

# **BURCKHARDT COMPRESSION HOLDING AG RESULTS FIRST-HALF OF FY18**

Winterthur, October 30, 2018

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- **Corporate Overview**
- **Review Systems Division**
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# ABOUT BURCKHARDT COMPRESSION

# About Burckhardt Compression

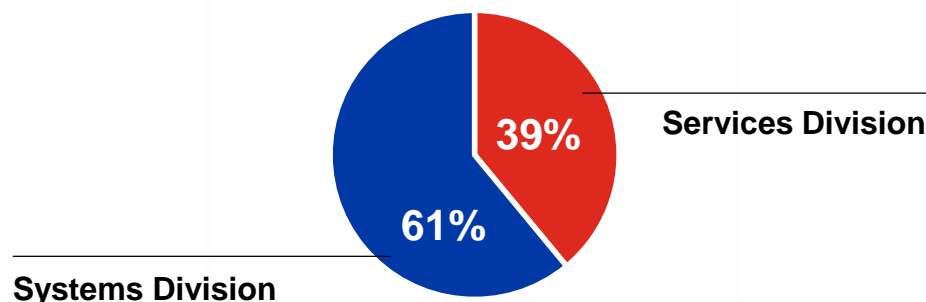
- **Burckhardt Compression is**
  - the worldwide market leader in the field of reciprocating compressor systems
  - the only manufacturer and service provider that covers a full range of reciprocating compressor technologies and services
- **Optimized solutions for our customers reciprocating compressor systems**
- **Customized compressor systems for**
  - Upstream Oil & Gas
  - Gas Transport & Storage
  - Refinery
  - Petrochemical, Chemical Industry
  - Industrial Gas sectors



# About Burckhardt Compression

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- **Founded** 1844
- **Division of Sulzer Corporation** 1969 – 2002
- **Management buyout** 2002
- **Shareholders** Public listed company SIX (BCHN) since IPO in 2006
  - > 4'000 Shareholders
  - Market cap CHF 1.2 bn (28.9.2018)
- **FTEs 1HY FY18** 2'306 (1HY FY17: 2'192)
- **Sales 1HY FY18** CHF 258 mn (1HY FY17: 287 mn)



# About Burckhardt Compression

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# Market Segments

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**Upstream  
Oil & Gas**



**Gas Transport  
and Storage**



**Refinery**



**Petro-  
chemical/  
Chemical  
Industry**

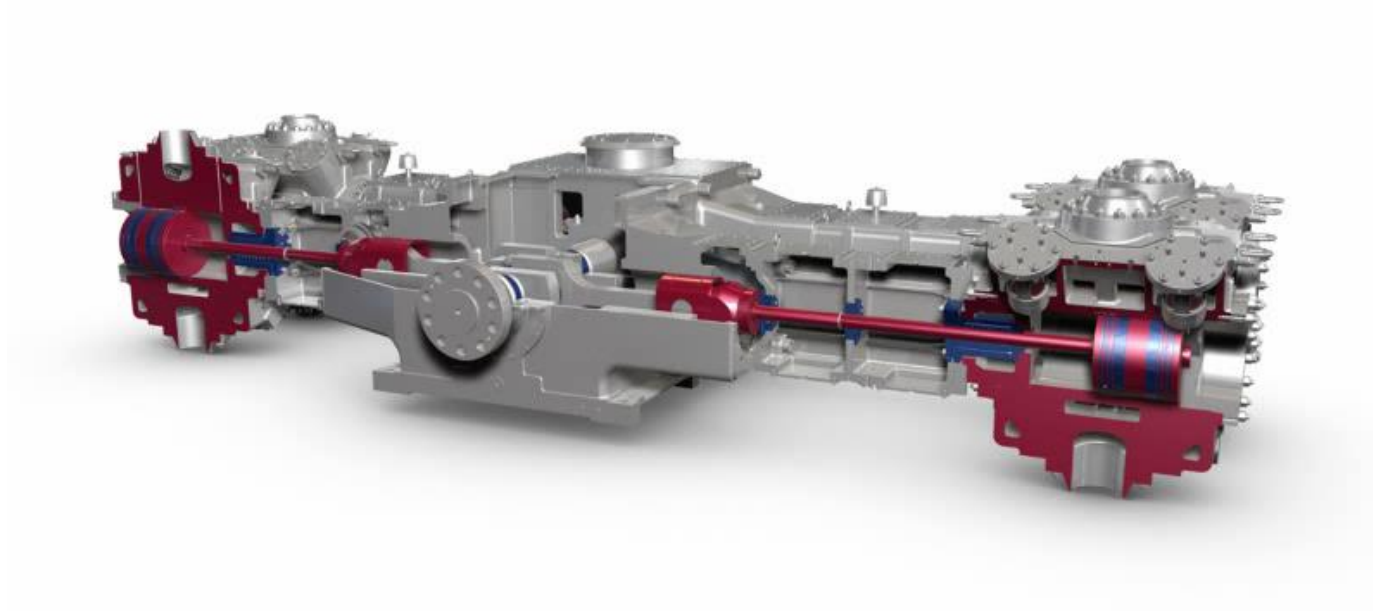


**Industrial Gas**



# Reciprocating Compressor (Crosshead Design)

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# CORPORATE OVERVIEW

# Financial Summary

	Systems Division		Services Division		Others <sup>1)</sup>		Total	
in CHF mn	1HY FY18	1HY FY17	1HY FY18	1HY FY17	1HY FY18	1HY FY17	1HY FY18	1HY FY17
<b>Sales</b>	<b>158.5</b>	<b>192.8</b>	<b>99.6</b>	<b>94.2</b>			<b>258.1</b>	<b>287.0</b>
Cost of goods sold	-152.9	-181.4	-56.0	-50.7			-208.9	-232.1
<b>Gross profit</b>	<b>5.6</b>	<b>11.4</b>	<b>43.5</b>	<b>43.5</b>			<b>49.2</b>	<b>54.9</b>
Gross profit as % sales	3.6%	5.9%	43.7%	46.2%			19.0%	19.1%
<b>Operating income</b>	<b>-13.6</b>	<b>-7.4</b>	<b>20.6</b>	<b>22.3</b>	<b>-1.4</b>	<b>-2.2</b>	<b>5.6</b>	<b>12.8</b>
Operating income as % sales	-8.6%	-3.8%	20.7%	23.7%			2.2%	4.5%

<sup>1)</sup> Includes corporate center and real estate company

# Highlights

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- **Significantly higher order intake in both divisions**
- **Maintained leading market position in China and positive market development in India and in the US**
- **Signed agreement with Exxon Mobile for distribution and marketing of lubrication oils for LDPE applications**
- **Signed new service agreements with LNGM ship owners**
- **Conducted successfully an LDPE symposium for our global customers in Xi'an, China**



# Set Backs

- **Under-proportional financial performance in first half-year due to cyclical nature of the business**
- **Profitability in the Systems Division still under pressure due to:**
  - **Additional costs in the LNGM business**
  - **Completion of projects that had been affected by sharp rise in material procurement cost in China over the past year**
  - **Underutilized production capacity mainly in Switzerland (Q1 FY 2018) and to a smaller extent also in the US and China (SYCC foundry)**



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# REVIEW SYSTEMS DIVISION

# Systems Division

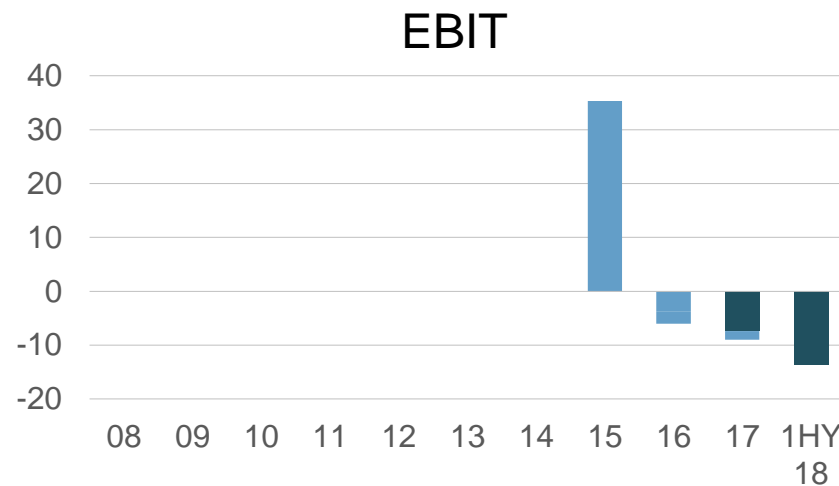
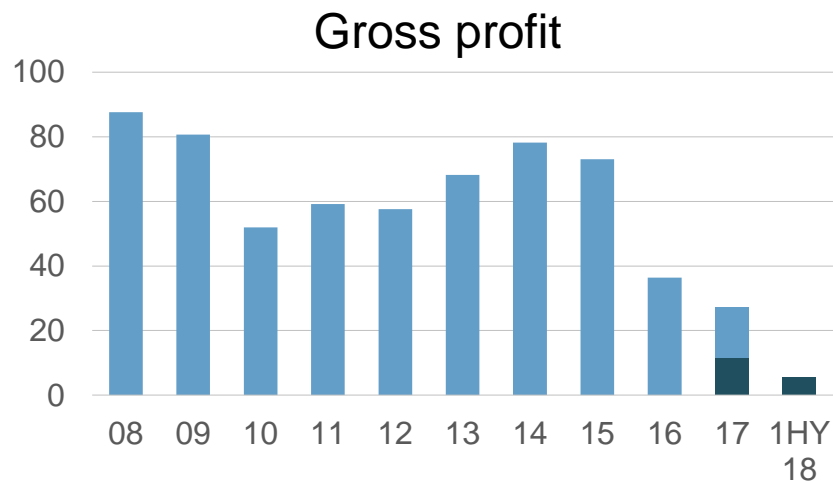
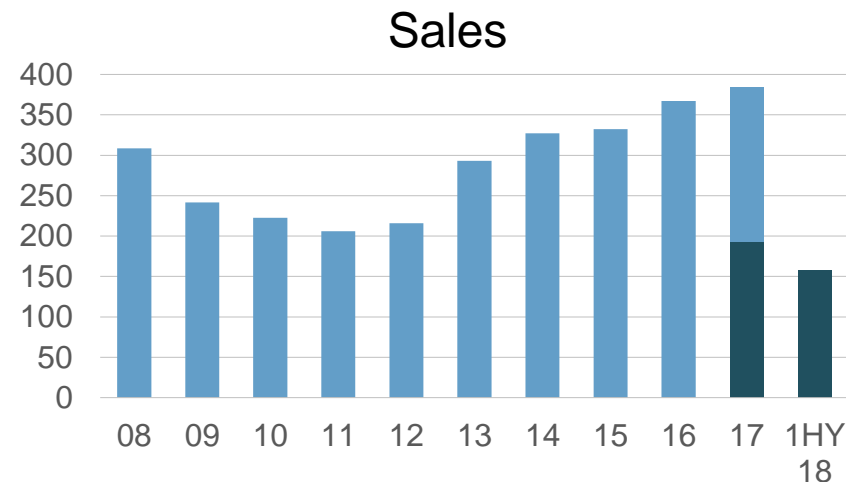
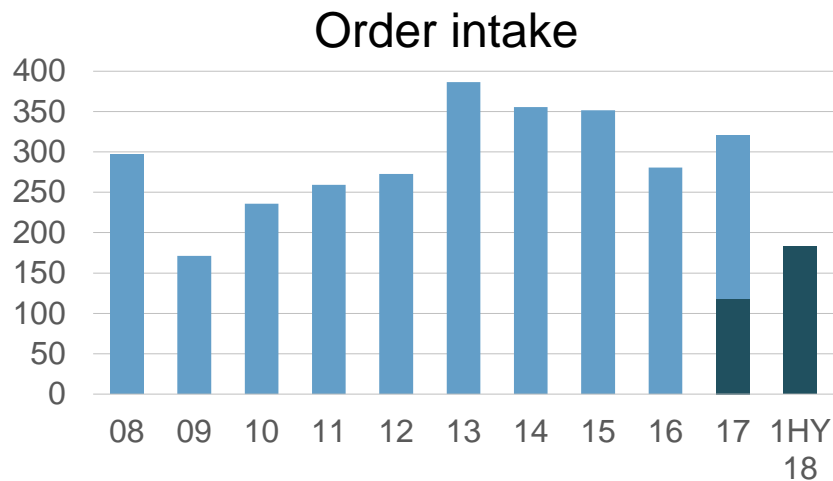
## Financials

in CHF mn	1HY FY18	1HY FY17	Change 1HY FY17 / FY18
Order intake	183.0	117.7	+55.5%
Sales	158.5	192.8	-17.8%
Gross profit	5.6	11.4	-50.9%
In % of sales	3.6%	5.9%	
<b>EBIT</b>	<b>-13.6</b>	<b>-7.4</b>	
In % of sales	-8.6%	-3.8%	

# Systems Division

## Key Figures

in CHF mn



# Systems Division


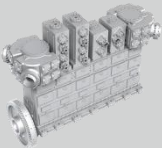
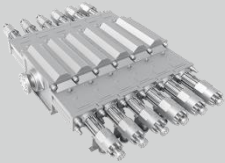



## Profitability Improvement Initiatives

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- **Profitability improvement initiatives are on track**
- **Highlights in 1HY FY18:**
  - **Further expansion of Global Support Center in Pune, India**
    - 70 FTEs to support engineering, contracting and IT worldwide
  - **Expanded value engineering and global procurement from stand-alone compressors to entire systems**
    - Many suppliers have been involved
  - **Conducted successfully a global suppliers day in Winterthur**
  - **Increased order intake gross margins, especially in Refinery business**

# Systems Division

## Products and Market Strategy

		← Keep #1 market position →			← Increase market share →	
Market	Products	 <b>Laby® Compressors</b>	 <b>Laby®-GI Compressors</b>	 <b>Hyper Compressors</b>	 <b>B-Line</b>  <b>M-Line</b> <b>Process Gas Compressors API 618</b>	 <b>Standard High Pressure Compressors</b>
Upstream Oil & Gas (UO&G)		●	●		●	●
Gas Transport and Storage (T&S)		●	●		●	●
Refinery (REF)					●	
Petrochemical / Chemical Industry (PCI)		●		●	●	
Industrial Gases (IG)		●			●	●

# Systems Division

## Upstream Oil & Gas

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### Market drivers & trends

- US political support for domestic gas production
  - Productivity improvements in Enhanced Oil Recovery
  - Changing energy mix leads to a globally increasing demand for gas
  - Oil price development
  - Growth of middle-class in emerging countries driving the need for natural gas-based products
- 

### Highlights 1HY FY18

- Received one order for a seal gas compressor from Kuwait
- 

### Expected market development

- Further development of the onshore business since production costs have been significantly reduced
  - Once production costs will be further reduced:
    - Development of not easy reachable oil and gas fields
    - Growing enhanced oil recovery
-

# Systems Division

## Gas Transport and Storage

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### Market drivers & trends

- Changing global energy mix towards gas
  - Importance of natural gas as a clean and inexpensive source of energy
  - Feedstock for the Petrochemical industry changing to low-cost LPG/LEG (e.g. in the US)
  - Gas is found in areas where it is not used
- 

### Highlights 1HY FY 18

- Received several orders for LPG (delivery 2019 – 2021) and LNGM fuel gas
  - Received orders for different boil-off gas (BOG) applications including LNG receiving terminals
- 

### Expected market development

- Ongoing recovery for LNGM in 2018
  - LPGM business continues on a lower level → recovery not before 2019
  - Positive development for LNG receiving terminals
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# Systems Division

## Refinery

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### Market drivers & trends

- Older/less efficient technologies trigger new equipment or replacement of existing
  - Growing demand for clean fuels due to environmental regulations (Euro V & VI)
  - Flexibility to process different crude oil qualities
  - Strategic importance of refining capacity for independent supply
  - Oil producing countries capturing a greater share of value creation across the process chain
- 

### Highlights 1HY FY18

- Received orders from China, India and Russia
- 

### Expected market development

- Continuation of current high market level worldwide
  - Growing demand for refined products in Emerging Countries
  - Investments to process different crude oil qualities
-

# Systems Division

## Petrochemical / Chemical Industry

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### Market drivers & trends

- Annual ~2% demand growth for plastics based on increased world population & middle class growth in India and China
- Shift of production to countries with low feed stock price (e.g. US)
- Older technologies/less efficient plants will be replaced by state-of-the-art facilities which are more profitable

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### Highlights 1HY FY18

- Received several orders for polypropylene, polyethylene and other applications: China, India, South Korea, Thailand and USA

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### Expected market development

- New LDPE projects (high pressure) under discussion (in China, Middle East and USA)
- Continuous growing polyolefin demand in Emerging Countries

# Systems Division

## Industrial Gases

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### Market drivers & trends

- World population growth leads to increasing demand for industrial gases (e.g. medical, food & beverage, fertilizers (CO<sub>2</sub>), inert gas)
  - Hydrogen to be used as fuel (busses, cars, trains, fuel cell power plants)
  - Pressure to reduce CO<sub>2</sub> leads to commercial applications for CO<sub>2</sub>
- 

### Highlights 1HY FY18

- Received various orders from China, Czech Republic and India
- 

### Expected market development

- Increasing market activities in all areas in line with GDP growth
  - Further potential for O<sub>2</sub>, H<sub>2</sub>, CO, CO<sub>2</sub> and high pressure O<sub>2</sub> and Air
  - Further potential for hydrogen in mobility applications
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# REVIEW SERVICES DIVISION

# Services Division

## Financials

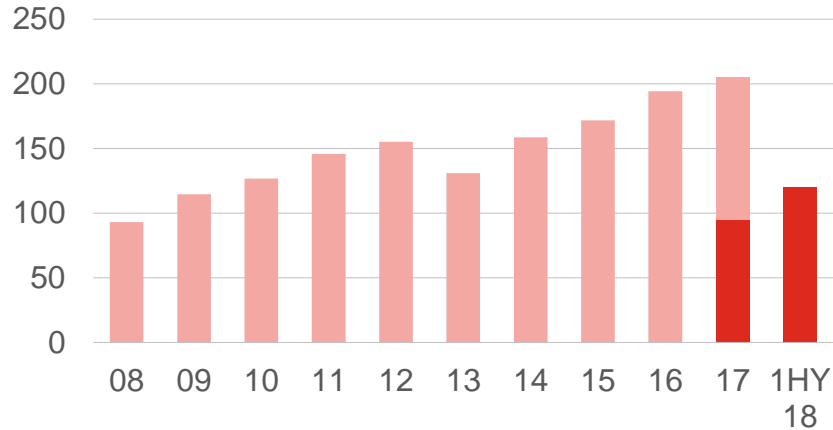
in CHF mn	1HY FY18	1HY FY17	Change 1HY FY17 / FY18
Order intake	120.3	94.9	+26.7%
Sales	99.6	94.2	+5.7%
Gross profit	43.5	43.5	0.0%
In % of sales	43.7%	46.2%	
<b>EBIT</b>	<b>20.6</b>	<b>22.3</b>	<b>-7.6%</b>
In % of sales	20.7%	23.7%	

# Services Division

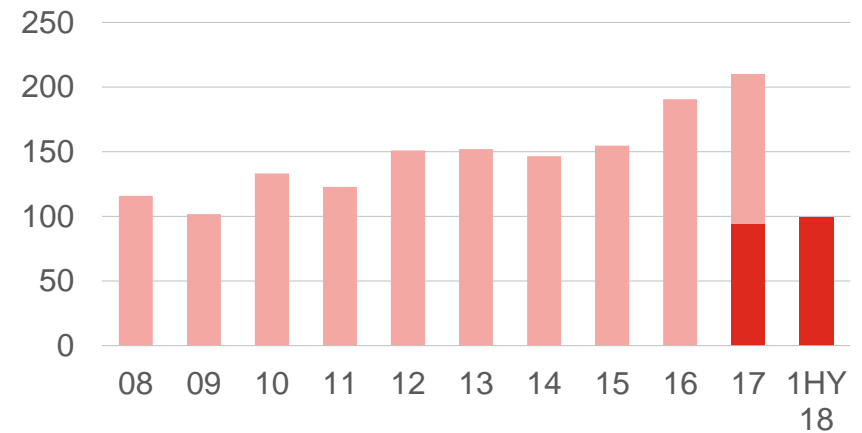
## Key Figures

in CHF mn

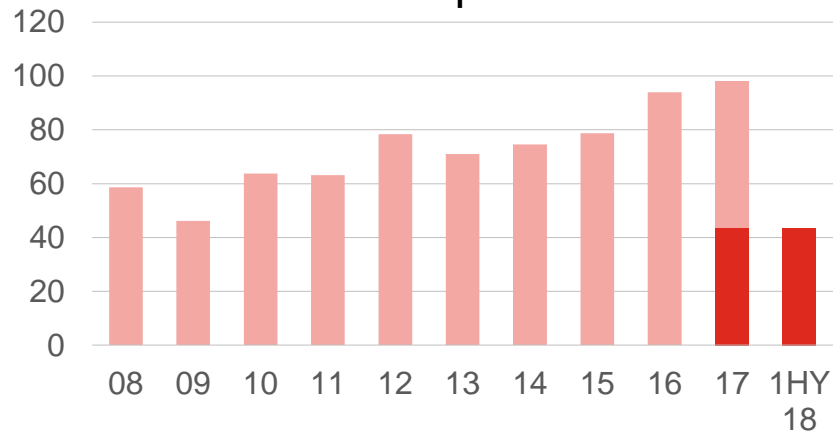
### Order intake



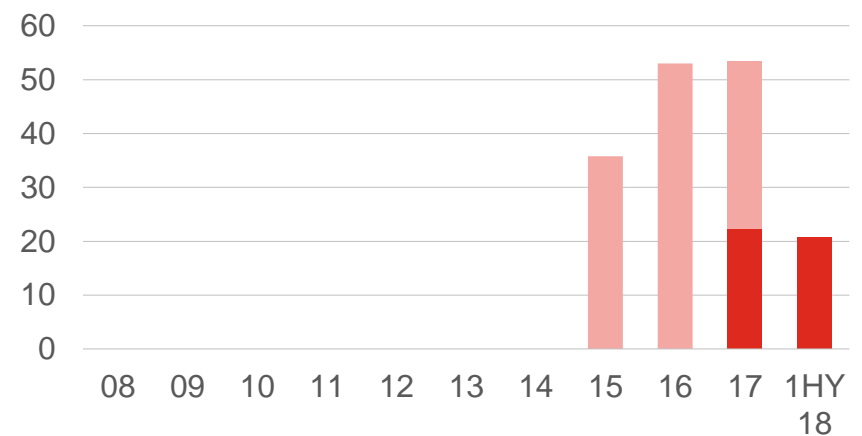
### Sales



### Gross profit



### EBIT



# Services Division

## Business Overview

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### Market drivers & trends

- High worldwide population of reciprocating compressors (~72'000 units with a market size of about CHF 2.7 bn)
  - Increasing BC & SYCC compressor population
  - Increasing mean time between overhaul (MTBO) and reduction of operating costs
  - Age of some production plants → safety aspects
- 

### Highlights 1HY FY18

- High activities in engineering
  - Signed new service agreements with LNGM ship owners
  - First large spare parts orders for LNGM ships
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### Expected market development

- Growing demand for high quality services and components to increase MTBO
  - Safety issues in aging plants call for new investments
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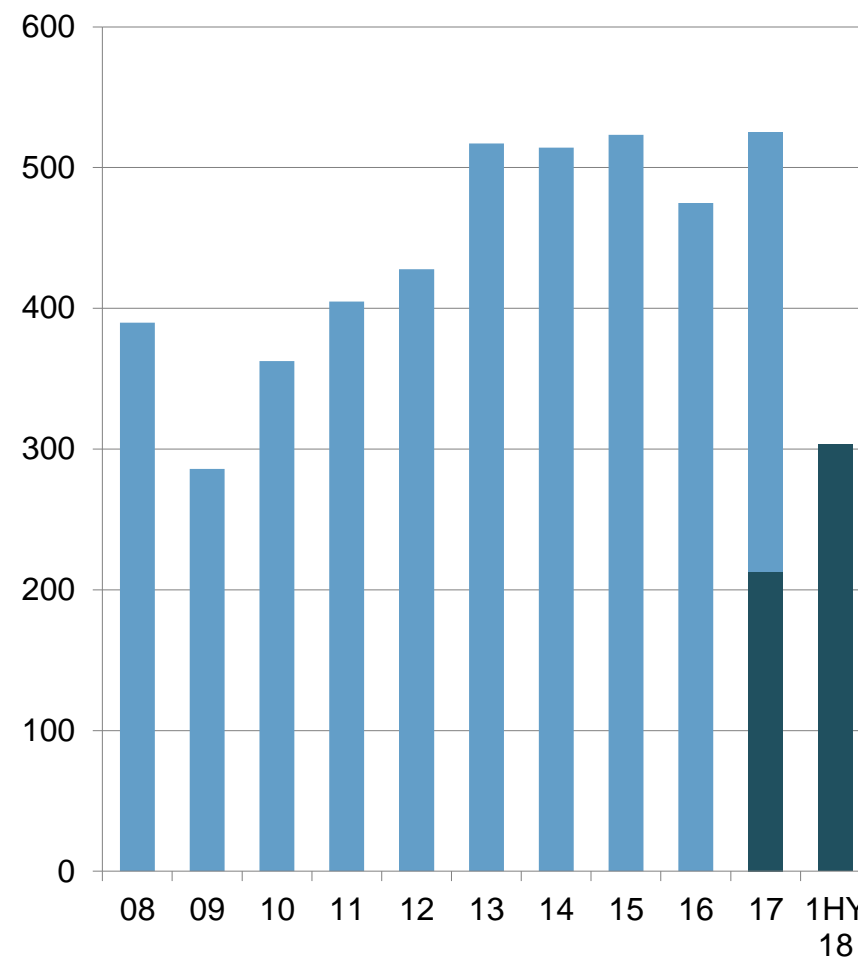
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# FINANCIALS

# Order Intake

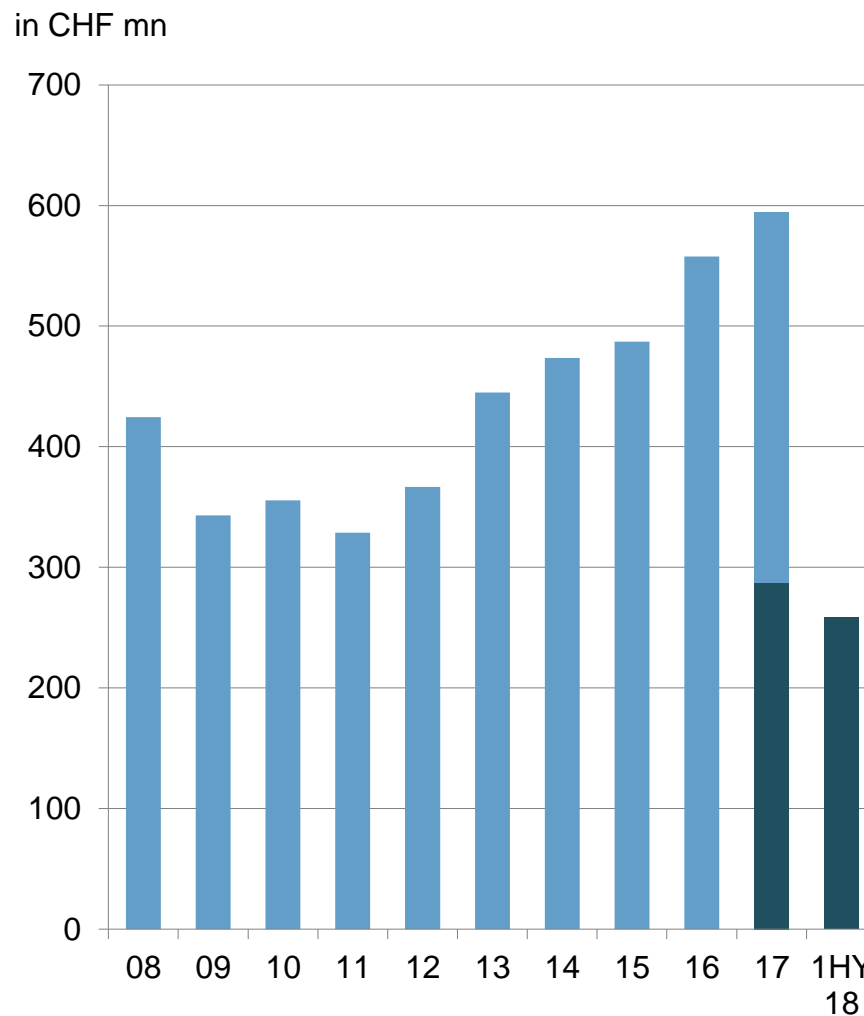
- **Significant increase of order intake by 42.6% to CHF 303.3 mn**
- **Systems Division**
  - **+55.5% to CHF 183.0 mn**
  - **Orders from Gas Transport and Storage, Refinery, Petrochemical and Industrial Gas**
- **Services Division**
  - **+26.7% to CHF 120.3 mn**
  - **Orders for engineering**
  - **Increase in spare parts orders**
  - **More than 20% OBC business**

in CHF mn



# Sales

- **Total sales decrease by -10.1% to CHF 258.1 mn**
- **Systems Division**
  - **-17.8% to CHF 158.5 mn**
  - **Under-proportional sales in H1 FY18 due to cyclicalty of business**
- **Services Division**
  - **+5.7% to CHF 99.6 mn**
  - **Growth in all areas including Monitoring and Diagnostics**



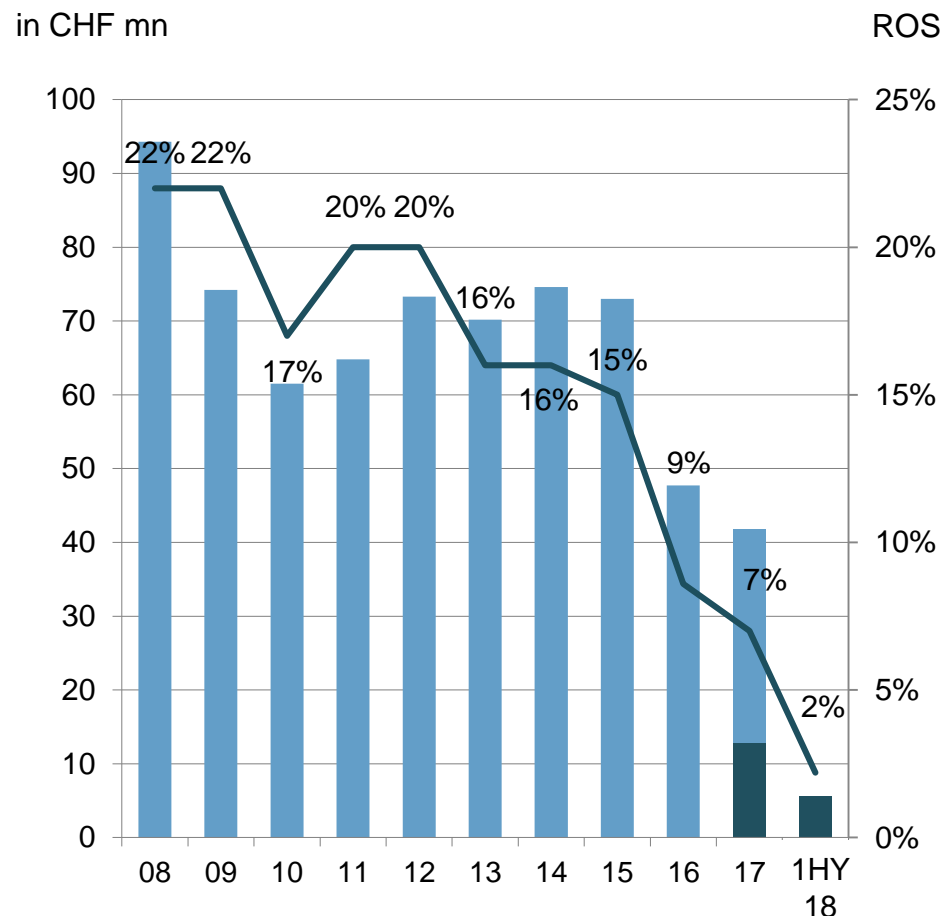
# Sales and Gross Margin by Division

In CHF mn		FY16		FY17		1HY FY17		1 HY FY18	
<b>Systems Division</b>	GSP	367.2		384.4		192.8		158.5	
	GP	36.5	9.9%	27.2	7.1%	11.4	5.9%	5.6	3.6%
<b>Services Division</b>	GSP	190.5		210.2		94.2		99.6	
	GP	94.0	49.4%	97.9	46.6%	43.5	46.2%	43.5	43.7%
<b>Total</b>	GSP	557.7		594.8		287.0		258.1	
	GP	130.5	23.4%	125.1	21.0%	54.9	19.1%	49.2	19.0%

- **Lower gross margin in Services Division due to different product mix including some Field Service jobs with gross margin below average**
- **Gross margin in Systems Division significantly below prior year period**
  - **Additional costs in the LNGM business**
  - **Completion of projects that had been affected by sharp rise in material procurement cost in China over the past year**
  - **Underutilized production capacity mainly in Switzerland (Q1 FY 2018) and to a smaller extend also in the US and China (SYCC foundry)**

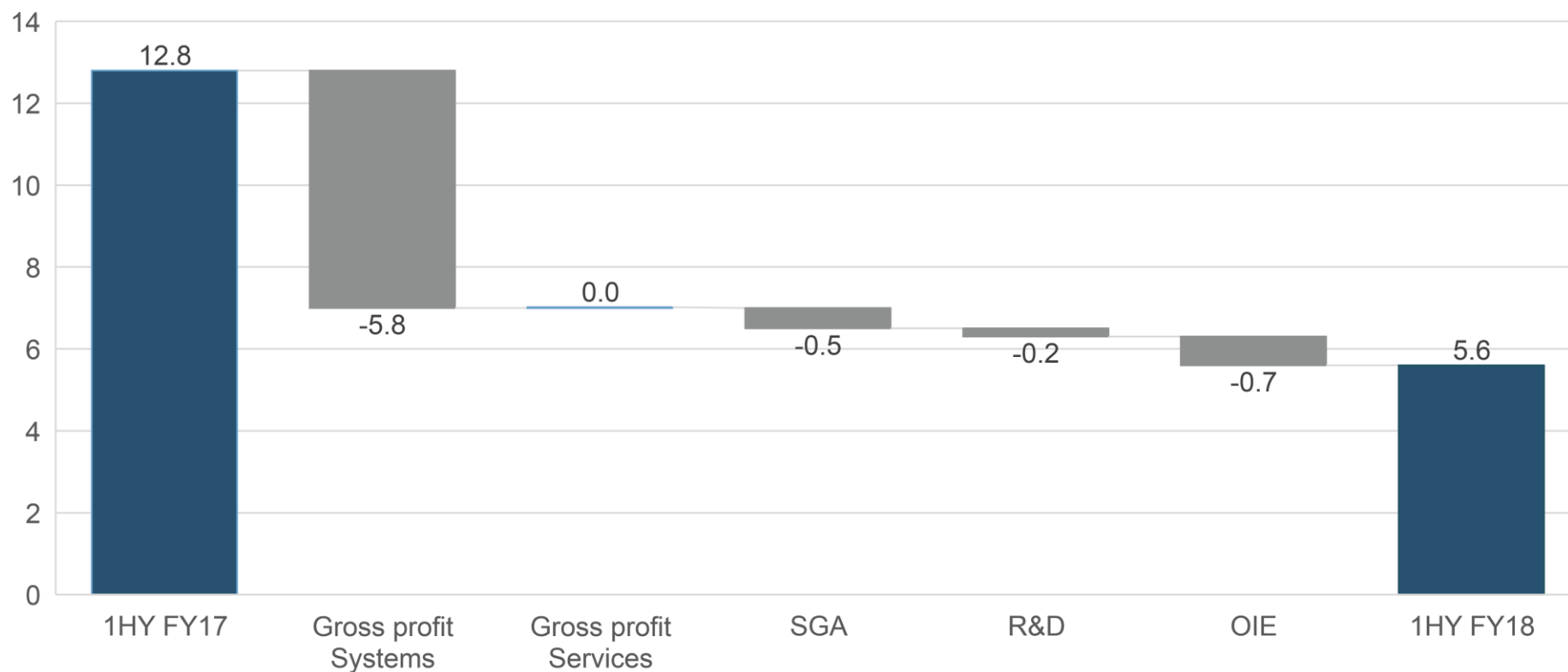
# SGA and EBIT

- **SGA amounting to 16.0% of sales (prior year period: 14.2%)**
  - Total SGA CHF 41.3 mn (prior year period: CHF 40.8 mn)
- **EBIT CHF 5.6 mn or -56.0% below prior year period**
  - ROS of 2.2% (prior year period: 4.5%)
  - CHF 5.8 mn less gross profit from Systems Division



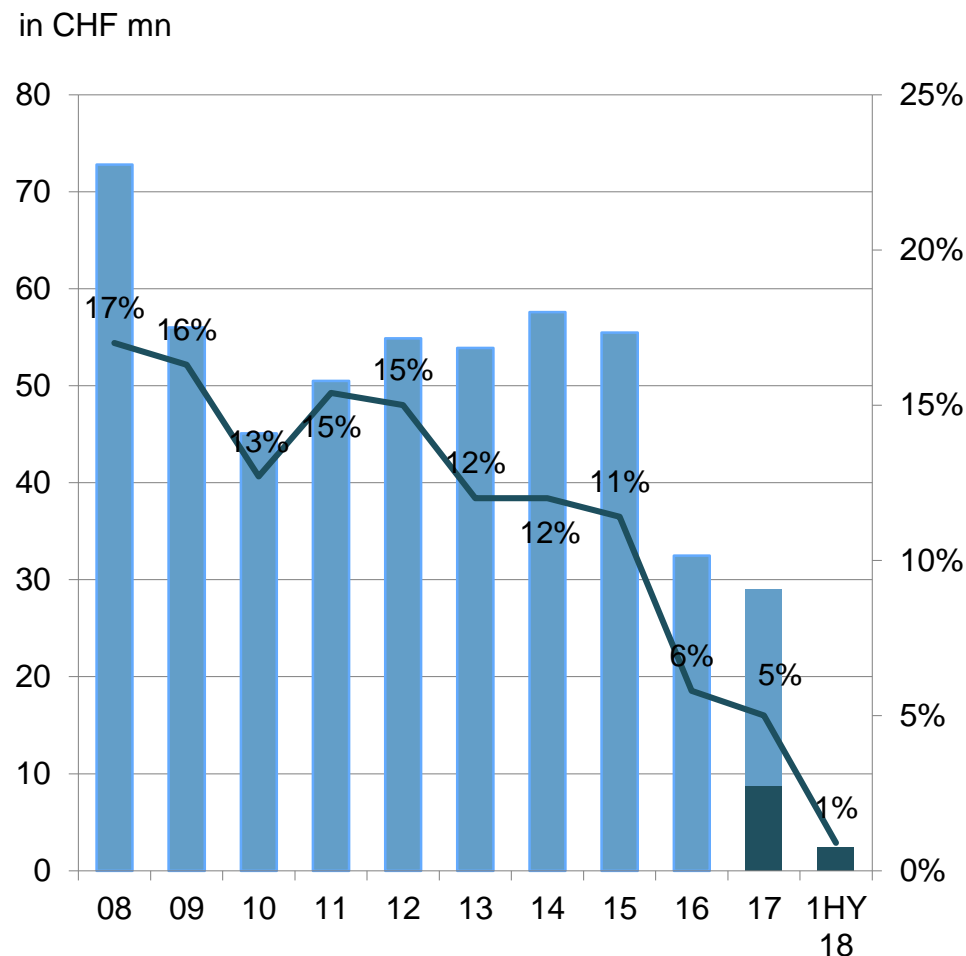
# EBIT Development 1HY FY17 to 1HY FY18

in CHF mn



# Net Income

- **Net income CHF 2.4 mn or 72.6% below prior year period**
- **Share of result of Arkos Field Services CHF -0.4 mn (prior year period CHF -0.4 mn), 40% ownership**
- **Financial expenses CHF -2.2 mn (prior year period CHF -0.8 mn), including currency effects**
- **Tax rate of 23.3% (prior year period 24.7%)**



# Balance Sheet Positions

- Balance sheet total declined by CHF -1.6 mn or -0.2% compared to prior year period
  - Reduction of accounts receivables resulting from collection of overdue receivables
- Unchanged equity ratio of 41%
- Balance adv. payments from customers to WIP and adv. payments to suppliers improved to CHF -17.4 mn (prior year period CHF -43.3 mn)

In CHF mn	2017	1HY FY17	1HY FY18
Property, Plant & Equipment	193.2	198.2	179.4
Inventories	210.7	216.8	217.7
- Thereof WIP	133.8	141.0	137.6
- Thereof Adv. Payments to Suppliers	29.3	30.0	26.8
Trade Receivables	227.7	196.4	190.5
Trade Payables	65.3	53.0	62.3
Adv. Payments from Customers	120.6	127.7	147.0
Shareholders Equity in % of Total Balance Sheet (equity ratio)	42%	41%	41%

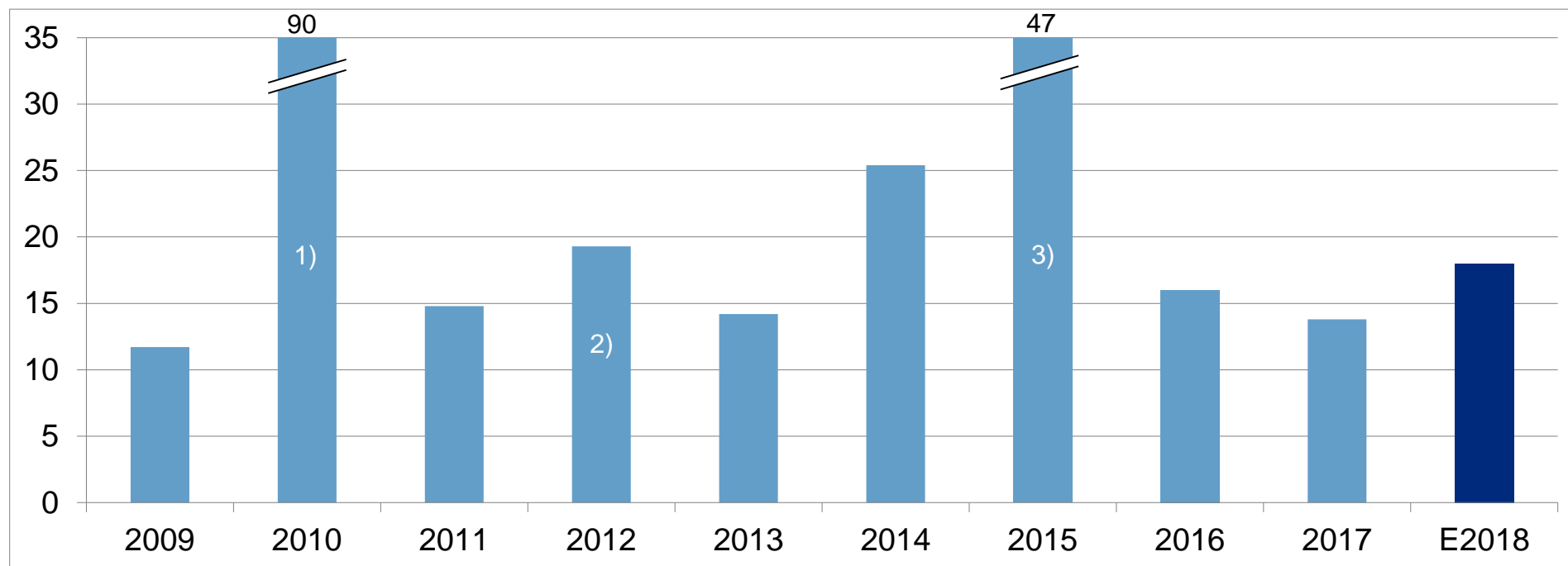
# Cash Flow and Net Financial Position

- **Improved net financial position**
  - Higher cash flow from operating activities
  - Dividend payment of CHF 6.00/ share for FY17 (total CHF -20.4 mn)
  - Cash flow from financing activities included the repayment of borrowings

In CHF mn	2017	1HY FY17	1HY FY18
Cash Initial Balance	74.9	74.9	75.1
Cash Flow from Operating Activities	44.4	26.0	44.3
Cash Flow from Investing Activities	-17.2	-10.8	2.1
Cash Flow from Financing Activities	-28.2	-28.7	-54.0
Currency Translation Differences	1.2	0.1	-2.1
Cash Position	75.1	61.5	65.4
Borrowings	-137.2	-137.0	-102.8
Net Financial Position	-62.1	-75.5	-37.4

# Capital Investments (Additions to fixed Assets)

in CHF mn



- 1) Including purchase of real estate in the amount of CHF 77.0 mn
- 2) Including CHF 5.8 mn investments in real estate (construction of a new building of Prognost in Germany and several modifications to the factory in Winterthur)
- 3) Including assembly sites USA, South Korea and building expansion in Winterthur as well as early replacement of machining tools in Winterthur and globalization of IT infrastructure

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# GUIDANCE & GROWTH AREAS

# Guidance

## Financial Targets

	Guidance FY 2018
<b>Order Intake</b>	Systems Division: FY 2018 = FY 2017 Services Division: continues to grow
<b>Sales</b>	At prior year level
<b>Gross Margin</b>	Systems Division: FY 2018 $\geq$ FY 2017 Services Division: FY 2018 = FY 2017
<b>EBIT Margin</b>	FY 2018 slightly above FY 2017 2 <sup>nd</sup> semester FY 2018 significantly higher than 1 <sup>st</sup> semester FY 2018
<b>Dividend Policy</b>	Payout ratio between 50 – 70% of net profit

# Growth Areas

## Organic growth

### Systems Division:

- Capitalize on recent geographical expansions and acquisitions
- Refinery business

### Services Division:

- Grow in all business areas
- Further selective geographical expansion

## Acquisitions

### Services Division:

- Add-on acquisitions (focus OBC business)



# Mid-Range Plan 2018-2022 → Targets 2022

Confirmed as presented on January 9, 2018

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## BC Group

- Sales CHF 700 mn
- Keep leading market position in Systems Division
- Become a leading Services provider
- Strengthen global capabilities
- Live Values & Behaviors
- Improve overall profitability
- EBIT Margin of 10 - 15%
- Sustainable value increase

## Systems Division

- Sales CHF 340 mn
- Keep leading market position in all segments
- Use strong global presence and Shenyang Yuanda Compressor
- Focus on operational excellence
- EBIT Margin of 0 - 5%

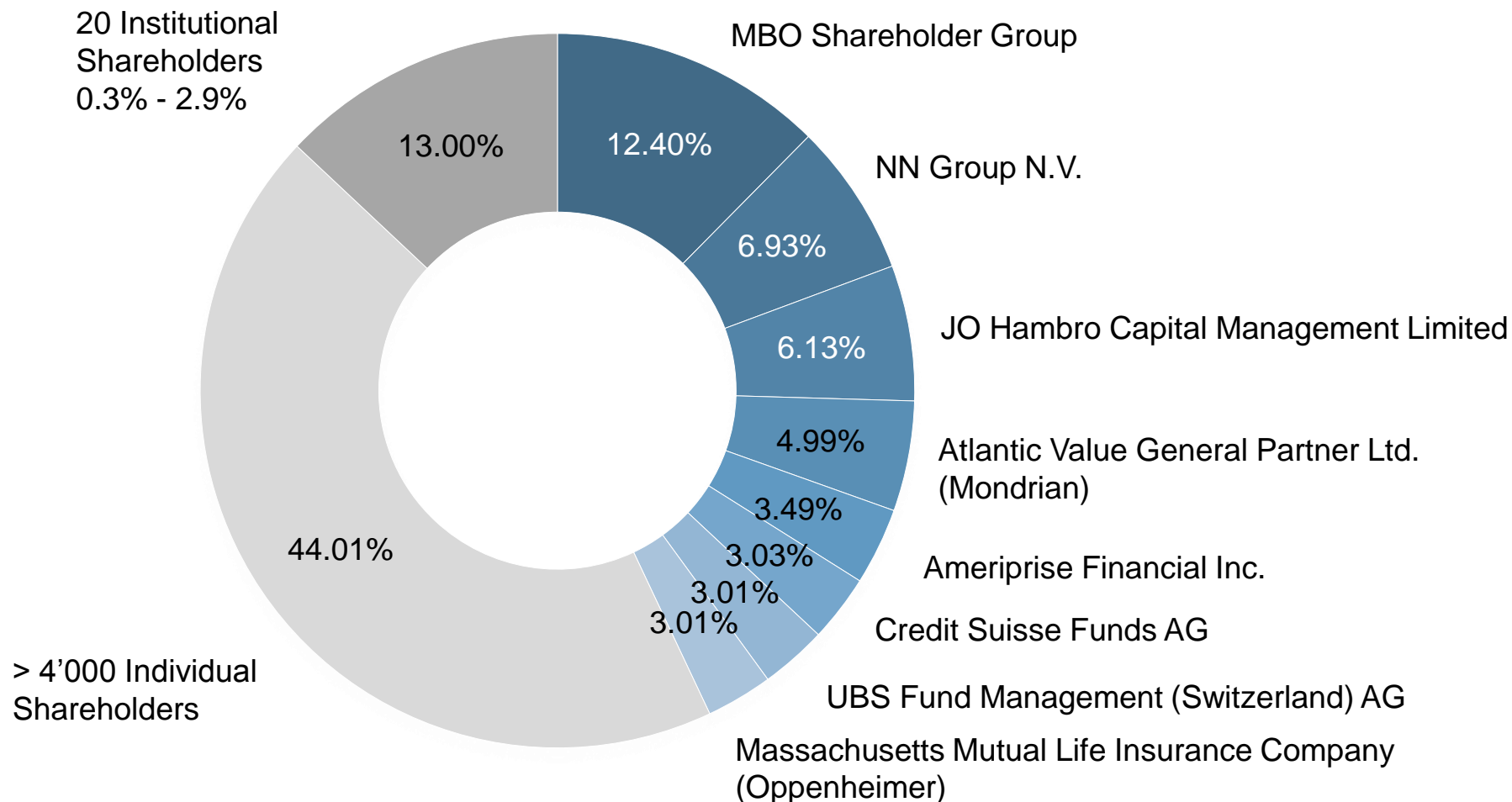
## Services Division

- Sales CHF 360 mn
- Grow 6 - 8% per year
- Organic growth on BC and OBC business
- Further growth through acquisitions (OBC)
- EBIT Margin of 20 - 25%

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# SHAREHOLDERS

# Burckhardt Compression Shareholder Structure



Status 28.09.2018

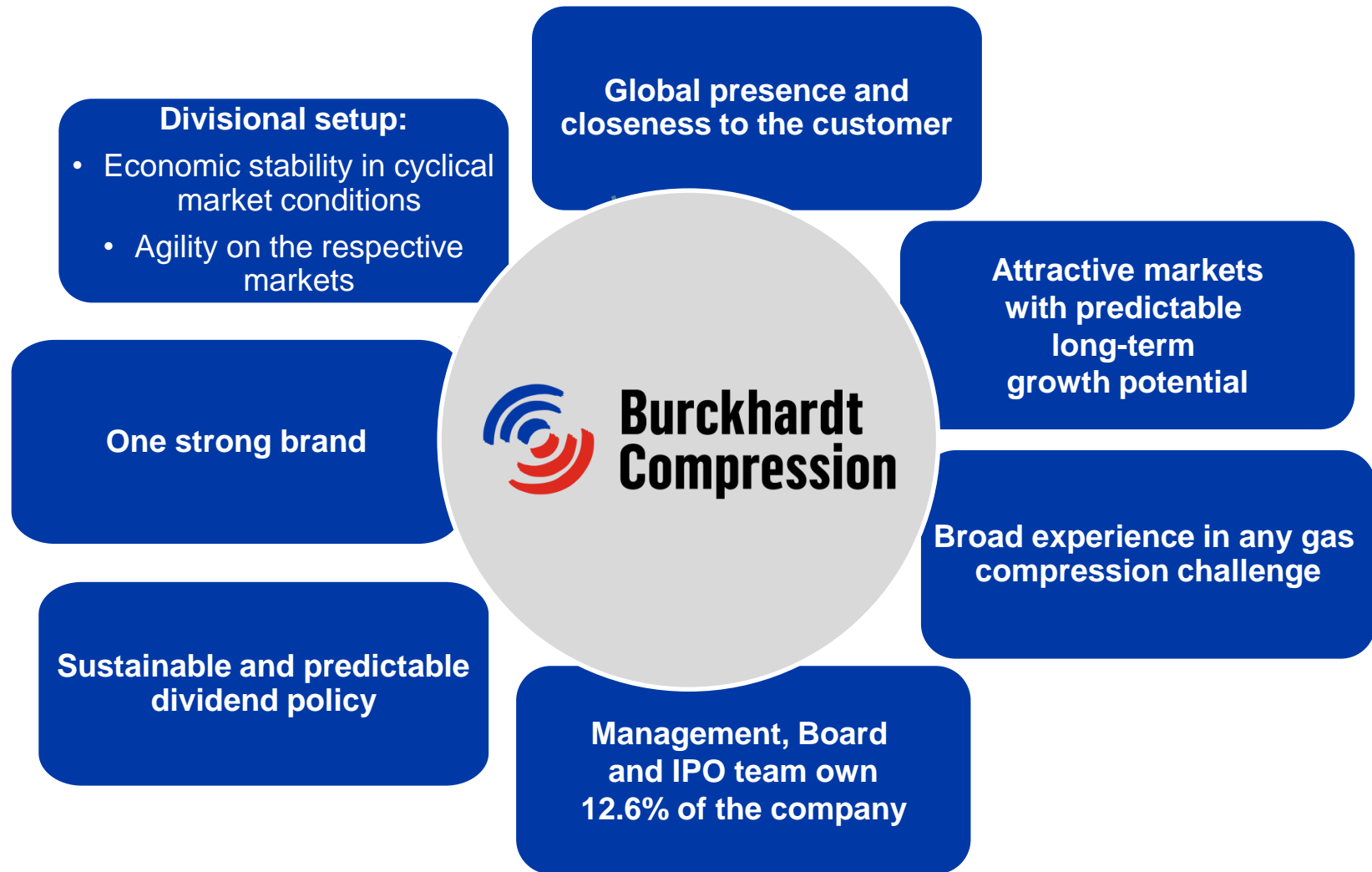
# Performance of BCHN Share Compared to the SPI Index



2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
26.6.06	30.3.07	31.3.08	31.3.09	31.3.10	31.3.11	30.3.12	30.3.13	30.9.14	30.9.15	30.9.16	29.9.17	28.9.18
85.00	199.50	317.00	106.00	208.00	244.20	247.50	355.30	442.50	315.00	275.25	301.50	341.40

# Seven Good Reasons to Invest in Burckhardt Compression

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# Disclaimer

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



# **Burckhardt Compression**

Compressors for a Lifetime™