) 2022 was impacted by write-offs related to Russia and Poland.

Strong order intake

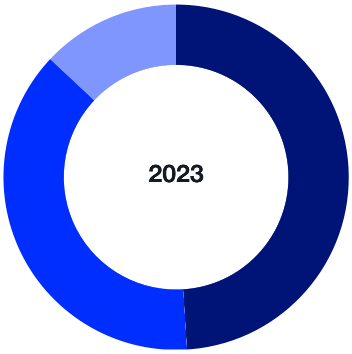
All product lines across all regions demonstrated robust growth in 2023. The Americas outperformed the others with a growth rate of 27.9%, leading to overall growth for the division of 19.8%. The Asia Pacific region grew by 8.7%. Europe, the Middle East and Africa also strengthened its position with a growth of 14.3%, strongly supported by traditional markets.

Order intake by market segment



- 55% Pumps Services
- 45% Other Equipment

Order intake by region



- 49% Americas
- 38% Europe, the Middle East and Africa
- 13% Asia-Pacific

Operating margins improving at high levels

Sales grew to CHF 1’154.8 million in 2023 (+14.5%), with all regions contributing to the improved margins. Strict cost control and strategic price management further supported the results.

Safety performance in 2023

In 2023, the Services division’s accident frequency rate (AFR) remained at a very low level of 0.9 cases per million working hours (2022: 1.0). Its accident severity rate (ASR) further decreased to 19 lost days per million working hours, down from 23.7 the previous year.

A major “Stop Work” safety initiative was launched by Services in 2023, which was rolled out Group-wide. Developed to reinforce risk awareness of employees, the initiative granted individual employees the authority to stop a work activity if they observed a tangible risk of injury. The highly successful initiative is credited for safety improvements across the company.

Abbreviations

EBIT: Earnings before interest and taxes
For the definition of the alternative performance measures, please refer to “Supplementary information.”

Record year with double-digit growth

Note: If not otherwise indicated, changes from the previous year are based on organic figures (adjusted for currency effects, acquisitions and divestitures/ deconsolidations).

The Chemtech division continued its strong growth trajectory in 2023, achieving double-digit growth in both order intake and sales. Order intake increased by 10.5%, driven by select large projects and strong fundamentals in its products and components business. Sales grew by 15.5%, with strong profitability across all regions. The division continues to pursue its growth strategy in Renewables, supporting circular manufacturing practices, the use of sustainable materials and efficiency improvements for its customer base.

Expanding biobased technologies and circularity

The Chemtech division continues to invest more than 4% of its revenues in technology and innovation. In 2023, it confirmed its leadership in biopolymers by launching its new CAPSUL™ process technology for the manufacturing of polycaprolactone (PCL), a biodegradable polyester, as well as a new licensed technology for the production of polylactic acid (PLA), SULAC™. These two new biopolymer technologies will play a significant role in the reduction of plastic waste. Coupled with the recent soft launch of its clean technology R&D center in Singapore, the division is poised to support rising demand for a more eco-conscious, circular economy of plastic, separation applications and the decarbonization of industries as a whole.

The Chemtech division's wide variety of equipment and process technologies, together with its extensive system integration know-how, is enabling manufacturers worldwide to maximize cost and energy efficiency, secure product quality and reduce emissions. In 2023, the Chemtech division's separation technology enabled the production of high-quality biomethanol in Finland to help industry reduce its greenhouse gas emissions. In Austria, the division's mass transfer technologies and equipment will enable 50,000 tons of CO_2 to be captured each year for use in the food and beverage industry, while its separation technology in Belgium is enabling the purification of hard-to-recycle post-consumer plastic for use as chemical feedstock.

Key figures Chemtech

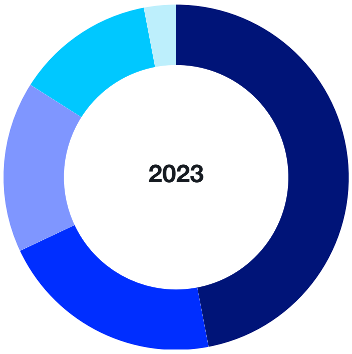
millions of CHF	2023	2022	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	842.5	834.9	0.9	7.5	10.5
Order intake gross margin	33.2%	31.7%			
Order backlog as of December 31	521.2	501.7	3.9		
Sales	772.5	739.9	4.4	11.3	15.5
EBIT [3]	84.9	38.3	> 100		
Operational profit	95.0	80.0	18.7	28.2	28.5
Operational profitability	12.3%	10.8%			
Employees (number of full-time equivalents) as of December 31	2’849	2’852	–0.1		

1) Adjusted for currency effects.
2) Adjusted for acquisition, divestiture/deconsolidation and currency effects.
3) 2022 was impacted by write-offs related to Russia.

Strong order intake

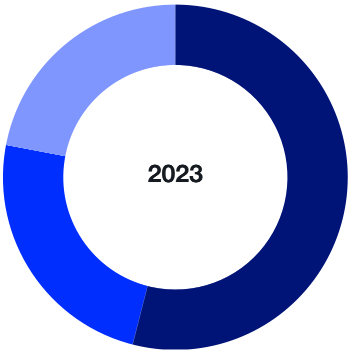
Orders in the Chemtech division continued a strong growth path, rising 10.5% in 2023. The increase was driven by large orders in the first half of the year, particularly in bioplastics, biofuels and process technologies.

Order intake by market segment



- 47% Chemicals
- 21% Gas and Refining
- 16% Renewables
- 13% Services
- 3% Water

Order intake by region



- 54% Asia-Pacific
- 24% Americas
- 22% Europe, the Middle East and Africa

Rising sales and profitability

Sales also grew by a significant 15.5%, with all of Chemtech’s business units contributing to this substantial growth. The increase was driven by a high backlog, a particularly large order at the beginning of 2023 and strong commercial momentum. Profitability rose by 150 basis points to 12.3%, driven by strong sales growth, a favorable margin mix across the portfolio and ongoing cost discipline.

Safety performance in 2023

Chemtech’s accident frequency rate (AFR) decreased from an already low 0.8 cases per million working hours in 2022 to just 0.34 in 2023. Driven by a robust safety process, the accident severity rate (ASR) also decreased to 3.2 lost days per million working hours, down from a high of 44.0 the previous year.

The Chemtech division participated in a Group-wide “Stop Work" campaign in 2023 that gave stop-work authority to any employee observing a tangible risk of injury.

Abbreviations

EBIT: Earnings before interest and taxes
For the definition of the alternative performance measures, please refer to “Supplementary information.”