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Substantial rise in orders, further increase in operational profitability

Note: If not otherwise indicated, changes from the previous year are based on currency-adjusted figures and exclude the results of the Applicator Systems division (see note 6 to the consolidated financial statements). Sulzer uses some alternative performance measures; these are defined in the Sulzer Annual Report 2021.

Order intake increased by 11.4% including acquisitions and 10.9% organically. Sales remained stable, recording a year-on-year change of 0.9% and 0.6% excluding acquisitions — a solid achievement in a difficult environment. While EBIT and net income were impacted by write-offs related to the exit from Russia and closure of activities in Poland, operational profitability reached 9.0% for Sulzer. Free cash flow, impacted by global supply chain constraints, amounted to CHF –78.2 million.

Russia exit and Poland closure

On April 6, 2022, Sulzer announced that it would significantly reduce its business in Russia, followed by an announcement on May 24, 2022, that it was initiating the process to sell four legal entities in Russia with operations in all three divisions.

An active program to find a buyer or buyers for the entities is ongoing, with discussions taking place with interested parties. As a result of this, the assets and liabilities of these entities were classified as held for sale for the period ended June 30, 2022, and corresponding impairments and other write-offs were recorded.

On May 19, 2022, the group announced its intention to wind down its business in Poland following a decision on an interpretation of the Polish sanction regulations, which were unilaterally introduced by Poland. The business in Poland included two entities with activities in the Flow Equipment and Services divisions. As the group assessed that it no longer controls the two entities, the entities were deconsolidated and a write-off of the associated assets was undertaken.

In line with the ad-hoc announcement issued on July 1, 2022, the impact from both events has been recorded in Sulzer's H1 result and amounts to CHF 119.1 million on a net income level. The majority of the impact stems from the exit from the Russian market, and includes CHF 21.0 million net financial income (shown below EBIT) arising from foreign exchange movements on unhedged intercompany loans to Russia. The order backlog adjustment associated with the exit from Russia was CHF –70.8 million.

While a number of income statement KPIs and balance sheet positions are impacted, the write-offs are excluded from operational profit, which therefore provides a fair view of Sulzer's operational performance.

Increased order intake in all three divisions

Compared with the first half of 2021, order intake increased by a strong 11.4% to CHF 1’734.1 million, fueled by organic growth of 10.9% and CHF 7.0 million from net acquisitions. Currency translation effects had a positive impact on order intake of CHF 5.9 million. Order intake gross margin decreased nominally by 0.3 percentage points to 32.8%.

“We are continuing our growth path with a substantial increase in orders in the first half of 2022 and a solid backlog for the months to come. Thanks to our strong operational execution combined with strict cost management, our overall operational profitability has further improved in a challenging market environment, and we are confident of reaching our full year guidance as we expect continuing momentum in our strategic growth markets.”

Thomas Zickler
Chief Financial Officer

Within Flow Equipment all segments grew by double digits, leading to an increase of 14.0% (13.1% organically) in the division. Energy orders increased by 20.7% thanks to good market momentum and a low comparable base for the first half of last year. Industry orders also increased significantly by 12.7%, as did orders in the Water segment, which recorded order growth of 10.4% (8.2% organically). Order intake in the Services division grew by 2.7%, with organic growth of 2.4% being the main driver. A strong performance in the Americas and Asia-Pacific more than offset the drop in Europe, the Middle East and Africa (EMEA), where Russian orders collapsed. Chemtech’s order intake increased by 20.8%, with strong commercial momentum in all regions and continuously growing demand in the Renewables segment (12.0% of the division’s order intake). Overall, by the end of June 2022, order intake from the Russian market was 88% lower than one year ago.

Sulzer enters the second half of 2022 with a high order backlog of CHF 1’896.2 million (December 31, 2021: CHF 1’724.1 million). Negative currency translation effects totaled CHF 12.2 million.

Orders

millions of CHF	2022	2021 1)
Order intake from continuing operations	1’734.1	1’551.5
Order intake gross margin from continuing operations	32.8%	33.1%
Order backlog from continuing operations as of June 30 / December 31	1’896.2	1’724.1

1) Comparative information has been re-presented due to discontinued operations (details are described in note 6 to the consolidated financial statements).

Stable sales in difficult environment

Sales increased by 0.9% compared with the first half of 2021, reaching CHF 1’516.8 million. Organic growth amounted to 0.6%, with acquisitions adding CHF 4.6 million and positive currency translation effects amounting to CHF 8.3 million.

The Flow Equipment division saw a decline in sales of 4.4% (5.1% organically). The decline in Energy (–10.9%) was anticipated, as the business entered the year with a low order backlog. Sales in Industry were 2.5% lower than in the first half of 2021, whereas Water sales grew by 0.6%, also helped by CHF 4.5 million from acquisitions (1.4% organic decline). Sales in Services grew strongly in the Americas, more than offsetting declines in the EMEA and Asia-Pacific regions. Overall, Services achieved year-on-year sales growth of 2.8% (2.4% organically). In Chemtech, sales were significantly up by 9.2% (9.8% organically, impacted by a divestiture in Brazil) thanks to strong execution and stringent efforts to overcome Covid-19-related lockdowns in China.

Gross profit margin impacted by Russia write-offs

Reported gross profit margin amounted to 28.4% (first half of 2021: 29.9%). Gross profit declined by CHF 15.7 million to CHF 430.9 million (2021: CHF 446.6 million), affected by Russian inventory write-offs. Excluding these one-off impacts (CHF 38.8 million), gross profit margins would have been significantly higher than in H1 2021.

Increased operational profitability at 9.0%

Operational profit from continuing operations amounted to CHF 135.8 million (excluding the impacts of write-offs) compared with CHF 127.6 million in the first half 2021, an increase of 4.9%. A better mix was further supported by savings from cost reduction measures in the Energy-related business and continued spending discipline.

Operational profitability from continuing operations reached 9.0% (first half of 2021: 8.5%) for Sulzer. While operational profitability in the Services division remained flat, both Flow Equipment and Chemtech improved year-on-year:

- Flow Equipment increased to 5.3% compared with 5.0% in the first half of 2021
- Services slightly decreased to 13.3% compared with 13.4% in the first half of 2021
- Chemtech improved profitability to 9.9% compared with 9.1% in the first half of 2021

Bridge from EBIT to operational profit (January 1 – June 30)

millions of CHF	2022	2021 [2]
EBIT from continuing operations	**–25.5**	**97.4**
Amortization	20.0	24.5
Impairments on tangible and intangible assets	36.4	0.3
Restructuring expenses	0.9	1.8
Non-operational items [1]	104.1	3.5
Operational profit from continuing operations	**135.8**	**127.6**

1) Non-operational items include significant acquisition-related expenses, gains and losses from the sale of businesses or real estate (including release of provisions), and certain non-operational items that are non-recurring or do not regularly occur in similar magnitude.
2) Comparative information has been re-presented due to discontinued operations (details are described in note 6 to the consolidated financial statements).

Negative EBIT due to Russia and Poland write-offs

Sulzer incurred one-off expenses of CHF 141.4 million, mainly consisting of write-offs in relation to the exit from Russia and closures in Poland, which accounted for CHF 132.5 million. Thereby EBIT amounted to CHF –25.5 million compared with CHF 97.4 million in the first half of 2021. Return on sales (ROS) was –1.7% compared with 6.5% by June 30, 2021. Excluding the Russian write-offs, ROS would have been above the H1 2021 level.

ROS and operational profitability (January 1 – June 30)

millions of CHF	2022	2021 1)
EBIT from continuing operations	–25.5	97.4
Sales from continuing operations	1’516.8	1’495.0
Return on sales (ROS) from continuing operations	**–1.7%**	**6.5%**
Operational profit from continuing operations	135.8	127.6
Sales from continuing operations	1’516.8	1’495.0
Operational profitability from continuing operations	**9.0%**	**8.5%**

1) Comparative information has been re-presented due to discontinued operations (details are described in note 6 to the consolidated financial statements).

Financial result

Total financial income amounted to CHF 8.5 million, compared with financial expenses of CHF 9.4 million in the first half of 2021. Net interest expenses increased from CHF 7.2 million in the first half of 2021 to CHF 9.7 million for the same period in 2022. Fair value changes from hedging instruments for non-operating items had a positive impact of CHF 9.1 million (CHF –8.1 million as of June 30, 2021). Other currency exchange gains amounted to CHF 10.3 million compared with CHF 6.5 million in the first half of 2021, with negative foreign exchange movements on non-operating items being more than offset by the CHF 21.0 million positive impact from unhedged intercompany loans to Russia.

Effective tax rate influenced by write-offs

Income tax expenses comprise current and deferred tax, and amounted to CHF 30.5 million, compared with CHF 26.2 million for the six months ended June 30, 2022. The reported effective income tax rate amounts to 166.4%, compared with 24.4% for the six months ended June 30, 2021, and was significantly influenced by write-offs and other losses of business in Russia and Poland impacting income with no corresponding reduction in the projected tax charge — without these items the effective tax rate would have been similar to the six months to June 30, 2021. The June 30, 2022 tax charge also includes the write-off of a CHF 2.2 million income tax receivable and reversal of a deferred tax asset of CHF 5.4 million, both related to the Russian businesses.

One-off write-offs impacting net income

For the period to June 30, 2022, net income amounted to CHF –48.8 million compared with CHF 60.8 million in the same period of the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 74.4 million compared with CHF 83.9 million in the first half of 2021. Basic earnings per share decreased from CHF 1.78 for the period to June 30, 2021 to CHF –1.43 in the first six months of 2022.

Bridge from net income to core net income

millions of CHF	2022	2021 [1]
Net income from continuing operations	**–48.8**	**60.8**
Amortization	20.0	24.5
Impairments on tangible and intangible assets	36.4	0.3
Restructuring expenses	0.9	1.8
Non-operational items [2]	104.1	3.5
Tax impact on above items	–38.1	–7.0
Core net income from continuing operations [3]	**74.4**	**83.9**

1) Comparative information has been re-presented due to discontinued operations (details are described in note 6 to the consolidated financial statements).
2) Other non-operational items include significant acquisition-related expenses, gains and losses from the sale of businesses or real estate (including release of provisions), and certain non-operational items that are non-recurring or do not regularly occur in similar magnitude.
3) Core net income from continuing operations excludes adjustments for financial items.

Key balance sheet positions

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

Total assets as of June 30, 2022, amounted to CHF 4’760.0 million, a decrease of CHF 250.4 million from December 31, 2021. Non-current assets decreased by CHF 192.4 million to CHF 1’641.8 million, mainly because of lower defined benefit assets recorded for the pension funds in Switzerland (CHF 134.3 million). This decrease was triggered by the regular remeasurement of the net pension assets, with IAS 19 asset ceiling rules limiting the balance sheet recognition of the surplus funding in the Swiss plans. Additionally, lower goodwill (CHF 24.8 million, arising from FX impacts and CHF 8.6 million due to the write-off in Russia), lower other intangible assets (CHF 23.5 million, of which CHF 6.7 million for impairments in Russia) and lower property, plant and equipment (CHF 12.2 million overall) were recorded. Current assets decreased by CHF 58.0 million including CHF 94.7 million attributable to write-offs in relation to the Russian operations. Excluding the CHF 41.5 million being reclassified as held for sale, cash and cash equivalents decreased by CHF 163.3 million mainly due to lower operational cash generation. Inventories saw a temporary increase (CHF 48.8 million net including Russia write-offs), as did contract assets (CHF 37.4 million net). Other current receivables and prepaid expenses increased by CHF 23.9 million due to general business phasing.

Total liabilities increased by CHF 30.0 million to CHF 3’761.1 million as of June 30, 2022. The main reasons were decreases in deferred income tax liabilities (CHF 24.5 million) and increases in contract liabilities (CHF 40.0 million) and trade accounts payables (CHF 21.8 million), a result of a difficult global supply environment. CHF 42.4 million of liabilities were reclassified as held for sale.

Equity decreased by CHF 280.5 million to CHF 998.8 million. This was mainly driven by lower net income (CHF 48.8 million loss), the remeasurement of defined benefit obligations net of deferred tax impacts (CHF 107.0 million) and the dividend distribution (CHF 119.8 million), partially offset by positive currency translation differences (CHF 13.7 million).

Free cash flow impacted by global supply constraints

Free cash flow amounted to CHF –78.2 million in the first half of 2022, a significant reduction compared to CHF 117.1 million reported in the same period last year, which still included the later spun-off APS division (CHF 33.6 million). Besides lower net income, this is attributable to higher working capital needs in a difficult global supply chain environment.

Bridge from cash flow from operating activities to free cash flow (FCF)

millions of CHF	2022	2021
Cash flow from operating activities	**–47.6**	**155.1**
– thereof discontinued operations	–	47.9
Purchase of intangible assets	–2.8	–4.0
Sale of intangible assets	0.0	0.0
Purchase of property, plant and equipment	–34.4	–38.9
Sale of property, plant and equipment	6.6	4.9
Free cash flow (FCF)	**–78.2**	**117.1**
– thereof discontinued operations	–	33.6

Cash flow from investing activities totaled CHF –28.3 million, compared with CHF 129.1 million in the first half of 2021. In the first half of 2022, cash flow from investing activities was mostly influenced by net CHF 27.8 million for purchases and sales of property, plant and equipment.

Cash flow from financing activities totaled CHF –113.4 million compared with CHF –149.7 million in the first half of 2021. In 2022, dividend payments amounted to CHF 80.6 million, compared with CHF 91.9 million in 2021. The net change in cash since January 1, 2022, amounted to CHF –163.3 million, including exchange gains on cash and cash equivalents of CHF 26.0 million.

Outlook

We expect continuing momentum in our markets despite prevailing macro and geopolitical uncertainties and increased volatility. We confirm our guidance for the full year; we expect organic order growth of 3 to 5% year on year, organic sales growth of 2 to 4% (excluding the impact of exiting the Russian market), and operational profitability to continue on its upwards trajectory to reach close to 10% of sales.

Abbreviations

EBIT: Earnings before interest and taxes
ROS: Return on sales
EBITDA: Earnings before interest, taxes, depreciation and amortization
FCF: Free cash flow
For the definition of the alternative performance measures, please refer to “supplementary information” in the Annual Report 2021

Business review

Strong order growth and rising profitability

Note: If not otherwise indicated, changes from the previous year are based on currency-adjusted figures.

The Flow Equipment division drove very strong order growth of 14.0% versus the first half of 2021. The Americas performed particularly well to achieve this result (+29.3%), with growth especially strong in Energy and Industry. Sales were impacted by the prevailing global supply chain difficulties, while the division was able to increase operational profitability. The division continues to grow its cleantech solutions and support the energy transition and is well-positioned to meet growing infrastructure demands for both water and industrial applications.

Supporting global energy security

The Flow Equipment division continues to pursue its strategy of capitalizing on growth opportunities with its expanding range of cleantech solutions and supporting the energy transition. In the first half of 2022, the division announced for example that it is supplying a selection of critical process pumps to Shell’s major new biofuel facility in Rotterdam, the Netherlands. Expected to become one of the largest biofuel production sites in Europe, once operational the facility will produce 820’000 tonnes of low carbon fuels (LCF) per year, enough to eliminate 2’800’000 tonnes of CO_2 emissions annually. Sulzer will support critical processes at the facility, including the supply of boiler feedwater pumps (BFPs).

The division is also seeing renewed strong activity in the energy markets as post-pandemic demand and the Ukraine war take effect. Having rightsized capacity in its Energy business and significantly optimized costs, the division is ready to take on selective business from its customers and take advantage of the soaring demand, while also helping to ensure reliable energy supply at a time of increasing uncertainty and anticipated global shortages.

“Flow Equipment continues to deliver on its strategy, helped by our ability to seize opportunities in all the division’s markets. The order conversion to sales was hampered by ongoing supply chain disruptions, which we expect to fade in the second half of the year. Despite the headwinds, we were able to once again increase our operational profitability.”

Frederic Lalanne
CEO and Division President Flow Equipment

Key figures Flow Equipment (January 1 – June 30)

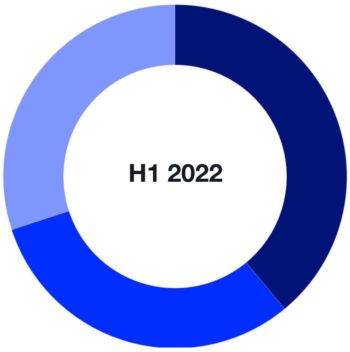
millions of CHF	2022	2021	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	709.1	626.8	13.1	14.0	13.1
Order intake gross margin	31.1%	30.8%			
Order backlog as of June 30 / December 31	877.3	811.5	8.1		
Sales	631.9	663.9	–4.8	–4.4	–5.1
EBIT [3]	3.7	14.8	–75.2		
Operational profit	33.7	33.2	1.4	1.0	2.9
Operational profitability	5.3%	5.0%			
Employees (number of full-time equivalents) as of June 30 / December 31	5'229	5'325	–1.8		

1) Adjusted for currency effects.
2) Adjusted for acquisition and currency effects.
3) Impacted by write-offs related to Russia and Poland.

Continued strong order growth

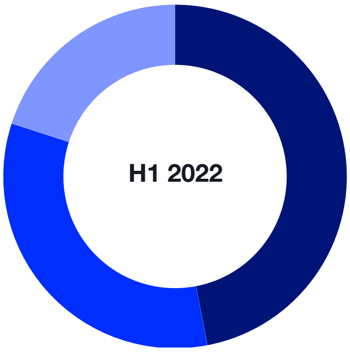
Orders continued the strong trajectory that was established in the first quarter of this year, despite a 90% drop in business in Russia. Orders for the first half of the year rose 14.0%, driven by increases in all business units. Energy and Industry saw particularly strong growth, buoyed by post-pandemic high demand and global energy security concerns.

Order intake by segment



- 39% Water
- 31% Industry
- 30% Energy

Order intake by region



- 47% Europe, the Middle East and Africa
- 33% Americas
- 20% Asia-Pacific

Sales and profitability

Sales were impacted by significant supply chain difficulties, mainly related to ongoing lockdowns in China and exacerbated by the war in Ukraine, as well as some delayed projects. Sales in the Flow Equipment division therefore fell by –4.4%. Despite the decline in sales, profitability increased by 30 basis points to 5.3% as cost-efficiency and savings measures implemented last year continued to take effect.

Business review

Rising orders and sales, expanding Services footprint

Note: If not otherwise indicated, changes from the previous year are based on currency-adjusted figures.

In the first half of 2022, the Services division saw order intake rise by 2.7% compared with the same period last year, while sales increased 2.8%. Robust order activity in the Americas and Asia-Pacific regions was able to more than compensate for the decrease in business in Russia. The division continues to invest in its service offering to widen its geographical and technical reach, recently opening a brand-new service center in Vadodara, India.

Strengthening offering and geographical footprint

The division continues to pursue its strategy of strengthening and investing in its offerings. In the first half of the year, Sulzer expanded its footprint in India with a state-of-the-art new service center in Vadodara, Gujarat. The facility has widened the availability of high-quality services in India and is equipped with state-of-the-art machinery. The center will offer repairs, upgrades, retrofits and parts manufacturing for a wide range of equipment including pumps, steam turbines, compressors and expanders.

Pumps Services is also making progress in enhancing the availability of retrofit solutions in more locations. Retrofits are a key focus area for the Services division. They offer our customers the chance to make significant efficiency gains while minimizing waste and extending the life of their existing equipment. In addition, since the start of the year, around 500 pumps have been added to our BLUE BOX digital solution that allows our customers to optimize the life cycle costs of their equipment and maximize efficiency. Meanwhile, Turbo Services continues to leverage its skills and know-how in repairing and refurbishing steam turbines and compressors across all regions.

"In a world of increased uncertainty, thanks to our global footprint and strength in execution, we have once again delivered resilient results and were able to continue investing in the business."

Tim Schulten
Division President Services

Key figures Services (January 1 – June 30)

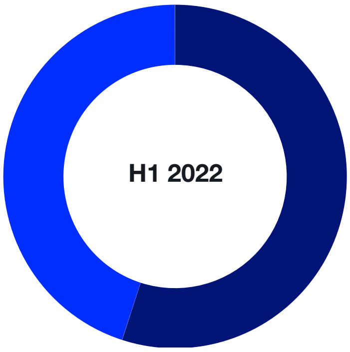
millions of CHF	2022	2021	Change in +/–%	+/–% adjusted [1)]	+/–% organic [2)]
Order intake	587.9	570.8	3.0	2.7	2.4
Order intake gross margin	37.3%	37.3%			
Order backlog as of June 30 / December 31	499.1	479.5	4.1		
Sales	542.8	525.5	3.3	2.8	2.4
EBIT [3)]	–19.0	66.3	n/a		
Operational profit	72.2	70.3	2.7	1.5	0.1
Operational profitability	13.3%	13.4%			
Employees (number of full-time equivalents) as of June 30 / December 31	4'446	4'571	–2.8		

1) Adjusted for currency effects.
2) Adjusted for acquisition and currency effects.
3) Impacted by write-offs related to Russia and Poland.

Positive order development

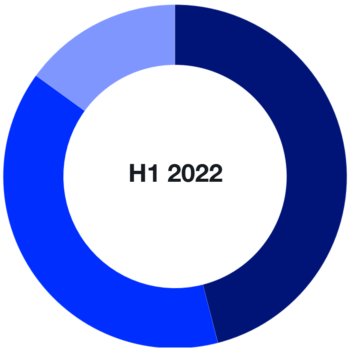
The Services division grew order intake by 2.7% year-on-year. The Services business was particularly impacted by Sulzer's exit from the Russian market, but the team was able to more than compensate for the decrease through Services' diversified business model and global footprint. The Americas and Asia-Pacific regions both delivered a solid performance with double-digit order growth.

Order intake by market segment



- 55% Pumps Services
- 45% Other Equipment

Order intake by region



- 46% Americas
- 39% Europe, the Middle East and Africa
- 15% Asia-Pacific

Rising sales

Sales in the Services division grew by 2.8% compared with the first half of 2021. Strong business activity in the Americas region compensated here as well for reduced sales in Europe, the Middle East and Africa. Operational profitability remained flat, despite inflationary pressures and the impact of Russia.

Business review

Strong order and sales growth across all regions and higher profitability

Note: If not otherwise indicated, changes from the previous year are based on currency-adjusted figures.

The Chemtech division recorded very strong order growth of 20.8% in the first half of 2022. All regions contributed to the growth, particularly EMEA and the Americas. Sales in the division rose by a significant 9.2%, despite local lockdowns in China, and profitability increased by 80 basis points to 9.9%. Chemtech is seeing high demand for its products in all segments, particularly in the Renewables segment where the division's strategy to drive growth continues to gain momentum.

High demand for Renewables offering

The division continues to pursue its strategy of driving growth in the Renewables segment and is seeing high demand across its entire offering — biobased chemicals, biobased polymers, polymer recycling and decarbonization. Together these businesses represented 12.0% of the overall Chemtech order intake in the first half of the year, with this figure expected to rise in the mid to long term. The division secured an abundance of small to mid-size projects across all of its Renewables businesses, showing that the strategy is bearing fruit, with larger projects also in advanced stages of discussion.

For example, the Chemtech division is enabling the creation of Indaver's first polystyrene and polyolefin plastic recycling plant, which is being constructed in Antwerp, Belgium. The Plastic2chemicals (P2C) facility will leverage Sulzer's advanced processing technologies to prevent end-of-life plastic from entering the environment and produce 26'000 tonnes of high-grade, widely used chemicals every year. The project is a key milestone in the division's strategy to expand its Renewables businesses.

"We are seeing strong growth in all our regions, with high demand for our products across all segments. Our strategy to develop our Renewables business is gaining further momentum with an increasingly diverse range of small, mid-sized and larger projects in the pipeline for our entire Renewables offering."

Torsten Wintergerste
Division President Chemtech

Key figures Chemtech (January 1 – June 30)

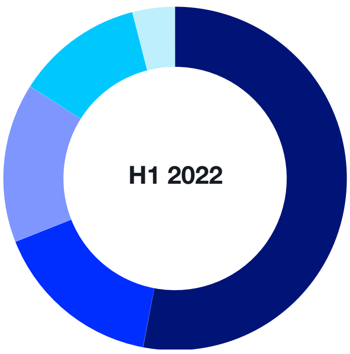
millions of CHF	2022	2021	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	437.1	353.9	23.5	20.8	20.9
Order intake gross margin	29.6%	30.3%			
Order backlog as of June 30 / December 31	519.7	433.2	20.0		
Sales	342.0	305.6	11.9	9.2	9.8
EBIT [3]	–5.3	21.1	n/a		
Operational profit	33.8	27.7	22.2	18.4	18.6
Operational profitability	9.9%	9.1%			
Employees (number of full-time equivalents) as of June 30 / December 31	3’048	3’734	–18.4		

1) Adjusted for currency effects.
2) Adjusted for acquisition and currency effects.
3) Impacted by write-offs related to Russia.

Strong order growth

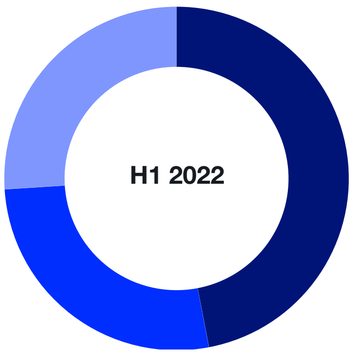
Orders grew 20.8% in the first half of the year. The increase was supported by all regions and market segments. Regionally, the Americas and Europe, the Middle East and Africa performed exceptionally well, demonstrating high double-digit growth rates. The Asia-Pacific region was also able to achieve solid order growth, despite local lockdowns in China.

Order intake by market segment



- 53% Chemicals
- 16% Gas and Refining
- 15% Services
- 12% Renewables
- 4% Water

Order intake by region



- 47% Asia-Pacific
- 27% Europe, the Middle East and Africa
- 26% Americas

Rising sales and profitability

Sales in the first half of the year grew by 9.2%, with all regions contributing to the growth despite global supply chain difficulties and local lockdowns temporarily halting activities at our factory in China. Operational profitability increased by 80 basis points to 9.9% thanks to a trend towards higher-value projects, efficiency gains and continued discipline in execution.