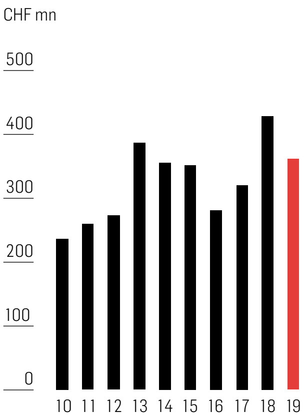
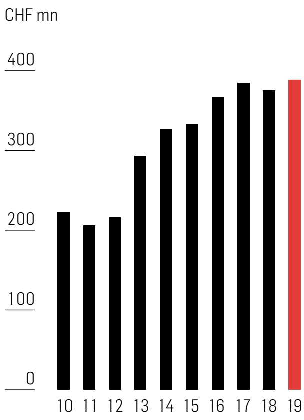
REVIEW OF THE FISCAL YEAR SYSTEMS DIVISION

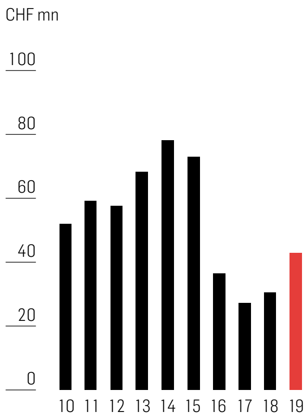
ORDER INTAKE



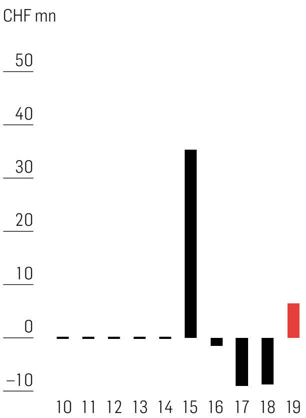
SALES



GROSS PROFIT



OPERATING INCOME (EBIT)[1]



FIGURES

in CHF mn		2017	2018	2019	Change 2018/2019
Order intake		319.8	428.0	361.2	–15.6%
Sales and gross profit					
	Sales	384.4	375.4	388.3	3.4%
	Gross profit	27.2	30.5	42.8	40.3%
	in % of sales	7.1%	8.1%	11.0%	
Operating income (EBIT)		–9.0	–8.7	+6.4	
in % of sales		–2.3%	–2.3%	+1.7%	
Headcount as per end of fiscal year (full-time equivalents)		1'425	1'506	1'517	0.7%

[1] Before fiscal year 2015, no EBIT was reported at divisional level.

FINANCIAL PERFORMANCE

Back in the black

Orders received by the Systems Division in fiscal year 2019 amounted to CHF 361.2 mn, a decline of 15.6% compared to the record-high figure from the previous fiscal year. Order intake was still trending higher in the first half, but customer order activity tapered off afterwards, particularly during the final quarter of the year, which is partly a reflection of the coronavirus outbreak. Meanwhile, divisional sales advanced 3.4% y-o-y to CHF 388.3 mn thanks to the high order intake from the previous fiscal year and strong growth in China. Gross profit for the year of CHF 42.8 mn topped the prior-year figure by 40.3%, despite the recognition of the remaining cost overruns in the LNGM business, which amounted to approximately CHF 10 mn. The gross profit margin improved to 11.0% (previous year: 8.1%). Operating income improved by CHF 15.1 mn versus the previous fiscal year to a positive CHF 6.4, bringing the Systems Division back to profitability.

MARKETS

Burckhardt Compression offers compressor system solutions for the following application areas:

- Upstream oil & gas
- Gas transport and storage
- Refinery
- Petrochemical/chemical industry
- Industrial gases

Burckhardt Compression won several contracts for large LDPE production lines in South Korea and China during the year under review.

Burckhardt Compression kept its market position during the year under review despite strong competitive pressure, as evidenced by the various orders it received for large LDPE lines in South Korea and China and for other projects. A major petrochemical project was successfully completed in Canada.

The very first large order for process gas compressors built by Shenyang Yuanda Compressor for a customer beyond its domestic market was received during the fiscal year under review. Besides this, Burckhardt Compression received an order for a Hydrogen production facility in the US that produces Hydrogen for fuel. The first high-speed compressor for an underground gas storage facility in Europe was delivered to a Hungarian customer. It will inject natural gas from a pipeline into the underground storage facility. Initial sales of the new and optimized line of API 618 compressors were also booked.

Oil and gas production

The drop in capital spending in the upstream oil & gas industry in the US had a negative effect on this application area during the year under review. This is the only application area targeted by Burckhardt Compression that is exposed directly to changes in crude oil prices.

Gas transport and storage

2019 was another positive year for the LNG market (liquefied natural gas) targeted by Burckhardt Compression. Numerous new LNG terminals are under construction, especially in Asia. The growing importance of large LNG carriers reflects increasing global demand for cleaner and lower-cost sources of energy. Container liner and cruise ship operators must meet increasingly stringent environmental regulations. Most recently, the global limits on sulfur dioxide and nitrogen oxide emissions from ships were significantly tightened on January 1, 2020. Burckhardt Compression has claimed a large share of the market for LNG-powered vessels in recent years. Besides solutions for ME-GI diesel propulsion systems, we can now also offer solutions for the X-DF engines moving in parallel into the market. Regardless which system is used, ship operators can conveniently switch from marine diesel to the naturally forming boil-off gas and vice versa during engine operation. We provided Laby® compressors for a ship powered by an X-DF engine during the year under review.

Refinery

Business momentum in this segment remained positive during the period under review, fueled by the double-digit growth of the global market. Pressure on refinery margins sustained the trend towards integrated production concepts throughout the value chain. Countries with substantial refinery capacity are aiming to increase the domestic share of the added value to reduce their dependency on imported refinery products. Our compressor business is benefiting from these efforts. Large production plants are currently under construction in China and Southeast Asia. India completed its transition to the stricter BS6 emission standard last year, which has boosted demand for hydrogen gas and compressors at the country's refineries.

Petrochemical and chemical industry

The petrochemical and chemical industry has long witnessed increasing global demand for plastic products. Production capacity has grown as a result and efforts are being made across the industry to increase the local share of added value. This is particularly evident in China, where the share of imported products by value is still relatively high despite the substantial investments in local production capacity that have been made in recent years. Although the orders for LDPE production lines received during the year under review were fewer and smaller in scope than in the previous year, we still expect order inflow from this industry to increase in the coming years.

Industrial gases

Historically, the various industries in this application area have grown at roughly the same pace as world GDP. Hydrogen gas is attracting increasing attention as a source of fuel for trains and commercial vehicles and, looking further into the future, for cars as well. Hydrogen could become a more economical and greener source of energy for vehicles than electricity. Some states in the US are actively supporting this alternative trend and have begun investing in hydrogen production assets. Producers of industrial gases are challenging the conventional energy companies by developing technologies for hydrogen-powered vehicles. M&A activity has picked up in an effort to achieve scale in the current market environment.

SALES/DISTRIBUTION

In fiscal year 2018, the sales organization for new compressor systems was decentralized. Responsibility for customer relationship management and project negotiations (front sales) was transferred to the respective regions and regional offices for preparing and processing technical proposals and quotes (application engineering) were set up. This organizational change delivered the expected results in the year under review and enabled further improvements in our sales and project execution capabilities.

Collaboration with external sales agents in countries where Burckhardt Compression does not employ its own sales staff was intensified in the fiscal year under review. New agents were signed in Abu Dhabi and Malaysia.

INFRASTRUCTURE

Construction of Shenyang Yuanda's new plant continued as planned during the past fiscal year despite an interrupt of six weeks because of the coronavirus outbreak, so commissioning and startup will take place as scheduled in autumn 2020. This new plant is an investment in the future development of the systems business. The two existing factories will be moved to the new, larger site, where workflows and processes will reflect the latest standards and best practices, further improving overall operating efficiency. We continued to expand our Global Support Center in India.

COMPLETION OF "PULLING SYSTEMS TOGETHER" PROGRAM FOR IMPROVEMENT

This large-scale initiative launched in 2016 to optimize the System Division's processes and costs was completed at the end of the 2018 fiscal year. Some 30 different projects were launched as part of the "Pulling Systems Together" program and they covered practically every area of the division, from design, procurement, production workflows and project management to logistics and capacity management. This program helped the division to effectively respond to temporary fluctuations in order volumes and to improve its operational excellence so as to bring about a significant and lasting improvement in its competitiveness over the medium term.

OUTLOOK

As already pointed out, the precise impact of the global coronavirus outbreak on our operaions in fiscal year 2020 cannot be determined at the present time. The Systems Division began the year with a full order book. Supply chains are still intact, despite some complications as a result of the virus. Customers continue to take delivery of the products and services they've ordered from us and invoices are being paid.

Achieving a further improvement in profitability while at the same time keeping its global market leadership remains the number one goal for the Systems Division.

Further improving profitability while defending its global market leadership remains the top priority for the Systems Division. Under the current Mid-Range Plan for 2018 to 2022, sales of CHF 340 mn and an EBIT margin of 0% to 5% are targeted for fiscal year 2022. This sales target was already reached in fiscal year 2018 and then clearly exceeded during the year under review. The Systems Division also managed to return to profitability in 2019 after three consecutive years in the red with an EBIT margin of 1.7%, thanks to a host of measures affecting nearly every aspect of its business. This turnaround was achieved despite the recognition of the remaining substantial cost overruns in the LNGM business. The division will continue to make every effort to further improve its profitability.