Business review

Strong performance in all businesses

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

Order intake increased by 24.1%, with strong commercial results in all divisions. Sales also rose substantially, recording a year-on-year improvement of 15.4%. Operational profitability reached 10.1%, up 110 basis points versus H1 2022. Free cash flow (FCF) amounted to CHF 106.6 million, up CHF 184.8 million from CHF –78.2 million.

Strong growth momentum in all three divisions

Compared to the first half of 2022, Sulzer grew its order intake by 24.1% to CHF 1’992.4 million. This is despite negative currency translation effects on order intake of CHF 136.0 million and a CHF 24.0 million negative impact from divestitures and deconsolidations. Order intake gross margin increased nominally by 20 basis points to 33.0%.

Order intake in Flow Equipment grew by 25.1%, primarily driven by an 84.3% increase in Energy orders. Water orders were stable, whereas order intake in the Industry segment saw a slight decline of 1.2%. In the Services division, orders also grew by a significant 22.1%. From a regional perspective, order intake was particularly strong in the Americas, with a 34.7% increase, and in Europe, the Middle East and Africa (EMEA), with 14.0% growth. This more than offset a 7.6% drop in Asia-Pacific, where a large order had been booked in the first half of 2022. Chemtech’s order intake increased by 25.3%, led by year-on-year increases in Asia-Pacific of 29.7% and the Americas of 25.0%, compensating for a decline in Europe/Rest of Africa (ERA) of 21.8%. Chemtech orders continued to grow strongly across all businesses, particularly in the Renewables segment, increasing by 78.9% to a total of 88.7 million, representing 17.6% of Chemtech's total order intake.

Sulzer enters the second half of 2023 with an order backlog of CHF 2’141.7 million (December 31, 2022: CHF 1’844.7 million). This figure includes negative currency translation effects of CHF 155.3 million.

"Strong demand for Sulzer's innovative solutions has led to significant order growth in all divisions. Thanks to excellent order execution and higher margins, sales and profits rose significantly. We expect momentum to continue into H2, and as a result have increased our full year guidance for orders, sales and profitability."

Thomas Zickler
Chief Financial Officer

Orders

millions of CHF	2023	2022
Order intake	1'992.4	1'734.1
Order intake gross margin	33.0%	32.8%
Order backlog as of June 30 / December 31	2'141.7	1'844.7

Sales increased by 15.4% year-on-year to CHF 1'601.6 million, despite a negative impact from divestitures of CHF 43.2 million and negative currency translation effects of CHF 105.8 million.

Sales in the Flow Equipment division grew by 14.1%. The biggest increase could be observed in Water, with a 19.5% increase, followed by Industry, which was up 18.4%. Both businesses were particularly affected by supply chain issues in the first half of 2022, which eased in 2023, while Energy sales increased by 4.7%. Sales in Services grew strongly in all regions, leading to an overall increase of 11.3%. Again, growth was highest in the Americas, but Asia-Pacific and EMEA sales also saw strong growth. In Chemtech, sales were up by a significant 24.3% thanks to a strong focus on executing the high backlog with which the division entered the year.

Higher gross profit margin

Gross profit margin increased to 32.3%, significantly above the 28.4% reported in the first half of 2022, when Russia-related write-offs of CHF 38.8 million reduced the reported margin. Excluding these write-offs, the margin level in the first half of 2023 was above that of the previous year thanks to solid execution and a better mix. Coupled with the increased sales volume, gross profit reached CHF 516.9 million (H1 2022: CHF 430.9 million).

Increased operational profitability at 10.1%

Operational profit amounted to CHF 162.4 million, compared with CHF 135.8 million in the first half of 2022, an increase of 27.3%. Higher sales volumes, solid margins and a better mix were the main contributors to this increase, resulting in operational profitability of 10.1% (first half of 2022: 9.0%).

Increases in operational profitability were achieved in all divisions:

- Flow Equipment increased to 7.0%, compared to 5.3% in the first half of 2022
- Services achieved 14.2%, up 90 basis points from 13.3% in the prior year
- Chemtech improved operational profitability to 11.7%, compared to 9.9% at the end of June 2022

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

millions of CHF	2023	2022
Operational profit	**162.4**	**135.8**
Amortization	–18.5	–20.0
Impairments on tangible and intangible assets	–0.0	–36.4
Restructuring expenses	–0.4	–0.9
Non-operational items [1)]	8.1	–104.1
EBIT	**151.5**	**–25.5**

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.

Return on sales of 9.5%

In the first half of 2023, as a result of the deconsolidation of Russian business activities, a gain from deconsolidation of CHF 8.0 million was booked and recorded as non-operational items. In contrast, Sulzer had incurred one-off expenses of CHF 141.4 million by June 30, 2022, mainly consisting of write-offs in relation to the exit from Russia and closures in Poland, which accounted for CHF 132.5 million.

By June 30, 2023, EBIT amounted to CHF 151.5 million, compared with CHF –25.5 million in the first half of 2022, which included the above-mentioned write-offs relating to the exit from Russia. Return on sales (ROS) was 9.5%, compared with –1.7% by June 30, 2022.

ROS and operational profitability (January 1 – June 30)

millions of CHF	2023	2022
EBIT	151.5	–25.5
Sales	1’601.6	1’516.8
Return on sales (ROS)	**9.5%**	**–1.7%**
Operational profit	162.4	135.8
Sales	1’601.6	1’516.8
Operational profitability	**10.1%**	**9.0%**

Financial result

Total financial expenses amounted to CHF 12.8 million, compared with financial income of CHF 8.5 million in the first half of 2022. Net interest expenses improved from CHF 9.7 million in the first half of 2022 to CHF 5.6 million for the same period in 2023. Fair value changes from hedging instruments for non-operating items had a negative impact of CHF 9.1 million (positive impact of CHF 9.1 million as of June 30, 2022). Other currency exchange gains amounted to CHF 2.7 million, compared with a gain of CHF 10.3 million in the first half of 2022, when negative foreign exchange movements on non-operating items were more than offset by a CHF 21.0 million positive impact from unhedged intercompany loans to Russia.

Effective tax rate improves to 24.2%

The estimated average annual tax rate used for 2023 is projected to be 24.2%, compared with 166.4% (excluding Russia and Poland: 30.3%) for the six months ending June 30, 2022. Income tax expenses amounted to CHF 33.3 million in the first half of 2023, compared to CHF 30.5 million for the six months ending June 30, 2022, due to significantly higher taxable income.

Higher net income and core net income

Due to higher operational profits, net income increased to CHF 104.3 million, compared with CHF –48.8 million in the previous year, which was impacted by one-off items. Core net income, which excludes restructuring expenses, amortization, impairments, non-operational items and the tax-adjusted effects of non-operational items, totaled CHF 114.4 million, compared with CHF 74.4 million in the first half of 2022. Basic earnings per share increased from CHF –1.43 for the period to June 30, 2022, to CHF 3.07 in the first six months of 2023.

Bridge from net income to core net income

millions of CHF	2023	2022
Net income	**104.3**	**–48.8**
Amortization	18.5	20.0
Impairments on tangible and intangible assets	0.0	36.4
Restructuring expenses	0.4	0.9
Non-operational items [1]	–8.1	104.1
Tax impact on above items	–0.8	–38.1
Core net income [2]	**114.4**	**74.4**

1) 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.
2) Core net income 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, 2023, amounted to CHF 4’539.3 million, a decrease of CHF 80.9 million from December 31, 2022. Non-current assets decreased by CHF 33.2 million to CHF 1’551.0 million, mainly because of negative foreign exchange impacts of CHF 17.7 million on goodwill denominated in currencies other than the Swiss franc and decreased other intangible assets of CHF 18.1 million. Current assets decreased by CHF 47.7 million, including CHF 30.4 million attributable to the deconsolidation of the Russian operations that were previously classified as 'held for sale.' In addition, cash and cash equivalents decreased by CHF 54.9 million, mostly driven by dividend payments. Inventories increased (CHF 18.0 million), as did supplier advances (CHF 28.0 million), whereas trade account receivables were reduced by CHF 32.3 million.

Total liabilities increased by CHF 5.1 million to CHF 3’596.6 million as of June 30, 2023. The main reasons were an increase in contract liabilities (CHF 59.5 million) and a decrease of trade accounts payable (CHF 25.6 million). CHF 25.4 million of liabilities previously classified as held for sale were eliminated as a result of the deconsolidation of the Russian business.

Equity decreased by CHF 86.0 million to CHF 942.6 million. This decrease was mainly driven by dividend distribution (CHF 119.0 million) and currency translation effects (CHF 67.1 million), only partly offset by net income (CHF 104.3 million).

Free cash flow improved

Free cash flow significantly improved and amounted to CHF 106.6 million in the first half of 2023, compared to CHF –78.2 million reported by June 30, 2022. Higher net income, better working capital management and lower tax payments were the main drivers for this improvement.

Bridge from cash flow from operating activities to free cash flow

millions of CHF	2023	2022
Cash flow from operating activities	**133.3**	**–47.6**
Purchase of intangible assets	–3.5	–2.8
Sale of intangible assets	0.0	0.0
Purchase of property, plant and equipment	–25.7	–34.4
Sale of property, plant and equipment	2.5	6.6
Free cash flow (FCF)	**106.6**	**–78.2**

In the first half of 2023, cash outflow from investing activities amounted to CHF 68.2 million, compared with CHF 28.3 million in the first half of 2022. Besides the net cash outflow of CHF 26.7 million for purchases and sales of property, plant and equipment and intangible assets, this was largely driven by acquisitions and divestiture/deconsolidation-related outflows of CHF 43.4 million.

Cash outflow from financing activities totaled CHF 124.3 million, compared with CHF 113.4 million in the first half of 2022. Dividend payments amounted to CHF 80.9 million, compared with CHF 80.6 million in 2022. The net change in cash since January 1, 2023, amounted to CHF –83.5 million, including exchange losses on cash and cash equivalents of CHF 24.3 million.

Outlook for 2023

We have had a very strong year to date and expect demand in our markets to remain robust. Based on our strong position in growing markets, we have recently increased our guidance and expect organic order growth of 10 to 14% year-on-year, organic sales growth of 11 to 13% and operational profitability around 11% 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 2022.

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 and acquisitions/ deconsolidations).

The Flow Equipment division experienced strong order growth of 25.1% compared to the first half of 2022, mainly driven by strong increases in the global energy market, with Water remaining stable. Sales increased 14.1% to CHF 662.5 million due to strong growth in the Water and Industry business units. Operational profitability rose 170 basis points year-on-year, reflecting disciplined pricing and improved commercial and operational excellence. The division continues to focus on operational efficiency across its business units to meet growing demand for infrastructure and services in support of the energy transition.

Enabling renewable energy

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. The rightsizing activities of the Energy business helped the division achieve strong H1 results, as reflected in order intake, sales and improved margins. Water remains a strategic market and continues to grow profitably, while Industry is basically stable year-on-year.

Earlier this year, a major energy producer in Canada selected Sulzer technology to support net zero biofuel production at industrial scale. The operation relies on a range of Sulzer flow equipment to realize an annual carbon reduction of up to 3'000,000 tonnes. Recently, Sulzer announced its business-critical role in enabling green hydrogen production after having been selected by Air Products to support their project for end customer NEOM, in Saudi Arabia. This facility has a projected capacity of approximately 222'000 tonnes of carbon-free green hydrogen per year.

While working to strengthen its position through portfolio expansion and geographic reach, the Water business remains resilient, with stable order intake for its state-of-the-art wastewater treatment solutions. The Industry business maintains its leading position in the pulp and paper market and continues to strategically focus on customer and product development in other industry segments.

Moving forward, the Flow Equipment division will continue to leverage its technologies and potential across the three businesses to support customers with innovative solutions that improve efficiencies and advance their sustainability objectives.

"Flow Equipment is well positioned to capture growth opportunities in our core markets. We develop innovative and reliable solutions that support our customers' green energy transitions. With our continuous focus on operational efficiency, all business areas contribute to our profitable growth."

Jan Lüder
Division President Flow Equipment

Key figures Flow Equipment (January 1 – June 30)

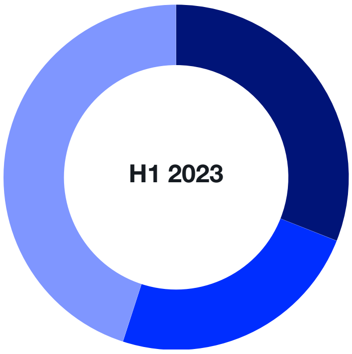
millions of CHF	2023	2022	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	824.8	709.1	16.3	24.4	25.1
Order intake gross margin	28.7%	31.1%			
Order backlog as of June 30 / December 31	978.4	850.1	15.1		
Sales	662.5	631.9	4.9	11.8	14.1
EBIT [3]	28.4	3.7	671.9		
Operational profit	46.4	33.7	37.6	38.9	39.8
Operational profitability	7.0%	5.3%			
Employees (number of full-time equivalents) as of June 30 / December 31	5'334	5'263	1.3		

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

Continued strong order growth

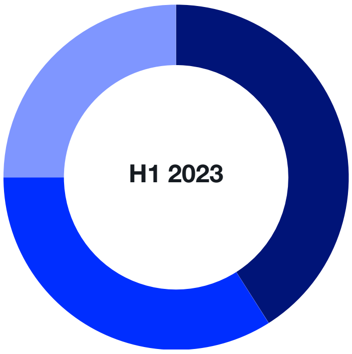
Following a number of large orders in the first quarter, order growth normalized in Q2. Orders for the first half of the year rose 25.1%, driven by strong demand for clean energy.

Order intake by segment



- 31% Water
- 24% Industry
- 45% Energy

Order intake by region



- 41% Europe, the Middle East and Africa
- 34% Americas
- 25% Asia-Pacific

Sales and profitability

Sales increased by 14.1 percentage points across all business units. Operational profitability increased by 1.7 percentage points to 7.0%, mainly driven by an increased focus on price realization against inflation and disciplined control of operational expenditures.

Continued strong growth

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

In the first half of 2023, the Services division saw order intake rise by 22.1% compared to H1 2022, mainly driven by the Americas and the EMEA region. Sales increased by 11.3% compared to the same period a year ago, with all regions and product lines contributing to the growth. Operational profitability increased by 90 basis points due to higher volume and a better mix. The division continues to invest in its service offering to broaden its scope of technical services and geographic reach.

Strong demand driven by sustainable solutions

With the growing focus on decarbonization and efficiency, the division sees increasing demand for retrofits and repairs. Retrofits for legacy equipment are driving demand, as Pumps Services leverages its broad technical expertise across industries and locations. Meanwhile, Turbo Services continues to demonstrate its expertise, recently helping a gas turbine powerplant in China reduce nitrogen oxide (NOx) emissions and comply with a stringent new emissions standard.

As Sulzer's global service network is a key competitive advantage, the company continues to upgrade facilities and expand its footprint. A recently opened new purpose-built, 1'680-square-meter service center in Lausitz, Germany, features enhanced digital technologies and capabilities, also offering a central location to better support industrial customers in Germany, Poland and the Czech Republic. Other examples include facility expansions in Orange, Texas, and Baton Rouge, Louisiana, where capacity was doubled in the first half of the year at each site, with further network upgrades currently underway.

"Our performance demonstrates agility in capturing market upswings. We focus on reducing lead times by further improving our responsiveness and flexibility. We continue to invest in the business to ensure we are close to our customers and able to deliver critical services when and where needed."

Tim Schulten
Division President Services

Key figures Services (January 1 – June 30)

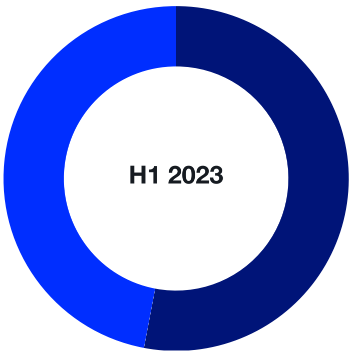
millions of CHF	2023	2022	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	662.7	587.9	12.7	21.5	22.1
Order intake gross margin	38.4%	37.3%			
Order backlog as of June 30 / December 31	568.5	492.9	15.3		
Sales	558.1	542.8	2.8	10.2	11.3
EBIT [3]	91.7	–19.0	n/a		
Operational profit	79.4	72.2	10.0	17.7	18.5
Operational profitability	14.2%	13.3%			
Employees (number of full-time equivalents) as of June 30 / December 31	4’571	4’559	0.3		

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

Continued growth trajectory

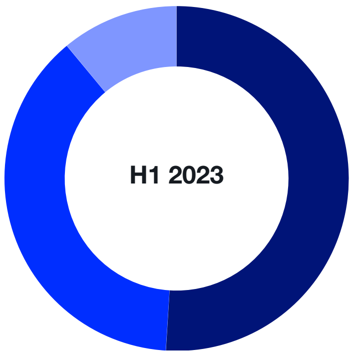
The Services division increased order intake by 22.1% year-on-year, continuing its growth trajectory. Both EMEA and the Americas saw double-digit growth in H1 2023, driven by increasing energy demand and new sustainability targets of customers. Retrofits for legacy equipment are driving demand, as Pumps Services leverages its broad technical expertise across industries and locations. Due to a particularly large order received in early 2022, Asia-Pacific was lower in the first half of 2023 compared to the same time period last year.

Order intake by market segment



- 53% Pumps Services
- 47% Other Equipment

Order intake by region



- 51% Americas
- 38% Europe, the Middle East and Africa
- 11% Asia-Pacific

Increasing sales

All regions contributed to the significant sales growth of 11.3% compared with the first half of 2022, more than compensating the exit from the Russian market. Despite inflationary pressures, operational profitability increased by 90 basis points, that was mainly driven by a better mix and increased volumes.

Strong growth with continued focus on Renewables

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

The Chemtech division drove very strong order growth of 25.3% in the first half of 2023, fueled by Asia-Pacific and the Americas. Orders grew strongly in the Renewables segment and broadly across all other businesses. Sales increased 24.3% year-on-year and were supported both by large orders and sound order backlog execution. The division’s operational profitability increased 180 basis points, mainly driven by strong execution discipline and a favorable product mix.

Driving the green transition

With recognized success in biofuels, recycling and carbon capture, the division continues to drive growth through leadership in its separation technologies, maintaining a strong focus on renewables and operational efficiency. The division was acknowledged in NexantECA’s report earlier this year, where its licensed BioFlux® process technology was named one of the top two most cost-effective hydrotreating solutions for producing hydrogenated vegetable oils (HVOs) and/or sustainable aviation fuel (SAF).

As Chemtech expands its strategic focus on the Renewables business, the division's robust performance is also being recognized through its extensive licensing portfolio of technologies. A recent order in China demonstrates Chemtech's comprehensive offering in biobased technologies, with Jindan New Biomaterials utilizing Sulzer’s licensed PLA technology at its new manufacturing plant to produce up to 75’000 tonnes of polylactic acid (PLA) per year, primarily for food packaging, molded goods and fibers production. The PLA will be produced in a variety of grades to support the enhanced use of bioplastics in several sectors in China, including the textile and package manufacturing industries.

Similarly, the division's licensed GT-LPG Max™ technology is supporting Hanwha TotalEnergies Petrochemical (HTC) enhance productivity at its plant in Daesan, South Korea, while also supporting decarbonization at the plant by extracting liquefied petroleum gas (LPG) components to enhance gains from its off-gas flare system.

To support continued customized solutions in separation technologies and process designs, the division also recently announced that it has signed an agreement with JTC Corporation, a government agency under the Ministry of Trade and Industry in Singapore, to build and operate a new research center in Singapore. The center is designed to support clean and sustainable manufacturing in the region and expected to be fully operational in Q2 2024. Chemtech will focus its research activities on chemical separation processes for circular operations such as polymer recycling and bio-based fuel production.

"The division continues to drive growth through its unique positioning in growth markets and its leading separation and purification solutions. Our commitment to innovation is gaining recognition as we invest in technologies for Renewables and expand our licensing businesses."

Uwe Boltersdorf
Division President Chemtech

Key figures Chemtech (January 1 – June 30)

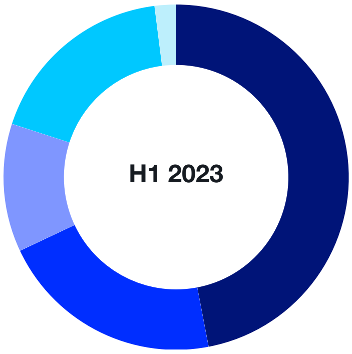
millions of CHF	2023	2022	Change in +/–%	+/–% adjusted [1]	+/–% organic [2]
Order intake	504.9	437.1	15.5	21.7	25.3
Order intake gross margin	33.1%	29.6%			
Order backlog as of June 30 / December 31	594.8	501.7	18.6		
Sales	380.9	342.0	11.4	17.8	24.3
EBIT [3]	38.1	–5.3	n/a		
Operational profit	44.7	33.8	32.2	41.4	42.8
Operational profitability	11.7%	9.9%			
Employees (number of full-time equivalents) as of June 30 / December 31	2'887	2'852	1.2		

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

Strong order intake

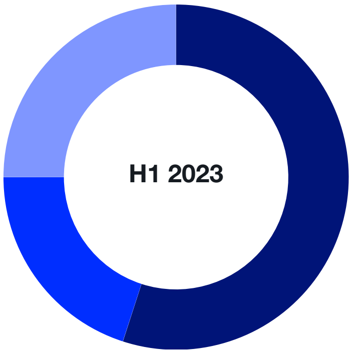
Orders increased 25.3% in the first half of 2023, with double-digit growth in Asia-Pacific and the Americas, driven by strong demand for separation technologies and mass transfer components. Orders in Europe, the Middle East and Africa were lower due to the high comparable base in H1 2022 but were still at healthy levels.

Order intake by market segment



- 47% Chemicals
- 21% Gas and Refining
- 12% Services
- 18% Renewables
- 2% Water

Order intake by region



- 55% Asia-Pacific
- 20% Europe, the Middle East and Africa
- 25% Americas

Increased sales and profitability

Sales in the first half of the year grew by 24.3%, with particularly strong growth in the Americas and Asia-Pacific regions. Operational profitability increased by 180 basis points to 11.7%, reflecting a strong focus on execution and a more favorable product mix.