

TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS

Despite the coronavirus pandemic, 2020 was characterized by higher sales, a further improvement in operating income and a clear year-on-year increase in net income. Order intake also went up in spite of the challenges. The company was quick to activate a comprehensive crisis management program, allowing it to counter the effects of the coronavirus pandemic effectively. Its highest priority at all times has been to safeguard the health of its employees and their families, as well as that of its customers and business partners.

Markets recover at different speeds

Temporary lockdowns in all parts of the world dominated the entire 2020 fiscal year. Asian markets, especially China, but also Central Asia, recovered the fastest. European business also regained ground and produced interesting contracts for us. The USA was comparatively hard hit by the pandemic-related economic downturn and only slowly began to recover toward the end of the 2020 fiscal year.

Group: further improvement in profitability

Despite the coronavirus pandemic, Group order intake in 2020 rose 11.4% year-on-year to CHF 676.6 mn – or 8.5% before the acquisitions of Arkos Field Services (Arkos) and the compressor business of The Japan Steel Works (JSW). Sales for the 2020 fiscal year amounted to CHF 658.6 mn, an increase of 4.6% on the previous year (1.6% before acquisitions). Gross profit increased by 10.9% to CHF 166.2 mn, giving a higher gross profit margin of 25.2% (previous year 23.8%).

Consolidated operating profit (EBIT) rose to CHF 60.8 mn (previous year CHF 54.8 mn), representing an EBIT margin of 9.2% (previous year 8.7%). Group net income came to CHF 47.2 mn, beating the prior-year figure of CHF 39.9 mn by a substantial 18.4%. Owing to the improved financial results and the acquisition of all the remaining shares of Shenyang Yuanda Compressor in January 2021, earnings per share for shareholders in Burckhardt Compression Group increased significantly from CHF 9.56 to CHF 13.00.

Selling, marketing and general administrative expenses amounted to CHF 93.1 mn (14.1% of sales). Despite the inclusion of a full year of Arkos Field Services (previous year only four months), this is CHF 0.1 mn less than in fiscal year 2019. Research and development expenses rose by CHF 4.8 mn to CHF 15.4 mn due to the higher number of ongoing projects, including those involving innovative applications such as new marine solutions and H₂ mobility and energy. Other operating income came to CHF 3.1 mn. This reduction of CHF 5.6 mn compared to the previous year is largely attributable to currency translation effects and lower state subsidies in China.

Total assets at the end of March 2021 amounted to CHF 797.5 mn, which is 9.7% lower than at the end of March 2020 (close of the 2019 fiscal year). This reduction was mainly due to a reduction of property, plant and equipment as well as inventories.

The net financial position at the end of the 2020 fiscal year amounted to CHF -82.4 mn (CHF -91.7 mn at the close of the 2019 fiscal year). Work in progress pre-financed by customer advance payments improved to CHF 11.5 mn from CHF -47.0 mn at the end of March 2020. The equity ratio lowered to 27.5% (previous year: 36.0%) mainly as a result of the derecognition of minorities from the acquisition of the remaining 40% of Shenyang Yuanda and the goodwill offset from the acquisition of the JSW compressor business.

Systems Division:

Higher order intake, increased sales and significantly higher EBIT

After a weak first half, order intake at the Systems Division increased significantly in the second half of the year to reach CHF 404.6 mn (+12.0%, no impact from acquisitions). This will lead to much higher capacity utilization in the second half of the 2021 fiscal year. Owing to the high backlog in recent years, sales during the 2020 fiscal year increased by 5.5% (no impact from acquisitions) to CHF 409.8 mn. Gross profit went up 38.1% to CHF 59.1 mn, resulting in a gross profit margin of 14.4% (previous year 11.0%, incl. final additional costs incurred in the LNGM business). The division more than doubled its EBIT margin from 1.7% in the previous year to 3.9% for the 2020 fiscal year. As expected, the figure was much lower in the second half of the year than in the first.

Services Division:

Higher order intake and sales, slightly lower EBIT

Order intake at the Services Division rose to CHF 272.1 mn, which is 10.5% higher compared to the previous year (increase of 3.1% before acquisitions). The prior-year figure does not include the compressor business of JSW and only includes four months of Arkos. As already mentioned in the half-year report, the order intake figure includes several major orders in the engineering/revamp/repair sector, as well as one order for a 10-year service partnership in the marine business. Pandemic-related travel restrictions had a significant impact, especially in the first quarter of the financial year. They had a particularly strong effect on the field services business and on the Service Centers, some of which had to be closed temporarily. In the USA, the unfavorable business environment was made even worse by the coronavirus, leading to a significant drop in demand in segments traditionally targeted by Arkos. Their downstream business, by contrast, expanded slightly.

Sales in the Services Division grew by 3.1% (-5.1% before acquisitions) to CHF 248.8 mn. As expected, profit margins in the second half of 2020 were higher than in the first half but could not match the previous year's figures. Gross profit remained almost unchanged at CHF 107.1 mn (previous year CHF 107.0 mn). The division's gross profit margin slipped from 44.3% to 43.0%, mainly because of margin dilution resulting from the Arkos consolidation. EBIT fell by CHF 3.5 mn and includes a negative contribution from Arkos of CHF -2.0 mn. The EBIT margin decreased from 22.7% to 20.6%, mainly due to

lower sales in the wake of the coronavirus pandemic, especially in Field Services, and to the temporary closure of some Service Centers. This inevitably led to lower gross profit as well as reduced capacity utilization.

Acquisitions

The organizational integration of Arkos Field Services is on track despite corona-related restrictions. In addition to structural adjustments, two underutilized and unprofitable sites were closed. Arkos will continue to expand its downstream business in order to improve profitability. The results of the subsidiaries in the US include a contribution from corona-related government support programs.

Following the completion on schedule at the end of September 2020 of Shenyang Yuanda Compressor's new factory in Shenyang, China, we acquired the remaining shares of Shenyang Yuanda Compressor in February 2021, so the company is now a wholly-owned subsidiary. The change of management went smoothly, as did further operational integration of the business into the Chinese and global management structures.

On April 21, 2020 we completed the acquisition of JSW's global compressor business, and we are now in the final phase of its integration.

Main application areas and innovations

Business with the petrochemical/chemical industry, gas transport and storage, and industrial gas has recovered and returned to pre-pandemic levels. We also took further orders in the LNGM and LPGM maritime sector and achieved initial successes with our newly developed compact marine compressor.

Hydrogen Mobility and Energy – an application area that is growing in importance for us – saw a substantial increase in activity during the 2020 fiscal year. Some orders have already been taken for H₂ mobility and energy applications.

Accelerated digitalization

The pandemic has given further impetus to the process of digitalization. Customer acceptance test for example took place over video for the first time. Owing to the travel restrictions, our engineers conducted all the required tests on compressors in the workshop. Acceptance inspectors then assessed the results over video. Burckhardt Compression also developed Remote Support service that was put into practice with a first customer. The service will be fully integrated into the service portfolio from 2021. It allows customers to request support from our experts via HoloLens – augmented reality smart-glasses – or tablets, and is ATEX-compliant in environments where there is a risk of explosion. The experts direct local maintenance crews and issue precise instructions for each subsequent stage in the process. This is another facility that helps us provide customers with access to our expert knowledge anytime and from anywhere. Demand for digital services is growing all the time, and we will continue to expand these.

Expanded focus on sustainability and ESG

Burckhardt Compression has a consistent and comprehensive commitment to sustainability, which is reflected in its strategic objectives as well as in its operating business. We are aware of our economic, social, and environmental responsibilities. We are further developing a sustainability strategy for the coming years. Based on a materiality analysis, we have augmented and expanded our previous goals, which focused mainly on improving the product portfolio, services, and our attractiveness as an employer. The next annual report will be the first to include a Sustainability Report that will be revised and structured in accordance with international standards and that takes account of various ESG (environmental, social and governance) ratings.

Outlook for the 2021 fiscal year as a whole

Based on expected delivery dates for orders received in fiscal years 2019 and 2020, we currently expect group sales of between CHF 620 mn and CHF 650 mn for fiscal year 2021 as a whole, as well as slightly higher profit margins compared with the previous year. This is based on the assumptions that there is no further major outbreak of the coronavirus in markets relevant to Burckhardt Compression and that the economic recovery continues.

Due to the distribution of order intake in the Systems Division in fiscal year 2020, sales in 2021 will be second-half loaded. Since the coronavirus impacted the order intake in the first half of fiscal year 2020 significantly, sales for the same period in 2021 will be lower.

We expect the Services Division to record greater order intake as well as higher sales in the 2021 fiscal year following the easing of travel restrictions. The field service business and our Service Centers in particular will see better capacity utilization, while profitability at Arkos will continue to improve.

Mid-Range Plan 2018–2022

Under the assumptions that there is no further major outbreak of the coronavirus in markets relevant to Burckhardt Compression and that the economy will continue to recover, Burckhardt Compression is confirming its sales target for the 2022 fiscal year of CHF 700 mn and its EBIT margin target of between 10% and 15%. We expect the sales split between the two divisions to shift from our original expectation, with the proportion contributed by the Systems Division overtaking that of the Services Division.

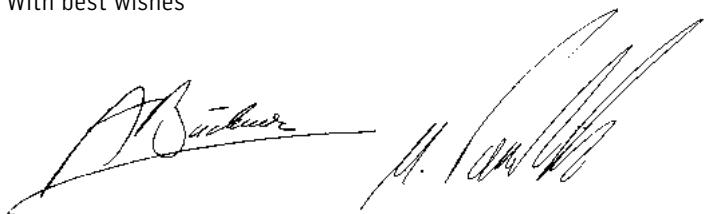
Dividend

The Board of Directors will propose a dividend of CHF 6.50 per share (CHF 6.00 in the previous year) at the annual general meeting. This corresponds to a payout ratio of 50.0% of net income per share (previous year: 62.8%). Due to the desire to strengthen the future equity ratio the payout ratio is at the lower end of the target range of 50% to 70%.

Thanks

Above all we would like to say a big thank you to our employees around the world. The coronavirus pandemic meant that the 2020 fiscal year presented exceptional challenges over and above our normal day-to-day business. Our employees had to show great flexibility as they continued to serve our customers with the least possible disruption. We would also like to thank all of our shareholders and customers for their continued trust.

With best wishes



Ton Büchner
Chairman of the Board of
Directors

Marcel Pawlicek
CEO

Winterthur, June 1, 2021



Ton Büchner



Marcel Pawlicek