

Media release of November 8, 2016

Results for the First Half of 2016: Thriving Services Business – drastic decline in Gas Transport and Storage Orders in Systems Division – Operating Income at Prior-Year Level

Order intake at Burckhardt Compression's two divisions showed divergent developments during the first six months of the current fiscal year. The Services Division experienced a strong first half while order intake at the Systems Division had to record a strong cutback, particularly due to the slump in the gas transport and storage business by more than half. Total orders received by Burckhardt Compression amounted to CHF 222.8 mn, a decline of 12.4% from the comparable prior-year period. This figure includes orders received by Shenyang Yuanda Compressor, Burckhardt Compression's majority-owned subsidiary as of May 2016. Adjusted for acquisitions, new orders amounted to CHF 190.3 mn, which is 25.1% below the comparable prior-year figure. Burckhardt Compression generated sales of CHF 269.6 mn (+11.0%) in the period under review; first-half sales adjusted for acquisitions amounted to CHF 228.6 mn, 5.9% less than in the prior-year period. Operating profit (–2.3%) and net income (–17.5%) were also lower than the figures reported a year ago. The capacity cuts announced in August were initiated and will produce initial cost savings already in the second half of the current fiscal year. The integration of Shenyang Yuanda Compressor and the cooperation with Arkos are proceeding as planned.

Business in main application areas varies

Our main application areas displayed divergent trends during the period under review. There was a massive downturn in the marine business of the gas transport and storage market. Several orders were also cancelled, which is highly unusual in the compressor manufacturing business, and some customers did not make full use of their framework procurement agreements. Meanwhile, a positive trend was observed in refineries and the petrochemical and chemical industry and we were pleased to receive our first large order from Africa. Order activity in the Middle East also showed very positive trends.

Lower order intake at the Systems Division

Despite the difficult market environment Burckhardt Compression asserted its leading market position. At CHF 123.6 mn, incoming orders at the Systems Division including Shenyang Yuanda Compressor were 26.4% below the level from the prior year period. This amount includes orders worth CHF 28.4 mn received by Shenyang Yuanda Compressor during the five months from May to September 2016. Sales including Shenyang Yuanda Compressor amounted to CHF 186.2 mn, topping the prior-year figure of CHF 168.8 mn by 10.3%; excluding this acquisition, first-half sales amounted to CHF 151.6 mn (–10.2%).

Pleasing uptrend in the Services Division

In the Services Division order intake including Shenyang Yuanda Compressor rose by 14.9% to CHF 99.2 mn; excluding Shenyang Yuanda Compressor, divisional order intake rose by 10.2% to CHF 95.1 mn. Sales including Shenyang Yuanda Compressor were substantially higher at +12.4% versus the prior-year period and amounted to CHF 83.4 mn. Adjusted for acquisitions, sales growth amounted to 3.6% (CHF 76.9 mn). Services thus set a new sales record for a half-year period. This performance shows that the new organizational structure, which is allowing Burckhardt Compression to address individual customer needs even better than before, is starting to deliver the expected benefits. Furthermore, the Services Division is reaping greater rewards from the significantly larger installed base of compressor systems.

Gross profit slightly lower y-o-y

Gross profit amounted to CHF 61.6 mn, a decline of 15.5% from the prior-year figure of CHF 73.0 mn, and the gross profit margin came in at 22.9% (30.0% in the previous year). In the Services Division, the gross margin climbed from 48.7% to 53.0%, while the Systems Division's gross margin of 9.4% was significantly lower compared to the prior-year level (21.9%), mainly due to the invoicing of projects that had been initiated in the previous year in a highly competitive market environment. This is compounded by the fact that the changed product mix in the business with compressor systems has led to lower capacity utilization in manufacturing.

Operating profit unchanged from previous year

Operating profit for the first half of the year declined y-o-y from CHF 32.8 mn to CHF 32.1 mn and thus remained almost at the prior-year level and the resulting operating profit margin was 11.9% (13.5% in the first half of the previous year). Operating profit includes pension fund adjustments of CHF 16.9 mn (net). Net income of CHF 20.7 mn was also less than the year-ago figure (CHF 25.1 mn). Earnings per share amounted to CHF 6.08 (previous year CHF 7.40).

Marked change in the balance sheet

Total assets at the end of September amounted to CHF 918.1 mn, an increase of 29.7% compared to the figure reported at the end of the fiscal year 2015. Equity decreased mainly due to the recognition of a put option in the amount of CHF 50.7 mn that has been issued to the minority shareholders of Shenyang Yuanda Compressor. Combined with the partial financing of the acquisition of Shenyang Yuanda Compressor, this led to a decrease in the equity ratio from 50.2% (at the end of the fiscal year 2015) to 35.0%. In the same period, non-current assets increased by a total of CHF 131.0 mn to CHF 378.2 mn, mainly due to the acquisition of Shenyang Yuanda Compressor. The positive net financial position of CHF 93.2 mn reported at the end of the previous fiscal year declined by CHF 161.2 mn to an operating net debt position of CHF 68.0 mn mainly due to the acquisition of Shenyang Yuanda Compressor.

Announced capacity cuts already initiated

The capacity adjustments and resulting job cuts announced at the end of August due to the adverse market environment for the compressor manufacturing business were initiated. These measures will have a favorable impact on costs already in the second half of the current fiscal year.

Acquisitions on track

The integration of Shenyang Yuanda Compressor is proceeding according to plan and will be concluded at the end of the 2017 calendar year. The cooperation with the US company Arkos Field Services, in which Burckhardt Compression holds a minority stake, is also going according to plan. Arkos now occupies part of Burckhardt Compression's new plant in Houston and has set up a modern, highly efficient service and repair center. These transactions and the recent acquisition of IKS Industrie- und Kompressorenservice GmbH in September have strengthened Burckhardt Compression's local presence in the services business in the three core markets of China, the US and Germany significantly and broadened its footprint in China to include new market segments.

Outlook

Fiscal year 2016: Burckhardt Compression is expecting a further increase in orders received at the Services Division but do not expect a recovery in order inflow from the gas transport and storage market in the Systems Division. Overall order intake for fiscal year 2016 is projected to range from CHF 450 to 500 mn (including Shenyang Yuanda Compressor). Group sales (including Shenyang Yuanda Compressor) will exceed CHF 600 mn. The operating profit margin (including Shenyang Yuanda Compressor) is expected to be between 10% and 12%, which in absolute terms is slightly lower than in the previous year.

Fiscal year 2017: From today's standpoint, the Services Division should continue its pleasing growth in fiscal year 2017 while the Systems Division is not expected to experience an upturn in orders received until fiscal year 2018. Burckhardt Compression expects consolidated sales to decline by about CHF 100 mn in fiscal year 2017. An improvement in the operating profit margin is therefore not expected in the coming fiscal year. Burckhardt Compression anticipates an improvement in the operating profit margin in fiscal year 2018.

Key figures for the first half of fiscal 2016 (April – September 2016)

CHF mn	April- Sept. 2016	April- Sept. 2015	Change 2016/2015	Fiscal year 2015
Order intake	222.8	254.2	-12.4%	523.2
- Systems Division	123.6	167.9	-26.4%	351.4
- Services Division	99.2	86.3	+14.9%	171.8
Sales	269.6	243.0	+11.0%	487.2
Gross profit	61.6	73.0	-15.5%	151.7
Operating income (EBIT)	32.1	32.8	-2.3%	73.0
in % of sales	11.9%	13.5%		15.0%
Net income	20.7	25.1	-17.5%	55.5
in % of sales	7.7%	10.3%		11.4%
Total assets	918.1	657.0	+39.7%	708.0
Shareholders' equity	321.4	336.3	-4.4%	355.1
in % of total assets	35.0%	51.2%		50.2%
Earnings per share (in CHF)	6.08	7.40	-17.8%	16.34
Headcount Sept. 30 / March 31	2'071	1'438	+44.0%	1'432

Additional information on the interim results for fiscal year 2016 has been published on our website at www.burckhardtcompression.com/financial-reports.

Further information:

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About Burckhardt Compression

Burckhardt Compression is the worldwide market leader for reciprocating compressors systems. As single manufacturer and service provider that covers a complete range of reciprocating compressor technologies and services. Its customized compressor systems are used in the upstream oil & gas, gas transport and storage, refinery, chemical, petrochemical and industrial gas sectors. Burckhardt Compression's leading technology, high-quality compressor components and the full range of services help customers to minimize life cycle costs of their reciprocating compressor systems around the world. Since 1844 its highly skilled workforce has crafted superior solutions and set the benchmark in the gas compression industry.

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