

The Sulzer logo is displayed in a bold, blue, sans-serif font. It is positioned in the upper right quadrant of a white rectangular area that is set against a background of overlapping, semi-transparent blue squares and curved lines, creating a dynamic, grid-like pattern.

# Bond Investor Presentation

Thomas Dittrich | CFO | June 3, 2016

The Sulzer logo is displayed in a bold, blue, sans-serif font, positioned in the lower right area of the slide. A thin blue horizontal line is located above the logo.

## THE SAFE HARBOR STATEMENT UNDER THE US PRIVATE SECURITIES LITIGATION REFORM ACT 1995

**This presentation may contain forward-looking statements, including but not limited to, projections of financial developments, market activities or future performance of products and solutions, containing risks and uncertainties. These forward-looking statements are subject to change based on known or unknown risks and various other factors, which could cause the actual results or performance to differ materially from the statements made herein.**

# Agenda

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**Introduction to Sulzer**

Market Update

Sulzer Full Potential

Key Financials

Outlook

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## Sulzer is an attractive investment with strong fundamentals

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**SULZER**

### STRONG BUSINESS FUNDAMENTALS

- Focusing on **leading positions** in long-term **attractive markets**
- Equipment and services for **performance-critical** applications
- **Diversified business portfolio** with **high aftermarket share**
- **Global footprint** with a strong presence in **emerging markets**

### ATTRACTIVE GROWTH POTENTIAL

- **Self help** through **Sulzer Full Potential** program **well under way**
- **Strong balance sheet** allows for bolt-on small- to medium-sized acquisitions
- Commitment to **efficient capital structure** and **financial discipline**



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## A Leading Equipment and Service Provider

Sulzer creates reliable and sustainable solutions for its markets oil and gas, power, water, and the general industry

Engineering and application expertise in:

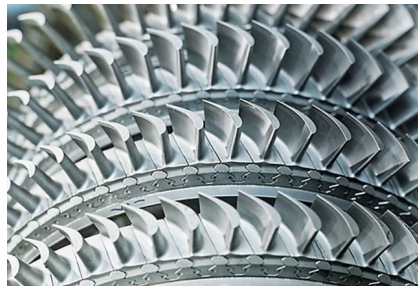


**Pumps Equipment**  
Pump technology and solutions

**52%**  
Share of order intake

**1 501**  
Order intake (in millions of CHF)

**6 996**  
Employees (FTE)  
as of Dec 31, 2015



**Rotating Equipment Services**  
Service solutions for rotating equipment

**24%**  
Share of order intake

**698**  
Order intake (in millions of CHF)

**3 538**  
Employees (FTE)  
as of Dec 31, 2015



**Chemtech**  
Separation technology and services, mixing and dispensing systems

**24%**  
Share of order intake

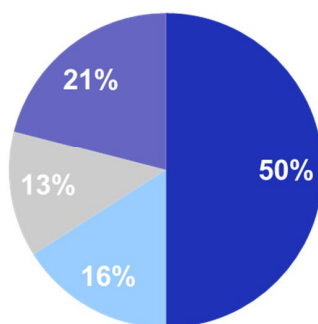
**709**  
Order intake (in millions of CHF)

**3 539**  
Employees (FTE)  
as of Dec 31, 2015

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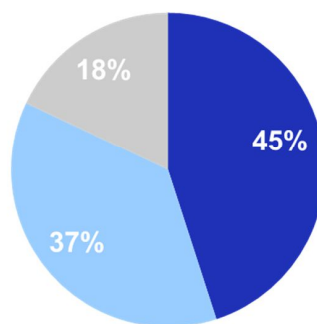
## O&G exposure mitigated by geographic and aftermarket balance

Order intake 2015 split by market



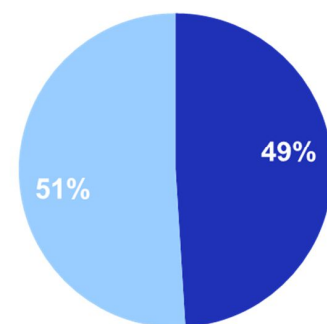
- Oil and Gas
- Power
- Water
- General Industry

Order intake 2015 split by region



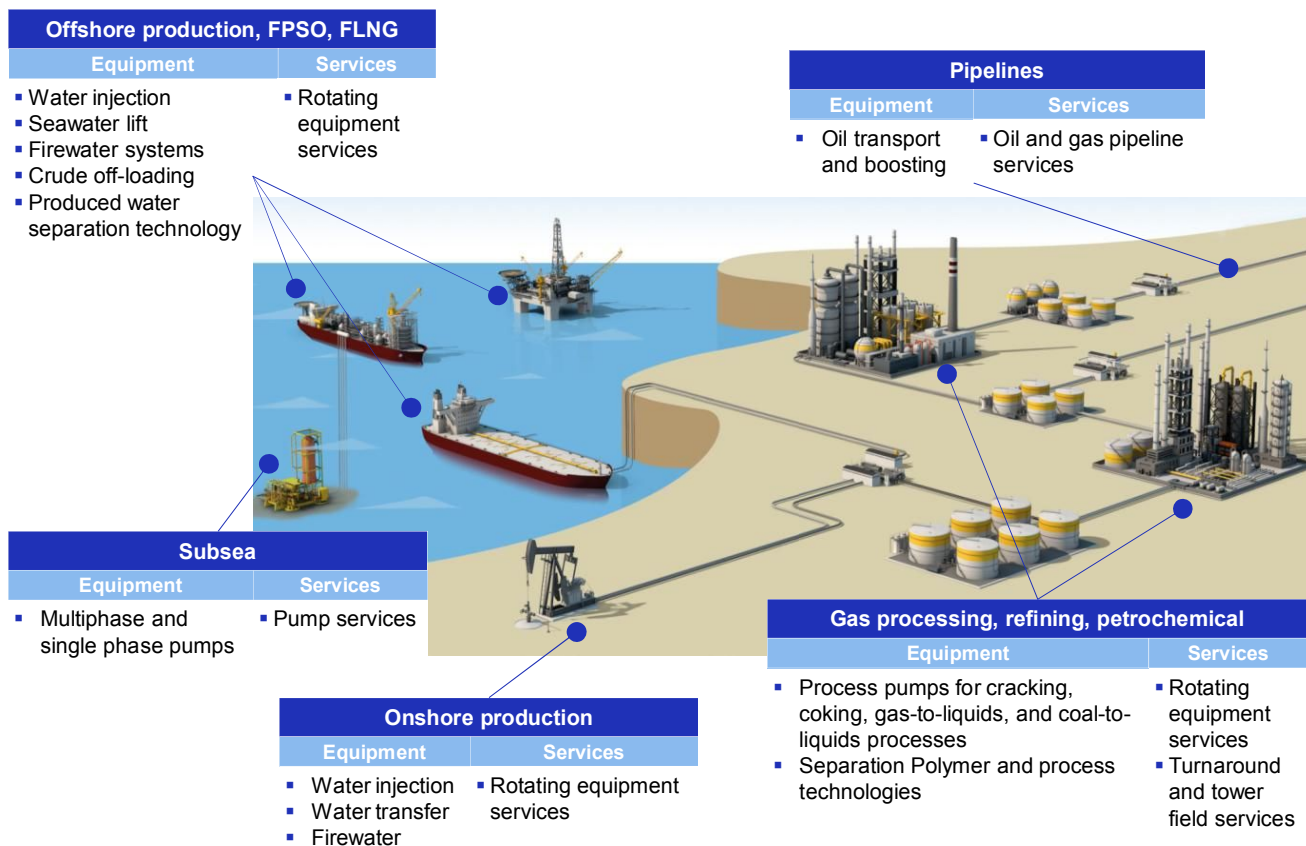
- Europe, Middle East, Africa
- Americas
- Asia-Pacific

Order intake 2015 split by type

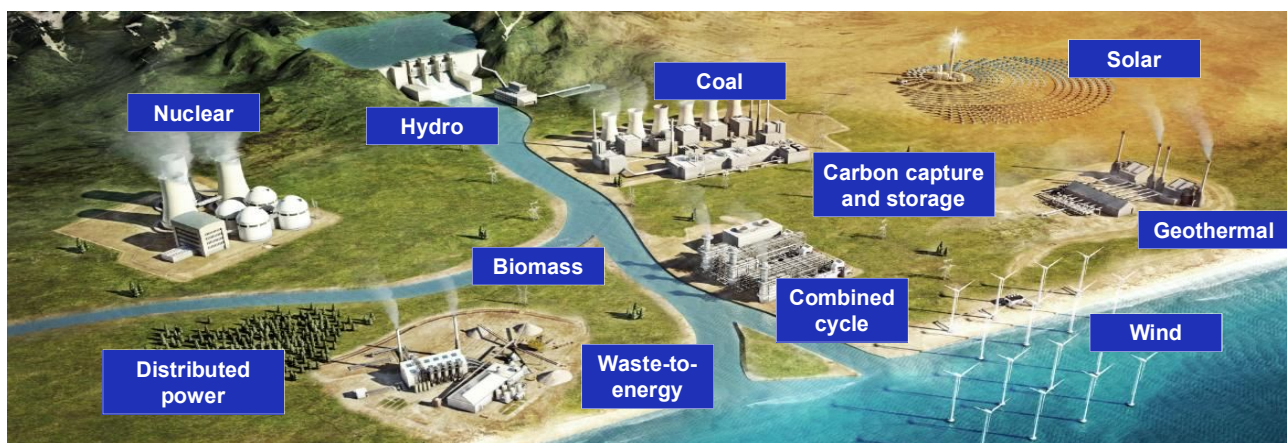


- Equipment
- Aftermarket

# Performance-critical applications throughout oil and gas value chain



# Performance-critical applications across power generation segments



Solutions for power generation	
Equipment	Services
<ul style="list-style-type: none"> <li>Boiler feed water</li> <li>Cooling water</li> <li>Condensate extraction</li> <li>Molten salt circulation</li> <li>Carbon capture and storage</li> <li>Power recovery (reverse running pumps)</li> <li>Auxiliary pumps</li> </ul>	<ul style="list-style-type: none"> <li>Pumps</li> <li>Compressors</li> <li>Turbines</li> <li>Motors and engines</li> <li>Generators</li> </ul>





## Solutions for water

- Submersible pumps
- Mixers and agitators
- Aeration systems
- Compressors
- Vertical pumps
- High pressure pumps
- Control and monitoring

## Key applications

- Wastewater collection and treatment
- Clean water abstraction and transport
- Desalination
- Mine and construction dewatering

# Leading positions in selected general industry segments

## Pulp and Paper



- Market leader
- Tight customer relationships and references
- Strong process knowledge and long history
- Extensive installed base drives aftermarket business

## Health Care



- Leveraged Sulzer capability into health care
- Unique two-component mixing and dispensing systems
- Broad product portfolio
- Co-creating products with users
- State of the art application center

# Agenda

Introduction to Sulzer

**Market Update**

Sulzer Full Potential

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## O&G market challenging

### Oil and Gas



Order intake 2015 vs 2014  (-13%<sup>1</sup>)

#### Upstream



~16%

- Activity strongly impacted
- Significant price pressure
- Aftermarket impacted by postponements of non-essential work

#### Midstream



~4%

- Midstream construction slowed notably

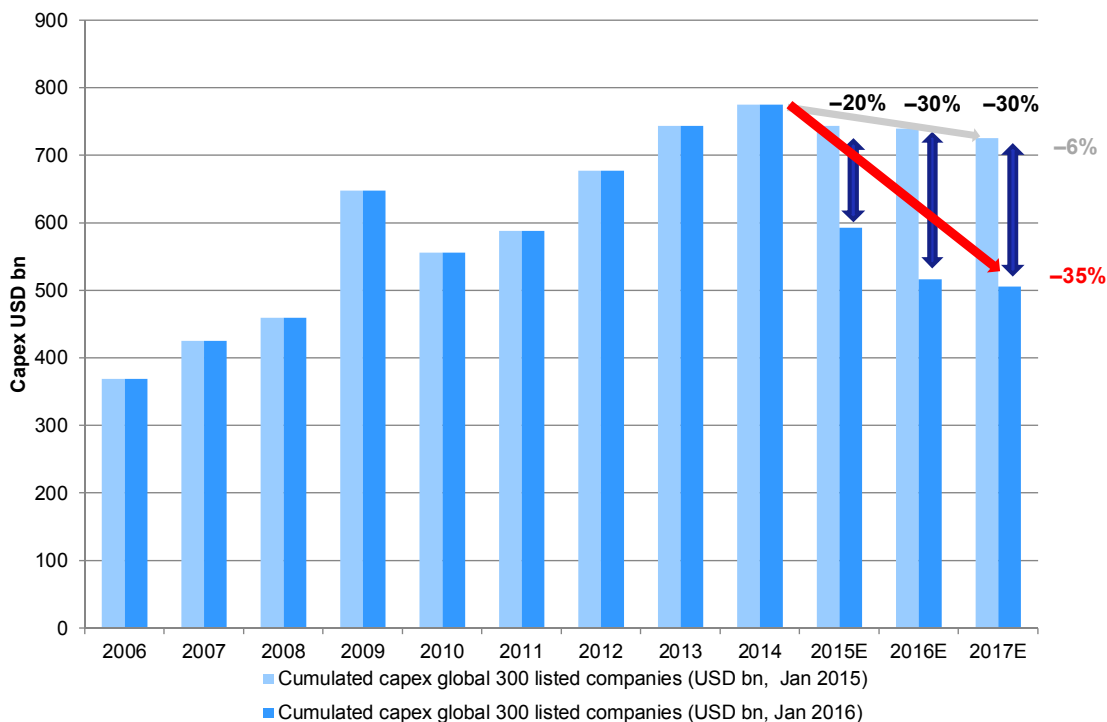
#### Downstream



~30%

- High refinery utilization building opportunity pipeline
- Postponements of major non-essential maintenance work
- China challenging
- Petrochemical stable

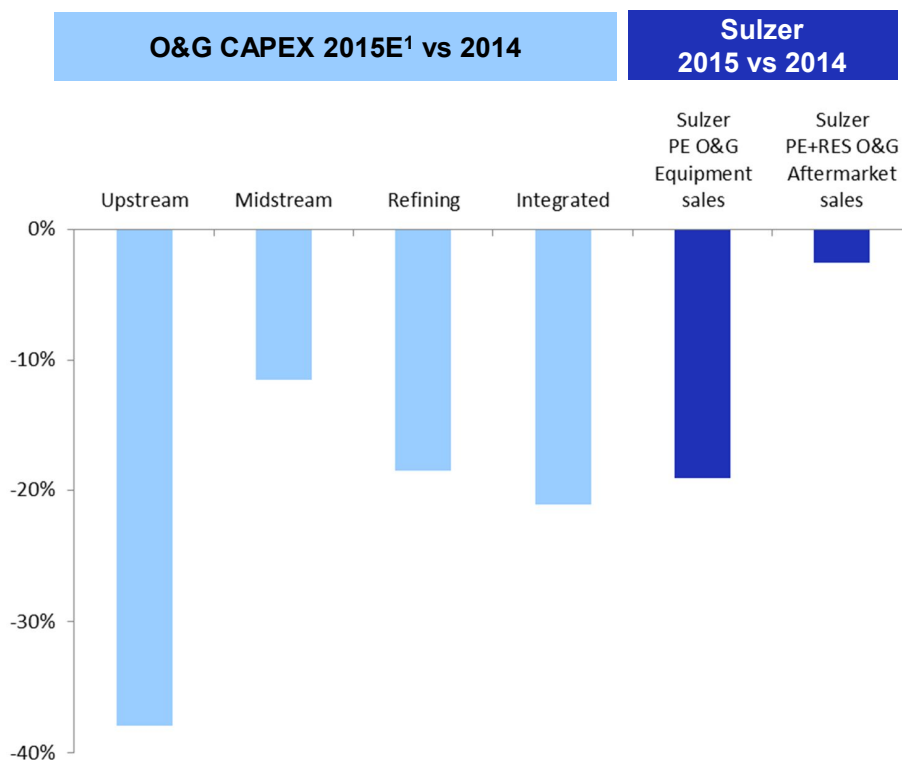
# O&G CAPEX expectations<sup>1</sup> reduced significantly since early 2015



**In January 2015, oil and gas capex was expected to decrease by 6% until 2017. In January 2016 expectations foresee cuts of 35%.**

1. Bloomberg figures and consensus estimates as of January 20, 2016

# O&G upstream CAPEX hit the hardest – Sulzer compares well to market development



1. Bloomberg figures and consensus estimates as of January 20, 2016

## Other Sulzer segments proved resilient

### Power



16%

Order intake  
2015 vs 2014



- Good activity levels in Asia driven by China and India
- US driven by gas, EMEA overall slow
- Low O&G activity levels drove increased competition in power

### Water



13%



- Solid municipal water market in US and China
- Engineered Water: active desalination in Middle East and South East Asia
- Large water infrastructure projects active globally

### General Industry



21%



- Overall positive environment particularly in Pulp and Paper and in Healthcare
- Weaker Metals and Mining, impacting also aftermarket
- China remained key demand driver for many segments
- Pricing pressures increased

OI share 2015

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Introduction to Sulzer

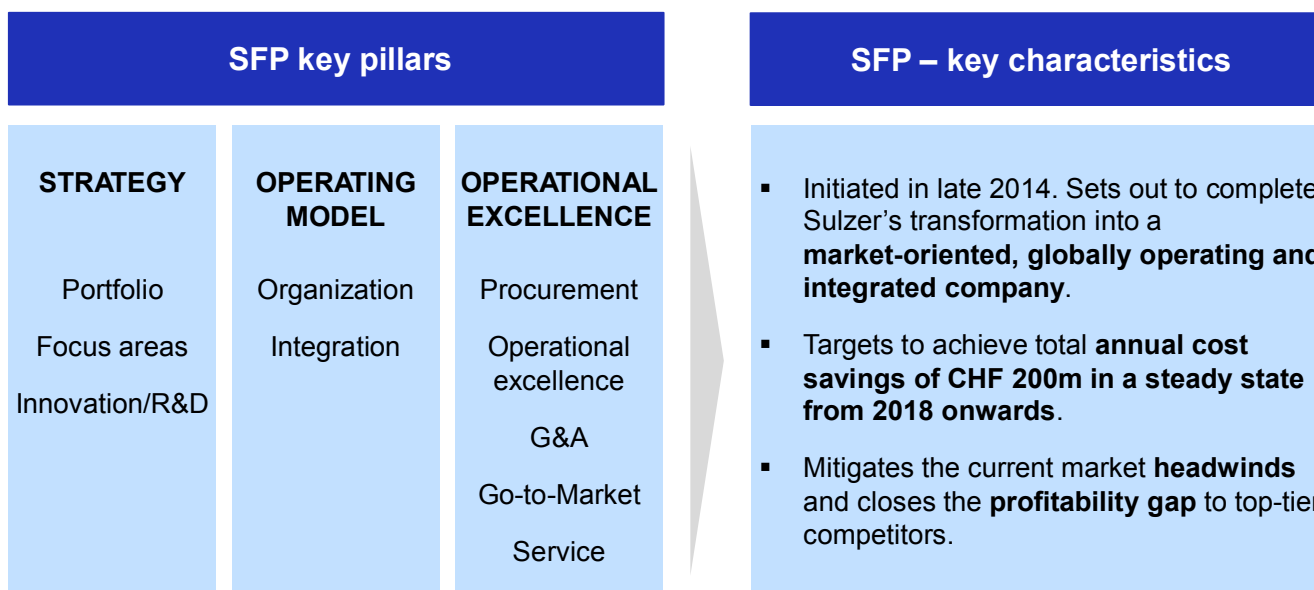
Market Update

**Sulzer Full Potential**

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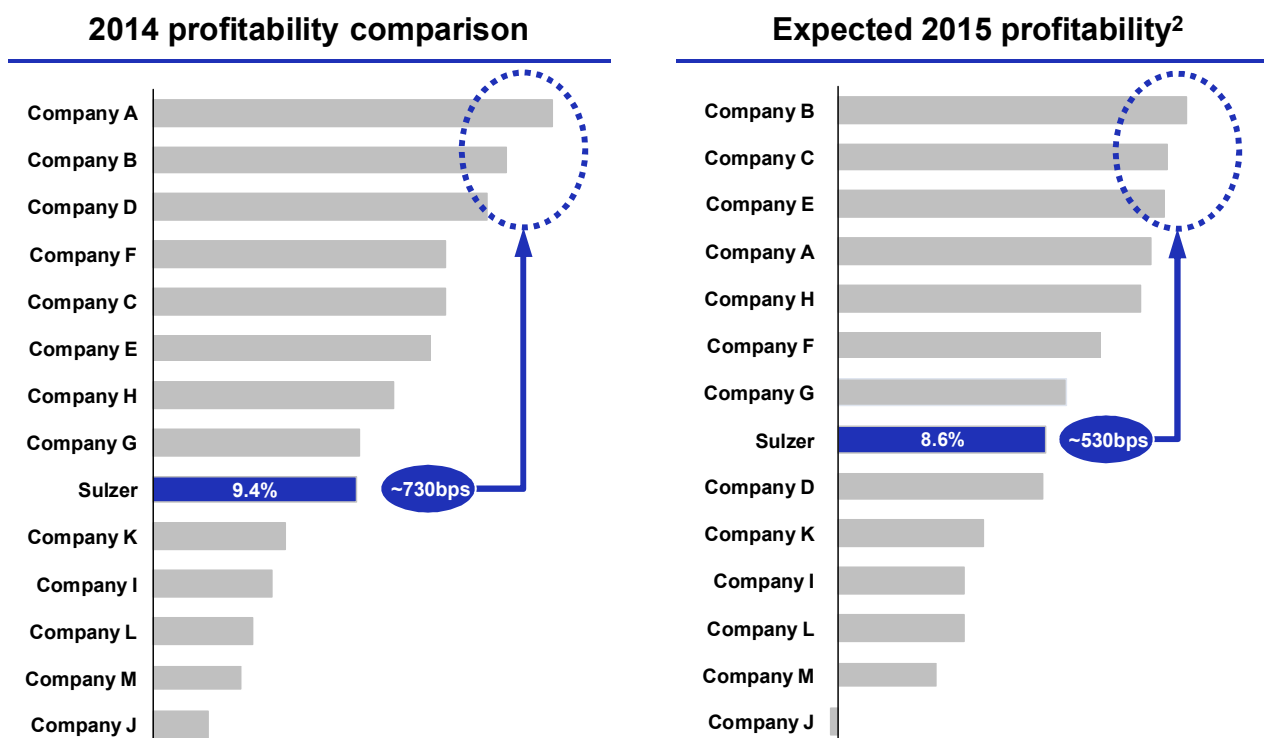




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## Profitability gap to top-tier competitors narrowed by ~200bps<sup>1</sup>

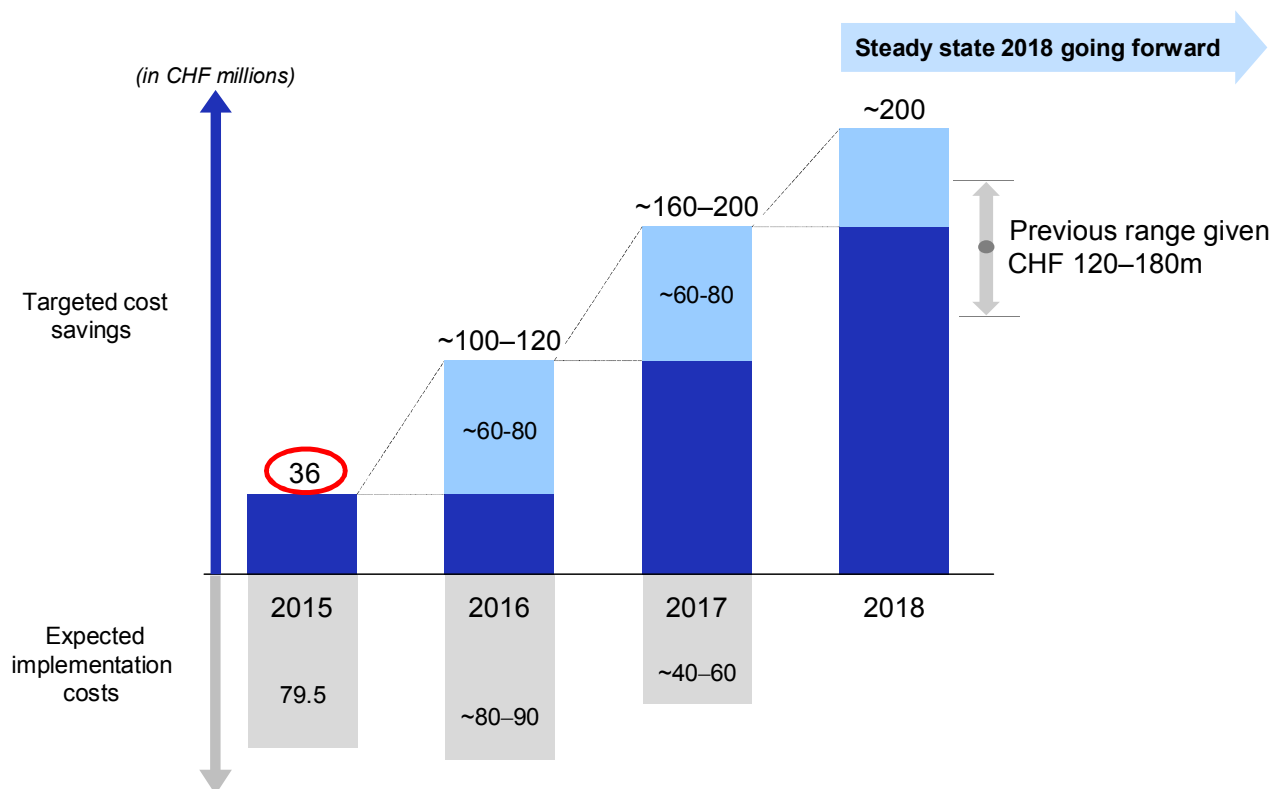


1. Comparison based on opEBITA margin  
 2. Bloomberg figures and consensus estimates as of January 20, 2016

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# SFP targets cost savings of approx. CHF 200m by 2018<sup>1</sup> with implementation costs of 1.0–1.2x



1. Pre market impact

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## FY2015 impacted by headwinds in O&G

Key figures					Commentary
<i>In CHF millions</i>	2015	2014 <sup>1</sup>	YOY	YOY adj. <sup>2</sup>	
Order intake	<b>2'895.8</b>	3'160.8	-8.4%	-3.7%	■ Q4 orders down 22% YOY <sup>2</sup>
Order intake gross margin	33.8%	33.5%	0.3pp	0.4pp	■ Order intake gross margin slightly up on mix effects
Order backlog (Dec 31)	<b>1'510.7</b>	1'699.6	-11.1%	-4.6%	■ More than half of order backlog decrease driven by FX
Sales	<b>2'971.0</b>	3'212.1	-7.5%	-3.2%	
opEBITA	<b>254.1</b>	302.9	-16.1%	-11.8%	■ Sales decreased due to headwinds in O&G market, negatively impacting opROSA
opROSA %	8.6%	9.4%			
EBIT	<b>120.9</b>	271.0	-55.4%	-53.2%	■ EBIT decreased mainly due to market headwinds and SFP related costs of CHF 79.5m
ROS %	4.1%	8.4%	-		
Core net income	<b>175.0</b>	205.4	-14.8%		
Core EPS (in CHF)	<b>5.11</b>	5.95	-14.1%		■ Free cash flow improved due to lower volumes and collection focus
Free cash flow	<b>155.8</b>	98.0	59.0%		
FTEs (Dec 31)	<b>14'253</b>	15'494	-8.0%		

1. 2014 figures exclude impairment of CHF340m in EBIT  
2. Adjusted for currency effects

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## Order intake in Q1 in all markets improved except for O&G

Key figures		Commentary																				
<i>(in CHF millions)</i>																						
<table border="1"> <caption>Order Intake (in CHF millions)</caption> <thead> <tr> <th>Quarter</th> <th>Order Intake</th> </tr> </thead> <tbody> <tr><td>Q1 14</td><td>828</td></tr> <tr><td>Q2 14</td><td>755</td></tr> <tr><td>Q3 14</td><td>719</td></tr> <tr><td>Q4 14</td><td>859</td></tr> <tr><td>Q1 15</td><td>801</td></tr> <tr><td>Q2 15</td><td>784</td></tr> <tr><td>Q3 15</td><td>685</td></tr> <tr><td>Q4 15</td><td>627</td></tr> <tr><td>Q1 16</td><td>685</td></tr> </tbody> </table>		Quarter	Order Intake	Q1 14	828	Q2 14	755	Q3 14	719	Q4 14	859	Q1 15	801	Q2 15	784	Q3 15	685	Q4 15	627	Q1 16	685	<ul style="list-style-type: none"> <li>■ Q1 order intake fell by 13.1% YOY<sup>1</sup>, but improved 10.2%<sup>1</sup> sequentially</li> <li>■ Drivers of Q1 order intake: <ul style="list-style-type: none"> <li>■ Power, Water and General Industry moderately increased YOY<sup>1</sup></li> <li>■ O&amp;G declined substantially YOY, but was flat sequentially, with PE down, RES flat and CT up</li> <li>■ China grew double digit YOY and sequentially (from a low base)</li> </ul> </li> <li>■ FX impact in Q1 CHF -11.2m</li> <li>■ Acquisition effect in Q1 CHF 9.4m</li> </ul>
Quarter	Order Intake																					
Q1 14	828																					
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1. Adjusted for currency effects

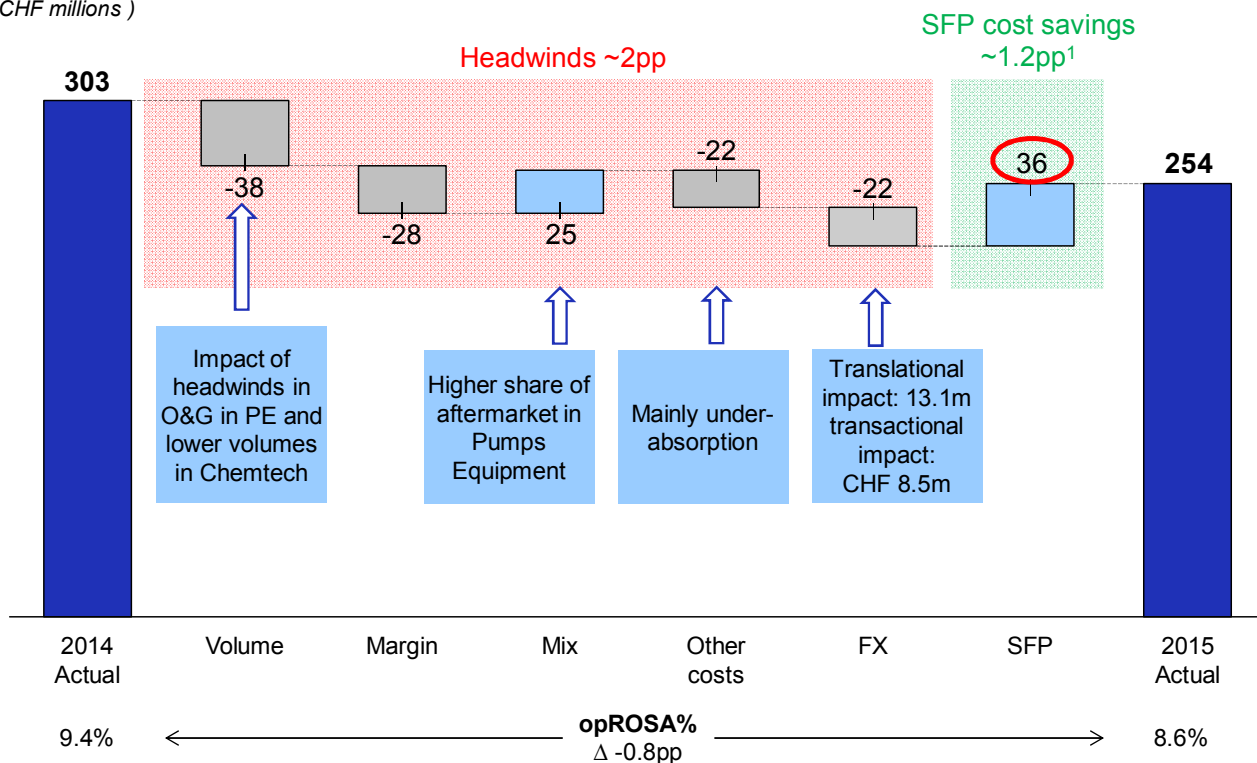
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# Sulzer Full Potential partially offset headwinds

## Operational EBITA

(in CHF millions)

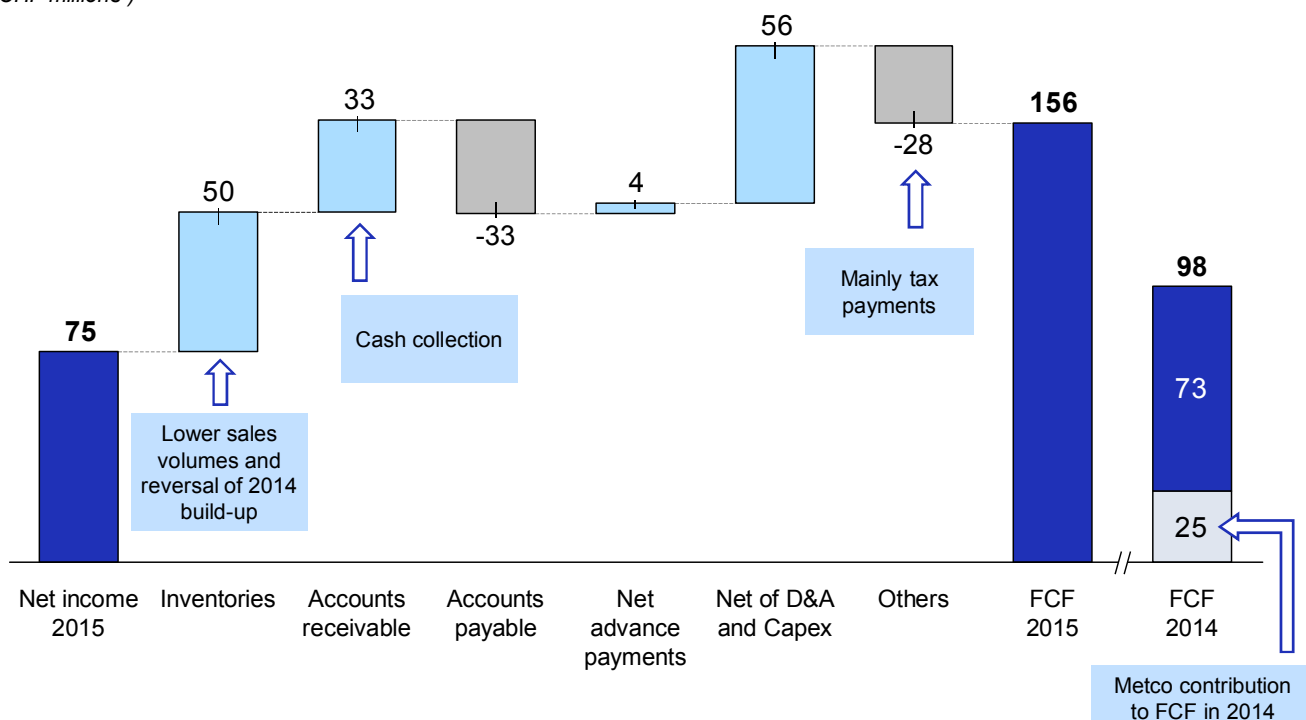


1. Calculated based on 2015 sales

# Free cash flow improved by CHF 58m, resulting in net income to FCF conversion of >100%

## Free Cash Flow

(in CHF millions)

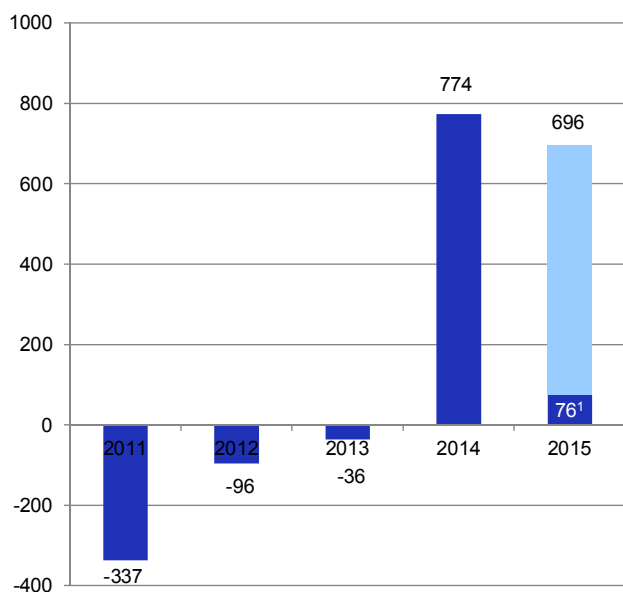


# Sulzer has one of the strongest balance sheet compared to peers (after special dividend)

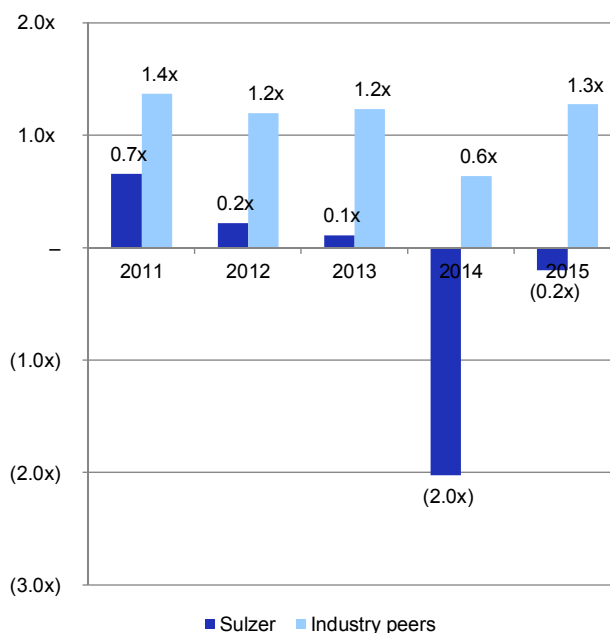


## Net liquidity

(in CHF millions)



## Net debt / EBITDA versus industry peers<sup>1,2</sup>



1. Sulzer 2015 pro-forma excluding special dividend of CHF 500m and regular dividend of CHF 120m paid in April 2016
2. Net debt / EBITDA Sulzer calculated with opEBITDA  
Industry peers include: Flowserve, Weir, SPX Flow, Xylem, ITT, Ebara, KSB, Wood Group, Pentair



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Market Outlook





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**Outlook**



# Market assessment for 2016: O&G continues to be weak, flat to slight growth in other segments

	Oil & Gas	Power	Water	General Industries
				
	50%	16%	13%	21%
2016 market assessment	↓	→	→	→
	<ul style="list-style-type: none"> <li>▪ Further capex and opex reductions</li> <li>▪ Pricing under pressure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conventional and nuclear growth driven by China and India</li> <li>▪ Low gas price continues to impact energy mix in the US</li> <li>▪ Low O&amp;G increases competition in Power</li> </ul>	<ul style="list-style-type: none"> <li>▪ Growth driven by municipal wastewater and clean water</li> <li>▪ Opportunities in large water infrastructure projects globally</li> </ul>	<ul style="list-style-type: none"> <li>▪ Positive outlook for pulp and paper and health care</li> <li>▪ Outlook for services flat due to weak metals and mining</li> <li>▪ Uncertainty about China's growth</li> </ul>

OI share 2015

## Financial guidance 2016<sup>1</sup>

Order Intake <sup>2</sup>	down 5–10%
Sales <sup>2</sup>	down 5–10%
Operational ROSA <sup>3</sup> %	around 8%

1. As of February 25, 2016  
 2. Adjusted for currency effects  
 3. Operational EBITA divided by sales

## Summary for credit investors

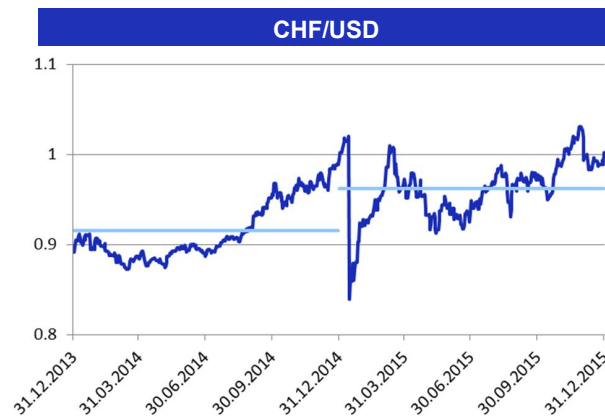
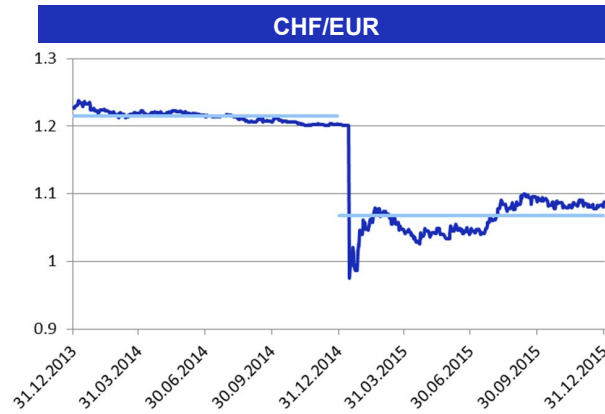
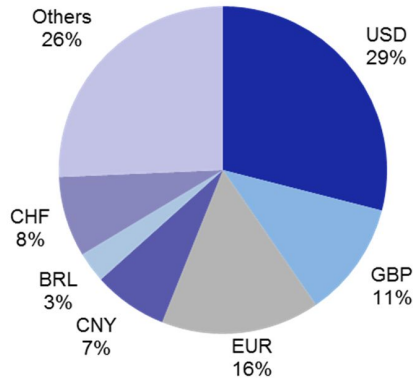
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- **Significant market headwinds in 2015 expected to continue in 2016 – rebound will lead to over-proportional margin expansion**
  
- **Unleashing Sulzer's Full Potential**
  - SFP accelerated and **cost savings target increased** from CHF 120–180m to CHF ~200m from 2018 onwards
  - **Additional cost savings** of CHF ~60–80m expected in 2016
  - Sulzer **narrowed profitability gap** versus top tier competitors in 2015
  
- **Commitment to financial discipline and investment grade credit profile**
  - **Confidence** in Sulzer's **strong free cash flow generation** and **SFP**
  - Keeping sufficient **headroom for accretive M&A**
  - Sulzer continues to have a **net cash position** and one of the **strongest balance sheets** in its industry (post special dividend; with CHF 500m bond fully refinanced)
  - **Highly cash-generating** business

**Reconciliations and supplementary slides**

## Swiss franc recovered, but not fully against Euro

**Sulzer FX exposure**



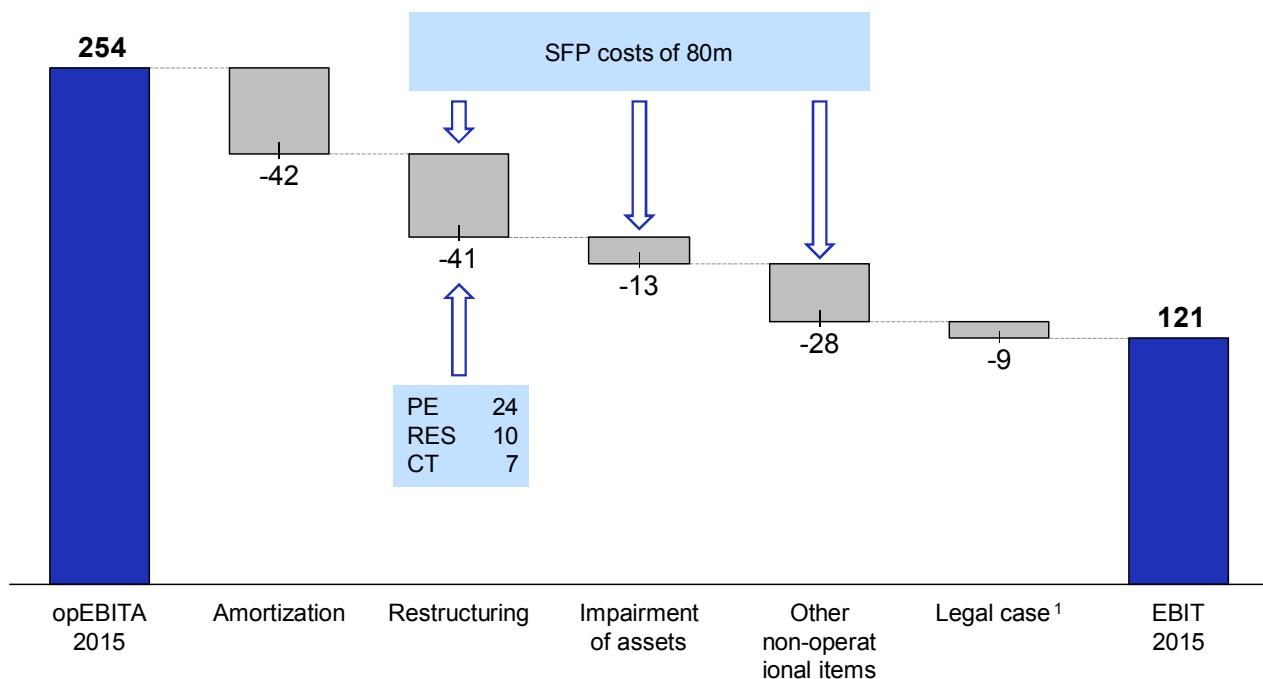
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## EBIT impacted by SFP costs of CHF 80m and legal case of CHF9m

### Operational EBITA to EBIT

(in CHF millions)



1. Following the decision of the arbitral tribunal in a legal case relating to a dispute with the purchaser of the locomotive business (sold in 1998), Sulzer recognized in addition to the existing provision CHF 8.7m in cost of goods sold and CHF 5.2m as interest expenses.

## Core net income

<i>In CHF millions</i>	2015	2014
<b>Net income reported</b>	<b>75.0</b>	<b>278.1</b>
Metco divestiture	–	-435.7
Impairment on tangible and intangible assets	13.0	340.4
Amortization	42.3	43.3
Restructuring expenses	41.2	11.2
Other non-operational items	36.7	-23.0
Tax impact	-33.2	-8.9
<b>Core net income</b>	<b>175.0</b>	<b>205.4</b>
Minorities	-1.1	-3.1
Core net income to shareholders	173.9	202.3
Average number of shares outstanding (m)	34.036	34.007
<b>Core EPS</b>	<b>5.11</b>	<b>5.95</b>

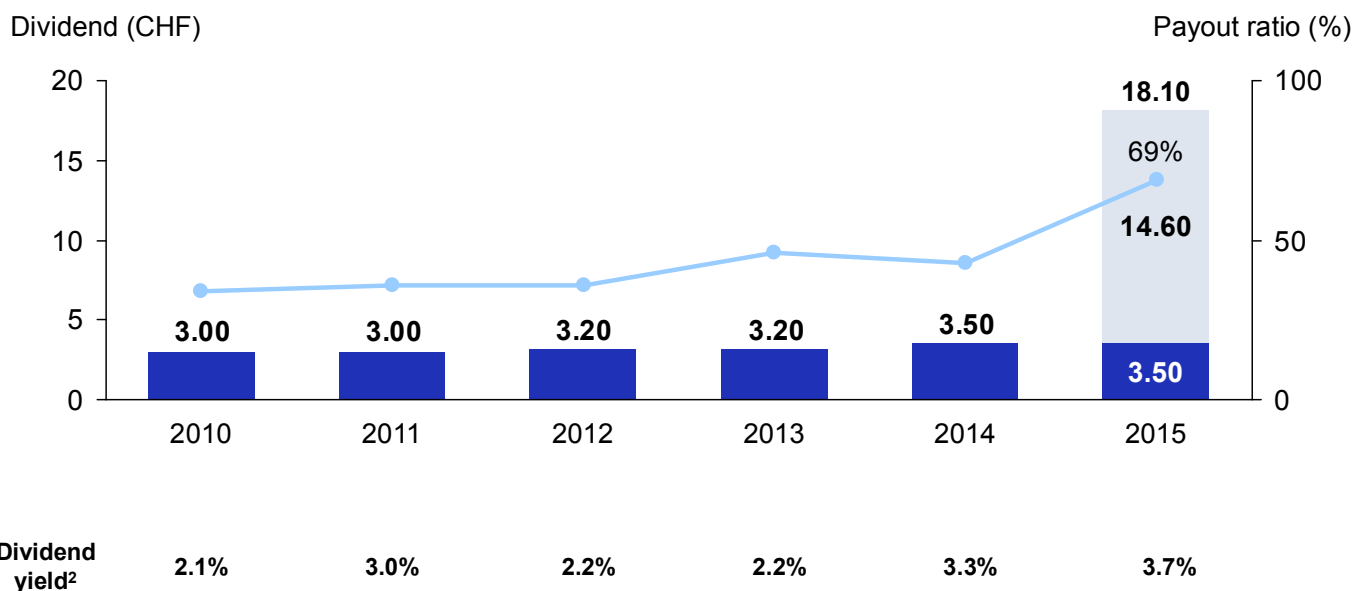
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## Dividend development

### Dividend

- Ordinary dividend per share (lhs)
- Special dividend per share (lhs)
- Payout ratio of ordinary dividend (rhs)<sup>1</sup>



1. Based on DPS / reported EPS (core EPS for 2015)

2. Dividend yield = ordinary dividend per share / share price on Dec 31.

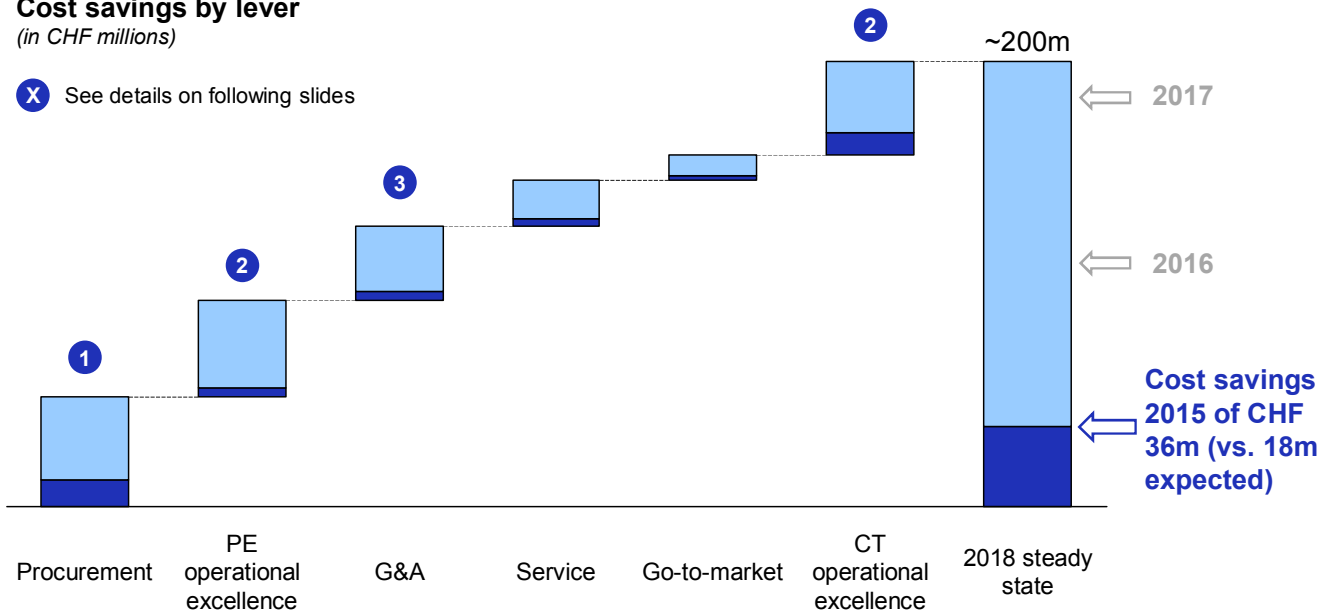
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## SFP cost savings by lever

### Cost savings by lever (in CHF millions)

X See details on following slides



- Comprehensive program across all functions and divisions
- Procurement, G&A and Operational Excellence are the main levers
- Short term (2015) impact delivered by procurement and CT Operational Excellence

## 1 New procurement organization fully staffed and with significant success already in 2015



### Objectives

- Establish new **global procurement organization** and **advanced sourcing processes**
- Clearly defined **sourcing strategy by category**
- Establish **full spend transparency** and strict **demand control**
- Reduce **direct spend by ~5%** across major categories, reduce **indirect spend by ~9%**

### Achievements

- **Savings achieved based on both short-term re-negotiations and reengineered mid-/ long term procurement processes/strategies**
- Direct categories: shift to best cost region for **machined castings and motors delivered CHF ~4m savings**
- Indirect categories: **logistics, travel and insurance of CHF ~10m combined**



## 2 Strengthen operational capabilities to compete efficiently in the years to come



### Objectives

- **Adjust global footprint** to market demand and develop **global production strategy**
- Leverage best cost regions to **improve cost of components** without compromising quality
- **Right-size capacities** according to market requirements and **increase productivity**
- Reduce **overall operating cost by 10%**

### Achievements

- **Reorganization of PE division** into three market-oriented business units
- Introduction of a **dedicated global aftermarket organization**
- **PE division: adapted manufacturing footprint and streamlined capacities**
- **CT division: adapted operational setup**

## 3 G&A transformation targets cost reduction of >20%



### Objectives

- **Share resources across divisions** for an integrated and more cost-efficient setup
- **Improve service levels** internally and through selective outsourcing
- **Decrease complexity:** by significant reduction of number of legal entities and locations
- **Rationalize country footprint** and create local platforms across divisions

### Achievements

- **Harmonized** finance processes with strong orientation towards **shared service options**
- **Successful IT cost improvement** (e.g. consolidation of data centers and networks)
- **Simplified organizational setup** with reduction of **24 legal entities**
- **Shift of resources** to best cost regions for all support functions

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