

Zehnder Group achieves EBIT margin of 8%

During the 2020 financial year, the Zehnder Group's sales fell by 4% to EUR 617.7 million as a result of COVID-19. Despite this, the immediate countermeasures that were launched and the consistent steps the Group continued to take with the aim of enhancing profitability made it possible to increase the operating result (EBIT) by 20% to EUR 50.5 million. The EBIT margin improved by 1.7 percentage points to 8.2%. The medium-term goal of an EBIT margin of 8% announced in 2018 was therefore achieved in 2020. Net profit increased by 25% to EUR 39.9 million.



Dear shareholders,

Early in 2020, the world was suddenly turned upside down. The COVID-19 pandemic had repercussions for every Zehnder Group site, its suppliers, customers, partners and all employees. The company's 125th anniversary, which we were eagerly looking forward to celebrating, all but faded into the background. What hasn't changed, however, is our pride in the Zehnder Group – and we are particularly proud of what it has achieved during this anniversary year. We have once again shown that we are able to cope with difficult situations and adapt quickly and flexibly to new circumstances.

Growth in the ventilation business in Europe and North America

After the Zehnder Group recorded a 9% decline in sales in the first half of 2020 due to COVID-19, it was able to make up for this to some extent in the second half of the year with sales growth of 1%. For the year as a whole, sales fell by 4% (-4% organically¹) to EUR 617.7 million (previous year: EUR 644.4 million). This reduction is attributable to the radiator business, where revenues dropped by 11% (-10% organically) to EUR 293.6 million. The ventilation business area grew by 3% (+3% organically) to EUR 324.0 million and now accounts for 52% of total sales (previous year: 49%).

¹ See **Alternative performance measures** in the consolidated financial statements in the Financial Report.

“The reduction in sales is attributable to the radiator business. The ventilation business area grew by 3% and now accounts for more than half of total sales.”

84% of total sales (previous year: 82%), or EUR 517.2 million (previous year: EUR 531.1 million), came from the Europe segment, which recorded a sales decrease of 3% (–3% organically). Sales of EUR 269.4 million (previous year: EUR 259.0 million) were generated in the ventilation business area, which equates to a growth of 4% (+4% organically). All three product lines – residential ventilation, heat exchangers and clean air solutions – developed positively. Sales in Europe’s radiator business area decreased in 2020 by 9% (–9% organically) to EUR 247.8 million (previous year: EUR 272.1 million). Sales for both the radiator product line and the heating and cooling ceiling system product line experienced a decline.

- Germany, which is still the Zehnder Group’s largest sales market, and Switzerland remained robust in 2020, despite the COVID-19 restrictions that affected both business areas. By the end of the year, they had largely been able to make up for the decline in sales experienced in the first half of the year. The huge efforts the Zehnder Group has made to serve its customers as effectively as possible in this challenging environment have been rewarded: In Germany, the Zehnder Group received the trust award from the ventilation, air conditioning and refrigeration industry (LüKK) in the category of residential ventilation with heat recovery. In Switzerland, meanwhile, the Group won the Architects’ Darling Gold Award in two categories: heating/ventilation/air conditioning and energy efficiency.
- France, the United Kingdom and Italy, the markets worst affected by the coronavirus pandemic, recovered in the second half of the year, but still remained considerably below the sales levels of 2019 for the year as a whole. In all three countries, there were no further major shutdowns of construction sites during the second half of the year. However, the recovery in the United Kingdom began to take effect later than in other countries. In France, initial success was achieved with the newly launched electric radiators, which offer connectivity with smart home solutions.
- Sales figures in the Netherlands and Belgium – where ventilation is the Zehnder Group’s primary business area – recorded a very positive performance in 2020. In the Netherlands, new builds were not affected by the COVID-19 restrictions and the renovation market recovered quickly. In addition, the Group benefited from increased demand for ventilation units with heat recovery, stemming from the ban on gas heating systems that has been in force for new builds in the country since July 2018. In Belgium, new builds and renovations experienced a decline. Despite this, the Zehnder Group’s business activities proved strong.

The China & North America segment comprised 16% (previous year: 18%) of the consolidated sales in the reporting year, amounting to EUR 100.5 million (previous year: EUR 113.3 million). This represents a fall in sales of 11% (–10% organically).

- In China, the 2020 financial year ended with sales of EUR 48.3 million (previous year: EUR 57.4 million), representing a decline of 16% (-14% organically). Due to the strict lockdown imposed in the country, sales collapsed in the first quarter. Our companies were gradually able to resume operations from early March. In the ventilation business area, the project business started to grow again from the second quarter. However, it was not possible to recover from the decline by the end of the year. Sales for the year as a whole were considerably below the previous year's levels in the radiator business too.
- Revenue in North America amounted to EUR 52.1 million and therefore 7% (-5% organically) less than the previous year (EUR 55.8 million). The radiator area, which accounts for around three quarters of sales in North America, saw a decline. The COVID-19 restrictions at the production facilities and the withdrawal from the unprofitable fan coil business had a negative impact on sales. Luckily, the ventilation business grew by 22% (+24% organically).

Increase in EBIT margin from 6.5% to 8.2%

The consistent steps the Group continued to take with the aim of enhancing profitability and the measures it took to minimise the negative effect of the decline in sales caused by COVID-19 enabled the Zehnder Group to increase its operating result (EBIT) by a considerable 20% to EUR 50.5 million (previous year: EUR 42.1 million) in the reporting year. The EBIT margin increased by 1.7 percentage points to 8.2% (previous year: 6.5%). As a result, the Group achieved its medium-term goal of an EBIT margin of 8%, which it had set in 2018.

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In the Europe segment, EBIT rose from EUR 31.7 million in the previous year to EUR 41.6 million. Lower raw material prices, progress in purchasing activities and further increases in efficiency contributed to this. Effective countermeasures enabled the Group to offset the impact of the decline in sales on the operating result as well as costs related to targeted staffing measures in the areas hardest hit by the pandemic. These measures included reducing the salaries of the members of the Board of Directors and Group Executive Committee by 10% for six months, cutting back on temporary staff, reducing employees' holiday and overtime entitlements, and temporarily introducing short-time work at various sites. Major cost savings were also achieved by postponing projects and significantly reducing travel and marketing activities. Strategically important projects, such as those relating to digitalisation and product development, continued as planned.

The EBIT figure achieved in the China & North America segment fell from EUR 10.4 million to EUR 8.9 million. In China, it was not possible to fully offset the impact of the decline in sales by making cost savings. In addition, a one-off impairment adjustment was made for radiator production equipment due to the continuing decline in the radiator business, which was even more pronounced in 2020. In North America, the plant in Buffalo, NY (USA), made further progress. This included moving the final assembly stage of selected ventilation products from Europe to Buffalo.

The net profit of the Zehnder Group increased by 25% to EUR 39.9 million (previous year: EUR 31.9 million).

Development projects in the ventilation business continue apace

“Research and development activities focused on development projects in the ventilation area, which aim to generate growth over the medium term.”

In the reporting year, expenditure on research and development amounted to EUR 18.2 million (previous year: EUR 18.4 million). The focus was on development projects in the ventilation area, which aim to generate growth over the medium term. Various new products are set to be presented over the course of 2021. These include the Zehnder ComfoClima full climate system, which is aimed at low-energy and prefabricated houses, and the new generation of clean air solutions with IoT (Internet of Things) connectivity.

One of the new products launched in 2020 was the Zehnder ComfoFlow basic residential ventilation system for multi-family residences, which was introduced in Switzerland. It closes the gap between comfort ventilation and extract air solutions and gives building developers an alternative to a straightforward extract air system at an attractive price, and with superior technology and comfort. In Germany and Luxembourg, the new passive house-certified Zehnder ComfoAir 225 comfort ventilation unit was launched. It combines space-saving wall or ceiling installation options with outstanding room air comfort within a compact ventilation unit, and has been designed specifically for renovation and residential construction projects. China saw the introduction of the ERVD Intelligence ventilation unit series, which is being distributed under the NATHER 兰舍 brand. Its highlights include its efficient heat recovery, energy saving and air cleaning capabilities, quiet operation and intelligent control via the NATHER app.

The Zehnder Group also launched new products in the radiator business area during the reporting year. In France, an electric radiator range was introduced exclusively for a key customer in the DIY (do-it-yourself) area. Together with around 200 other household objects of various brands, the radiators can be controlled on demand from home or remotely using a smart home box and app. This provides residents with more comfort and convenience in their daily lives, while also saving energy. Germany and Switzerland saw the introduction of the modular, flexible Zehnder Fleximo activation modules in the area of heating and cooling ceiling systems: these transform any conventional metal ceiling into a high-quality heating and cooling ceiling. The modules complement the existing Zehnder Group range of pre-activated ceilings and cassettes with cooling or heating function, as they allow an existing ceiling to be activated instead of being replaced with an entirely new one.

Investments focused on growth for ventilation and increasing efficiency for radiators

Amounting to EUR 16.7 million, investments in property, plant and equipment and intangible assets were considerably lower than in the previous year (EUR 26.0 million). Following the outbreak of the coronavirus pandemic, planned projects were reassessed and, in some cases, postponed or withdrawn altogether as a precautionary measure to safeguard liquidity. In the Europe segment, the amount invested was EUR 13.3 million (previous year: EUR 17.8 million). With a view to increasing efficiency in radiator production, the painting line in Vaux-Andigny (France) was replaced, a new painting line was installed in Manisa (Turkey) and investment was made in a new element grinding line in Lahr (Germany). A solar installation was put in place on the roof of the ventilation plant in Zwolle (Netherlands). In addition, investments were made in machines used to produce heat exchangers in Reinsdorf (Germany) and Waalwijk (Netherlands). Preparations for the new Center of Climate in Lahr have begun, but the start of construction had to be postponed to the beginning of 2021 due to the pandemic. Equipped with state-of-the-art training and office facilities, it will be designed with the aims of strengthening ties with customers in the Zehnder Group's largest sales market and providing employees with appealing workspaces.

In the China & North America segment, investments worth EUR 3.4 million (previous year: EUR 8.2 million) were made in property, plant and equipment. A large share of this went into completing the new factory for ventilation units in the city of Pinghu (China), around 100 km south-west of Shanghai. The new facility, which houses research and development, production, sales, and service activities, opened its doors in June. The Zehnder Group had previously carried out its production work in a nearby rented building, but the new factory provides an important base for accommodating further growth in China.

“The new ventilation factory close to Shanghai was successfully brought online in June 2020. It provides an important base for accommodating further growth in China.”

Acquisition in China to expand the heat exchanger business

In November 2020, the Zehnder Group signed the contract to acquire a 51% stake in the Chinese company Zhongshan Fortuneway Environmental Technology Co., Ltd. Headquartered in Zhongshan (Guangdong province), the company specialises in the development, production and sale of enthalpy exchangers for humidity and heat recovery and has been a supplier of the Zehnder Group since 2019. In 2020, Fortuneway employed around 50 employees and achieved sales in the region of EUR 3 million. The acquisition is expected to be completed in the first half of 2021. The workforce – including management – and site will be retained.

Ventilation units in China feature a high proportion of enthalpy exchangers. Today, the majority of these are made out of paper, although there is a clear trend towards the use of polymer membranes, as these are more efficient, durable and hygienic. With this acquisition, the Zehnder Group is expanding both its technology and product portfolios, while also capitalising on the potential for growth in China.

High cash flow from operating activities and solid balance sheet

Cash flow from operating activities amounted to a remarkable EUR 95.3 million in the reporting period (previous year: EUR 43.1 million). In China, trade accounts receivable fell by around EUR 11 million, as key accounts settled their liabilities in a timely manner and sales volumes decreased in 2020 due to COVID-19. Net liquidity¹ grew from EUR 25.5 million to EUR 96.4 million. In 2020, the Zehnder Group also took out a syndicated credit facility of EUR 100 million with a term of three years. As well as including an extension option, it will also be possible to increase the facility by EUR 50 million if larger acquisitions need to be made. At year-end, shareholders' equity was EUR 326.9 million (previous year: EUR 303.0 million). This equates to another high equity ratio of 66% (previous year: 64%).

¹ See **Alternative performance measures** in the consolidated financial statements in the Financial Report.

Employee safety the top priority

In 2020, providing a safe working environment suddenly became a priority not just for the production facilities, but for every place of work throughout the Zehnder Group. When the COVID-19 pandemic broke out, the focus was placed on preventing employees from becoming infected with the novel coronavirus. The Zehnder Group navigated this task successfully by quickly forming coordinated pandemic teams at every site and introducing numerous protective measures, which included significantly restricting business travel, establishing additional protective measures in production areas, moving staff to home working and setting up new digital methods of contacting customers.

“It is important to the Zehnder Group to carry on training young people despite the COVID-19 pandemic, and to take on new apprentices as planned. In 2020, the Group employed 63 apprentices – 4 more than in the previous year.”

It is important to the Zehnder Group to carry on training young people despite the COVID-19 pandemic, and to take on new apprentices as planned. While switching to a home office and home studying format proved a challenge for apprentices and trainers alike, it was one that they managed to navigate successfully. The Zehnder Group’s employee training programmes which span several locations were also affected, as it was not possible to incorporate the in-person component that is considered so important. To ensure that employees were still able to acquire the know-how they needed even in the face of such difficult circumstances, the Zehnder Group shifted its focus more heavily towards online training. The provision for this included internal webinars containing different modules on the subject of ventilation. In June, all Zehnder Group employees were given the chance to take online English courses, enabling them to enhance their language skills in general and/or with a focus on specific subjects or industries. Matters relating to the Zmile programme – Zehnder’s continuous improvement programme based on the Kaizen philosophy – were also handled online. Designed to help Zehnder Group managers develop and nurture their managerial attributes, the management development programme had been scheduled for 2020 but is now planned for 2021.

At year-end, the Zehnder Group had 3361 employees (previous year: 3362). The average number of staff working full time was 3340 (previous year: 3413). Of these, 287 were employed temporarily (previous year: 333) and 63 were apprentices (previous year: 59). 2607 employees (previous year: 2650) were working in the Europe segment and 733 (previous year: 763) in the China & North America segment.

Increased focus on sustainability

As a provider of indoor climate solutions that are energy-efficient, health-promoting and comfortable, the Zehnder Group operates in a market where sustainable development is essential. Along with health, climate change, digitalisation and urbanisation, sustainability is one of the five key trends driving its ambitions. Production areas in which progress was made in 2020 include the new painting line for radiators in Vaux-Andigny (France), which is much more resource-friendly than its predecessor. It requires around 25% less water and 50% less energy. What’s more, it generates 70% less wastewater and 90% less production waste. Further notable examples include the new solar installations put in place on the factory roofs in Buffalo, NY (USA) and Zwolle (Netherlands). In Buffalo, the solar installation belongs to an external party. Zehnder Rittling rents out the space on its roof but obtains around 25% of the energy it consumes from solar energy, with another 50% being generated by hydropower from nearby Niagara Falls. In Zwolle, the company has installed its own facility, which generates around 35% more energy than the site consumes.

“Along with health, climate change, digitalisation and urbanisation, sustainability is one of the five key trends driving the ambitions of the Zehnder Group.”

The coronavirus pandemic has once again highlighted just how important fresh air is in indoor spaces. The Zehnder Group offers the very best solutions and sound expertise in this regard. At the end of 2020, it was delighted to enter into a partnership with Germany’s Sentinel Haus Institut, the leading institute for concepts relating to working and living spaces. The aims of the partnership are to conduct research, develop health concepts in living spaces and provide digital solutions for residents and professionals.

When the Zehnder Group took out the new credit facility during the reporting year, it made a conscious decision to include an ESG (Environment, Social, Governance) component. The linking of lending rates to the ESG Risk Rating provided by Sustainalytics – a company specialising in ESG research, ratings and data – underlines the Zehnder Group's commitment to sustainability as well as its continued ambition and dedication to focusing on sustainability.

To learn more about the progress we have made in 2020 and for more information on sustainability, visit our website: www.zehndergroup.com/en/zehnder-sustainability.

125 years of Zehnder – and always looking to the future

2020 represented a milestone for the Zehnder Group in many respects. Zehnder Charleston, the original multi-column radiator, celebrated its 90th birthday. The decorative radiator has been continuously enhanced since 1930, making it the efficient all-rounder it is today. A vast choice of colours, numerous shapes and superb installation options provide customers with limitless design possibilities.

The plant in Vaux-Andigny (France), celebrated its centenary in 2020. Vaux-Andigny is a key site for the Zehnder Group's radiator production activities. Recently, the Group has been investing continually in modernisations and automation – for example, in robots used to manufacture aluminium radiators and the new painting line which was brought into service in September 2020.

On top of all this, we are especially proud that Zehnder has reached its 125th anniversary. Over the years, the mechanical workshop founded in Gränichen (Switzerland) back in 1895 has transformed into an international group of companies with around 3300 employees. The key to Zehnder's success – even in economically turbulent times – has been the strong pioneering spirit and courage of its employees, who have continually sought out innovative and ingenious approaches. From the production of the "Zehnderli" light motorcycle and the development of the world's first steel tube radiator – Zehnder Charleston – right through to the company's move into the ventilation business: Zehnder's thinking has always been nothing less than innovative. Today, the portfolio includes products for comfortable indoor ventilation, heat exchangers, air cleaning systems, decorative radiators and heating and cooling ceiling systems, making Zehnder the go-to provider of indoor climate solutions. The Zehnder Group thinks and plans on a long-term, sustainable basis and is always ready to recognise and to seize opportunities. In the future, it will continue to strive to achieve the very best indoor climate, with the aim of being both the number one choice for customers as well as a reliable partner.

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Although the coronavirus pandemic meant that celebrations largely had to be shelved, the 125-year history of the Zehnder Group has been encapsulated in the anniversary book "Air, space and time – 125 years of Zehnder history". This is available to view online at www.zehndergroup.com/en/company/history-2020.

Dividend within the framework of the long-term dividend policy

For the 2020 financial year, the Board of Directors is proposing to the Annual General Meeting on 26 March 2021 a dividend of CHF 1.25 per registered share A (previous year: CHF 0.70). The provision of 35% is in line with the Zehnder Group's long-term dividend policy of distributing 30% to 50% of the consolidated net profit.

Strategy proves effective even in the exceptional circumstances of 2020

Despite the exceptional circumstances that 2020 presented, the Zehnder Group's strategy has proven effective. In the ventilation area, the Group is striving for growth – it is further reinforcing its strong competitive position by making investments in both market and product development. In addition to strengthening organic growth, the Group is continually investigating opportunities to make further acquisitions that will complete the product portfolio or increase market or geographical presence. Awareness of the importance of clean and healthy air in indoor spaces – which has been heightened further by the COVID-19 pandemic – supports the growth strategy in the ventilation area.

“Despite the exceptional circumstances that 2020 presented, the Zehnder Group's strategy has proven effective. In the ventilation area, the Group is striving for growth. For the radiator area, the Zehnder Group is pursuing a harvest strategy.”

For the radiator area, the Zehnder Group is pursuing a harvest strategy. In doing so, it is focusing on continuously optimising operating procedures and making targeted innovations. In addition, it is using its strong market position – for example, in the area of bathroom radiators and multi-column radiators – to secure further market shares.

The areas of clean air solutions, climate ceiling solutions and heat exchangers, which are relatively small at present, are being further developed. Healthy foundations for future growth have been laid through the measures initiated to expand the Group's presence with regard to clean air solutions in key growth markets, the planned 2021 launch of the new generation of clean air solutions and the recent acquisitions in the heat exchanger area.

Outlook: focus on sales growth and improved profitability

In 2020, the Zehnder Group managed to negotiate the coronavirus crisis successfully. The increased awareness of the importance of a clean, healthy and comfortable indoor climate as well as the growing demand for sustainable products and systems should spur on further growth for the Group. Nevertheless, it is important to remember that the COVID-19 pandemic is not yet over. The prices of raw materials are rising sharply, and geopolitical tensions are continuing.

“In the medium term, the Zehnder Group is targeting average annual sales growth of 5% and an EBIT margin of between 8% and 10%.”

The Zehnder Group will continue to enhance its market coverage and its innovation strength in order to lay the foundations for future growth. Moreover, it is maintaining its focus on optimising costs and increasing efficiency. These efforts should lead to a further improvement in profitability in 2021. In the medium term, the Zehnder Group is targeting average annual sales growth of 5% and an EBIT margin of between 8% and 10%.

A big thank you

The COVID-19 pandemic has presented us with significant new challenges and continues to do so. We would like to express our deepest thanks to the around 3300 employees of our company, whose flexibility and sincere commitment have enabled our business activities to continue as effectively as possible.

We would also like to thank our customers, suppliers and business partners for the understanding and excellent cooperation they have demonstrated during this extraordinary year.

As well as this, we want to take this opportunity to extend our thanks to you, our valued shareholders, for the trust and sense of loyalty that you have shown to the Zehnder Group.

Yours sincerely,



Hans-Peter Zehnder
Chairman of the Board of Directors



Matthias Huenerwadel
Chairman of the Group Executive
Committee, CEO

The expectations stated in this Management Report are based on assumptions. If they do not prove true, this will affect the associated results.