

Media Release 3/2018

Significant increase in sales and income

Gränichen/Switzerland, 28 February 2018 – In 2017, the Zehnder Group (SIX: ZEHN), an international leader in the provision of complete solutions for a healthy indoor climate, recorded an encouraging 10% organic sales growth, taking its sales figure to EUR 582.4 million. The operating result (EBIT) before one-off effects increased by 56% to EUR 23.5 million, while net profit amounted to EUR 16.5 million. The sales and income of the Zehnder Group showed positive signs of development in the second half of the year in particular.

Sales growth in all key countries

Following the almost stagnant performance recorded in the 2016 financial year's sales, the Zehnder Group was able to achieve an increase in sales during the 2017 financial year, from EUR 538.9 million to EUR 582.4 million. This equates to growth of 8% (+10% when adjusted for currency effects).

The Europe segment accounted for EUR 491.1 million (previous year: EUR 466.5 million) or 84% of consolidated sales, which represents 5% growth (+7% when adjusted for currency effects). Sales in the radiator business area also saw an increase, in this case by 3% (+5% when adjusted for currency effects). Meanwhile, the ventilation business area recorded growth of 8% (+9% when adjusted for currency effects). It was possible to boost sales in every key country, and particularly in Germany due to a positive market trend and gains in market shares. The main growth drivers proved to be the new Zehnder ComfoAir Q ventilation unit, as well as cooling and heating ceilings. In addition to this, sales of the classic Zehnder Charleston radiator demonstrated a positive trend. The second half of the year was not able to compensate fully for the six-week production stoppage that took place in Manisa (Turkey) during the first half of the year due to earthquakes, but this event did not result in any further negative effects.

The China & North America segment accounted for EUR 91.3 million (EUR 72.4 million in the previous year) or 16% of total sales. Its significant sales growth of 26% (+29% when adjusted for currency effects) was spurred on by the positive trend experienced in the ventilation business area in China. Gaining an opportunity from the air pollution in China's cities – which in some cases reaches significant levels – and the population's growing demand for healthy solutions, ventilation sales more than doubled, compensating significantly for the decline in the radiator business area. Overall, sales proceeds in China rose by a remarkable 61% (+66% when adjusted for currency effects). In North America, the Zehnder Group experienced a reasonably positive trend on the whole. As was the case in other regions, the growth in the ventilation business area made it possible to offset the slight decline in radiator sales. In total, the result was an increase in sales of 4% in North America (+4% when adjusted for currency effects).

Significant improvement in operating result

The operating result (EBIT) saw a significant improvement, increasing 56% to EUR 23.5 million (previous year: EUR 15.1 million before one-off effects), although the EBIT margin of 4.0% (previous year: 2.8%) meant that its performance remained unsatisfactory. Rising steel prices and the continuing trend in favour of lower-price models had a negative impact on profitability, as did further investment in expanding the air cleaning systems business (Clean Air Solutions). In the Europe segment, the devaluation of the British pound proved to be another negative factor, in this case affecting operating profits. EBIT in this segment was EUR 21.1 million (previous year: EUR 17.2 million before one-off effects). This represents an improvement over the previous year, which is primarily the result of lower costs in the area of IT as well as research and development.

Recording an operating result of EUR 2.4 million (previous year: EUR -2.1 million before one-off effects), the China & North America segment returned to profitability. In particular, this was due to the strong sales growth experienced in the ventilation business area in China. The reasonably positive operating result was possible despite the measures that were put in place in order to achieve the turnaround aimed for at the Buffalo, NY (USA) plant, the additional costs involved in expanding the Canadian company Core Energy Recovery Solutions Inc. (formerly dPoint Technologies Inc.), plus the development and launch of new products.

Net profit was EUR 16.5 million (previous year: EUR 28.1 million including one-off effects).

Ongoing optimisation of processes and cost structure

In order to improve profitability, the year under review saw production of the Yucca bathroom radiator relocated from Lahr (Germany) to Bolesławiec (Poland), where a shared service center for IT and finance was also set up. In Switzerland, jobs were relocated from the Wädenswil sales office to the headquarters in Gränichen. Additionally, the administration and sales office in Täby, Sweden, was closed and integrated into the production site in Motala.

In January 2017, the Reinsdorf (Germany) and Zwolle (Netherlands) sites were successfully integrated into the new SAP platform. The Europe-wide SAP project, which has harmonised all the processes that take place across the Group, is now officially complete following a five-year implementation phase. In order to drive forward digitalisation in a targeted manner, both in the area of administration and in the product portfolio, the position of Chief Digital Officer was created during the reporting period.

A strong balance sheet – Investment level remains high

At the end of the year, the Zehnder Group continued to have a high equity ratio of 65% with shareholder equity of EUR 271.2 million (EUR 280.2 million, or 62%, in the previous year). Net liquidity fell by EUR 26.6 million to EUR 27.5 million during the year under review, due in part to the high level of investment activity that took place. Cash flow from operating activities, meanwhile, increased from EUR 17.5 million to EUR 18.5 million.

During the year under review, expenditure on research, development and ongoing development of products amounted to EUR 17.7 million (previous year: EUR 20.2 million), with the Europe segment accounting for most of this. This development included the range of electric radiators being adapted in line with the European Ecodesign Directive 2018 and apps being designed to control Zehnder products. Investments in property, plant and equipment and intangi-

ble assets in the reporting period amounted to EUR 26.8 million (previous year: EUR 28.2 million). Even geographically speaking, the focus also was on Europe. Particularly noteworthy aspects in this regard include the construction of the new production building for bathroom radiators in Manisa (Turkey), and the continued automation of radiator production processes in Germany and the USA.

Human resources

As we have already announced, Hans-Peter Zehnder, Chairman of the Board of Directors, has taken over as interim Chairman of the Group Executive Committee as of 5 February 2018. This comes after CEO Dominik Berchtold made the decision to pursue his career outside of the Group following in-depth discussions with the Board of Directors regarding the implementation of the Zehnder Group strategy. The Board of Directors has now started looking for a new CEO and expects to be able to appoint a successor by the end of 2018. Hans-Peter Zehnder will then return to focusing exclusively on his post as Chairman of the Board of Directors.

All six members of the Board of Directors will be up for re-election at the Annual General Meeting held on 12 April 2018.

Proposed dividend within the framework of the long-term dividend policy

For the financial year 2017, the Board of Directors is proposing to the Annual General Meeting that a dividend of CHF 0.50 is paid per registered share A. This corresponds to a provision of 34% and therefore to the long-term dividend policy of the Zehnder Group of distributing around 30 to 50% of the consolidated net profit.

2018: Slight growth in sales and earnings anticipated

The Zehnder Group will continue to take a resolute approach towards its aim of becoming a leading provider of healthy indoor climate solutions. Several factors are spurring on demand for efficient, intelligent and reliable solutions of the kind that the Zehnder Group offers, such as its comfort ventilation units and Clean Air Solutions: these are climate change, the rapid increase in population being experienced in certain regions, the sharp growth in urbanisation, and the strong increase in demand for a high quality of life and high standards of air quality in indoor areas.

Forecasts for construction activities in the Zehnder Group's key markets are giving us reason to be optimistic. The Group Executive Committee believes that the welcome growth in sales experienced during the past year will continue in 2018, albeit with somewhat weaker momentum than in the previous year, which was characterised by exceptionally high growth in China.

Pressure on prices is set to continue in the 2018 financial year, particularly in the radiator business area. In order to remain competitive on an international scale, the Zehnder Group is therefore continuing to invest in future innovations as well as in its production structures and processes. An important element in this context is the new production plant for bathroom radiators in Manisa (Turkey), which is scheduled to open during the second half of 2018.

The initiatives launched as part of the medium-term plan for the period 2020+ are designed to achieve an even better operating result in 2018. They aim to reduce procurement costs, increase reliability of supply, optimise the pricing structure, turn around unprofitable businesses and product segments, and implement additional Group-wide efficiency measures for reducing

costs. In the medium term, the Zehnder Group anticipates a sustainable annual sales growth of about 5% and an EBIT margin of more than 8%.

Appendix: Five-year Overview 2013-2017

Next dates to note

Annual General Meeting 2018	12 April 2018
Six-month Report 2018	27 July 2018
Announcement of sales for 2018	18 January 2019
Annual results 2018 and Media/Analyst Conference	27 February 2019

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This media release is published in German and English. The German version is binding. For this and further information about the Zehnder Group, please visit www.zehnder-group.com.

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 Core, 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 over 3000 people worldwide and achieved sales of EUR 582 million in 2017. 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.

Appendix to Press Release 3/2018

Five-year Overview

		2017	2016	2015	2014	2013
Sales	EUR million	582.4	538.9	533.0	525.1	522.4
Change from prior year	%	8.1	1.1	1.5	0.5	-0.3
Of which segment Europe	EUR million	491.1	466.5	465.7	466.8	463.8
Change from prior year	%	5.3	0.2	-0.2	0.6	-1.2
Of which segment China & North America	EUR million	91.3	72.4	67.3	58.3	58.6
Change from prior year	%	26.2	7.5	15.4	-0.5	7.6
EBIT before one-off effects ¹	EUR million	23.5	15.1	27.0	32.7	32.3
Change from prior year	%	56.0	-44.2	-17.2	1.1	-16.0
	% of sales	4.0	2.8	5.1	6.2	6.2
EBIT after one-off effects ¹	EUR million	23.5	43.4	5.2	32.7	32.3
change from prior year	%	-45.7	726.7	-83.9	1.1	-16.0
	% of net sales	4.0	8.0	1.0	6.2	6.2
Net profit ²	EUR million	16.5	28.1	0.3	26.0	18.2
Change from prior year	%	-41.3	-	-98.7	42.8	-32.0
	% of sales	2.8	5.2	0.1	5.0	3.5
Net profit before depreciation & amortisation ²	EUR million	38.6	55.0	21.6	45.9	37.4
Change from prior year	%	-29.8	154.4	-53.0	22.9	-17.1
	% of sales	6.6	10.2	4.1	8.7	7.2
Investments in property, plant and equipment & intangible assets	EUR million	26.8	28.2	29.4	25.1	35.9
Depreciation & amortisation ³	EUR million	22.1	26.9	21.3	19.9	19.1
Total assets	EUR million	419.8	450.5	435.6	429.7	412.6
Non-current assets	EUR million	206.5	210.1	209.1	193.1	183.8
Shareholders' equity ²	EUR million	271.2	280.2	269.0	281.8	255.5
	% of total assets	64.6	62.2	61.8	65.6	61.9
Employees	Ø full-time equivalents	3,383	3,247	3,194	3,239	3,265
Zehnder Group AG						
Dividends ⁴	CHF million	5.9	11.1	-	11.7	6.5
Share capital	CHF million	0.6	0.6	0.6	0.6	0.6
Market capitalisation ⁵	CHF million	389.8	313.7	375.1	402.9	400.0
Total market capitalisation ⁶	CHF million	468.9	377.3	451.2	484.7	481.2

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 0.4 million (2017) or EUR 4.9 million (2016) in the business area Radiators in Europe

⁴ For 2017 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 recognised at 1/5 of the price of the registered share A at year end