

Media Release 2/2017

Profit increase due to one-off effect of selling property in China

Gränichen/Switzerland, 27 February 2017 – In 2016, the Zehnder Group achieved a turnover of EUR 538.9 million – an increase of 1% compared to the previous year. The operating result (EBIT), before one-off effects, dropped from EUR 27.0 million to EUR 15.1 million. Further restructuring costs totalling EUR 12.0 million had an impact on EBIT. There was a one-off positive effect of EUR 40.3 million resulting from the sale of the old production facility in China. After one-off effects, EBIT amounted to EUR 43.4 million, with net income of EUR 28.1 million.

Modest growth in sales

In the financial year 2016, the Zehnder Group increased its sales from EUR 533.0 million to EUR 538.9 million. This equates to growth of 1% (+3% organically and when adjusted for currency effects). The Europe segment accounted for EUR 466.5 million, or 87% of total sales, which was on par with the previous year (adjusted for currency effects: +2%). Sales in Germany, in particular, increased favourably and also grew in the Netherlands, Italy, Belgium and Poland. On the other hand, France, the UK and Switzerland – all key markets for the Zehnder Group – had negative growth. There was a marked decline in the demand for radiators in France in the second half of the year. At the same time, customers increasingly favoured lower-cost models. In the UK, the fall in the value of sterling put strain on sales expressed in euros. As a whole, the revenue gained from the sale of radiators in Europe fell by 3% (-1% when adjusted for currency effects), in contrast the ventilation business managed to achieve growth of 5% (+7% when adjusted for currency effects).

The China & North America segment accounted for EUR 72.4 million (EUR 67.3 million in the previous year) or 13% of total sales. The growth in the Chinese economy continued to slow down in 2016, which had an impact on the construction industry. The radiator market also saw decline. Despite this, growth in the ventilation business enabled sales to rise by 6% in the local currency (-1% in euros). The construction industry in North America showed signs of growth. The Canadian company dPoint Technologies Inc., which was fully acquired in December 2015, was also able to contribute to the sales growth of 14% (+6% organically and when adjusted for currency effects).

Operating result affected by one-off effects

Despite the restructuring measures introduced in mid-2015 to improve earnings, profitability in 2016 was also under a great deal of pressure. The operating result, before one-off effects, was EUR 15.1 million – far below the value of EUR 27.0 million achieved in the previous year. The trend towards lower-price models, the insufficient utilization of the radiator factories' capacity in France, Switzerland and China, as well as the depreciation of sterling, all had a negative impact on margins. In addition, expenditure on product development, sales and information technology were increased further in order to strengthen market position and exploit potential for growth over the medium term. In a bid to improve unsatisfactory profits, additional restructuring measures were introduced which affected EBIT with one-off costs of EUR 12.0

million. The sale of the old production facility in Beijing (China), which was concluded at the end of 2016, had a one-off positive effect of EUR 40.3 million on EBIT. After one-off effects, EBIT amounted to EUR 43.4 million (EUR 5.2 million in the previous year), with net income of EUR 28.1 million (EUR 0.3 million in the previous year).

Additional optimization measures introduced

The comprehensive package of measures announced on 1 June 2015 to reduce the cost base and increase efficiency, sales and profit was fully implemented as planned in 2016.

However, the unsatisfactory profitability, particularly in the second half of the year, forced the Group Executive Committee to introduce further targeted restructuring measures. This included relocating the production of Yucca bathroom radiators from Lahr (Germany) to Bolesławiec (Poland). The administration and sales office in Täby (Sweden) is being closed and integrated into the production site in Motala (Sweden). In addition, a one-off adjustment was made for radiator production equipment in Europe. The one-off costs for the restructuring measures totalling EUR 12.0 million have been fully charged to the 2016 result.

A strong balance sheet – Continuing investment

At year-end, the balance sheet total was EUR 450.5 million (compared to EUR 435.6 million in the previous year). At the end of the year, the Zehnder Group continued to have a high equity ratio of 62% with shareholder equity of EUR 280.2 million (EUR 269.0 million, or 62%, in the previous year). In the year under review, net liquidity increased from EUR 41.1 million to EUR 54.1 million. The majority of this increase is accounted for by the outstanding payment for the sale of the old production facility in Beijing. Cash flow from operating activities dropped from EUR 31.8 million to EUR 17.5 million.

In order to further expand our market position, the Zehnder Group increased its research and development expenditure by around one-third to EUR 20.3 million (in the previous year expenditure totalled EUR 15.3 million). Investments in property, plant and equipment and intangible assets in 2016 totalled EUR 28.2 million (prior-year: EUR 29.4 million). Geographically speaking, investments focused on Europe. Of particular importance were the new factory extension and the modernization of the production facilities for enthalpy exchangers in Reinsdorf (Germany).

Due to the high demand for ventilation solutions in China, the Board of Directors decided on 24 February 2017 to invest in a new factory close to Shanghai.

Personnel

Enrico Tissi will resign from his post on the Board of Directors and the remuneration committee after 12 years of experience on 6 April 2017. Since members Jörg Walther and Milva Zehnder joined the Board of Directors on 6 April 2016, Enrico Tissi will not be replaced on the Board. Riet Cadonau will be proposed as the new member of the remuneration committee. The Board of Directors would like to thank Enrico Tissi for his valuable contributions over many years.

Dividends

For the financial year 2016, the Board of Directors is proposing to the Annual General Meeting a dividend of CHF 0.95 per registered share A. This corresponds to a provision of 50% and therefore to the long-term dividend policy of the Zehnder Group of distributing around 30 to 50% of consolidated net income excluding minority interests.

Outlook

The relevant markets are set to remain challenging in the coming year. Macroeconomic conditions will continue to be fragile particularly in the sales markets important to the Zehnder Group, namely France, the United Kingdom and Switzerland. In terms of procurement, steel prices are increasing. At the same time, we are facing increasing pricing pressure from customers. The Zehnder Group's focus on optimizing processes and cost structures will continue unabated. In light of the growing demand in the ventilation business area, the Zehnder Group is planning further investments into new products and services, as well as infrastructure.

Appendix: Five-year Overview 2012-2016

Next dates to note

Media/Analyst Conference	3 March 2017
Annual General Meeting 2017	6 April 2017
Six-month Report 2017	28 July 2017
Announcement of sales for 2017	19 January 2018

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www.zehndergroup.com.

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Company profile

Operating worldwide, the Zehnder Group improves quality of life by providing outstanding indoor climate solutions. It develops and manufactures its products in 14 of its own factories, 5 of which are located in China and North America. Its sales activities, spanning more than 70 countries, take place through local sales companies and representative offices.

Zehnder's products and systems for heating and cooling, comfort indoor ventilation, and interior air purification feature outstanding energy efficiency and excellent design. With brands such as Zehnder, Runtal, Acova, Bisque, Greenwood, Paul and dPoint, the Zehnder Group is a market and technology leader in its business areas.

The Zehnder Group has had its headquarters in Gränichen, Switzerland, since 1895. It employs around 3000 people worldwide and achieved sales of EUR 539 million in 2016. The company is listed on the SIX Swiss Exchange (symbol ZEHN/number 27 653 461). The unlisted registered shares B are held by the Zehnder family and persons closely associated with them.

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Five-year Overview

		2016	2015	2014	2013	2012
Sales	EUR million	538.9	533.0	525.1	522.4	523.8
Change from prior year	%	1.1	1.5	0.5	-0.3	1.6
Of which segment Europe	EUR million	466.5	465.7	466.8	463.8	469.3
Change from prior year	%	0.2	-0.2	0.6	-1.2	1.8
Of which segment China & North America	EUR million	72.4	67.3	58.3	58.6	54.5
Change from prior year	%	7.5	15.4	-0.5	7.6	0.5
EBIT before one-off effects¹	EUR million	15.1	27.0	32.7	32.3	38.5
Change from prior year	%	-44.2	-17.2	1.1	-16.0	-24.7
	% of sales	2.8	5.1	6.2	6.2	7.3
EBIT after one-off effects¹	EUR million	43.4	5.2	32.7	32.3	38.5
change from prior year	%	726.7	-83.9	1.1	-16.0	-24.7
	% of net sales	8.0	1.0	6.2	6.2	7.3
Net profit²	EUR million	28.1	0.3	26.0	18.2	26.8
Change from prior year	%	-	-98.7	42.8	-32.0	-34.7
	% of sales	5.2	0.1	5.0	3.5	5.1
Net profit before depreciation & amortization²	EUR million	55.0	21.6	45.9	37.4	45.1
Change from prior year	%	154.4	-53.0	22.9	-17.1	-23.4
	% of sales	10.2	4.1	8.7	7.2	8.6
Investments in property, plant and equipment & intangible assets	EUR million	28.2	29.4	25.1	35.9	39.4
Depreciation & amortization³	EUR million	26.9	21.3	19.9	19.1	18.2
Total assets	EUR million	450.5	435.6	429.7	412.6	407.3
Non-current assets	EUR million	210.1	209.1	193.1	183.8	177.7
Shareholders' equity²	EUR million	280.2	269.0	281.8	255.5	247.6
	% of total assets	62.2	61.8	65.6	61.9	60.8
Employees	Ø full-time equivalents	3,247	3,194	3,239	3,265	3,266
Zehnder Group AG						
Dividends ⁴	CHF million	11.1	-	11.7	6.5	10.6
Share capital	CHF million	0.6	0.6	0.6	0.6	0.6
Market capitalization ⁵	CHF million	313.7	375.1	402.9	400.0	429.3
Total market capitalization ⁶	CHF million	377.3	451.2	484.7	481.2	516.4

¹ Sale of the old production facility in China with a one-off positive effect of EUR 40.3 million on the operating result (EBIT) and restructuring costs of EUR 12.0 million (2016) respectively restructuring costs of EUR 21.8 million (2015)

² Including minority interests

³ Including an impairment of EUR 4.9 million in the business area Radiators in Europe

⁴ For 2016 as proposed by the Board of Directors

⁵ Market value of all listed registered shares A at year end; excluding value of unlisted registered shares B

⁶ Registered shares A and B; registered shares B recognized at 1/5 of the price of the registered share A at year end