

Zehnder Group achieved sales of EUR 812.5 million and an EBIT margin of 8.8%

In the financial year 2022, the Zehnder Group increased its sales by 17% to EUR 812.5 million. Its operating result (EBIT) rose slightly by 3% to EUR 71.4 million with an EBIT margin of 8.8% (previous year: 9.9%). Net profit amounted to EUR 56.7 million (previous year: EUR 60.3 million).



Dear shareholders,

We are pleased to present another set of solid results in the Annual Report 2022. The consequences of the war in Ukraine, continued supply chain disruptions and rising material, transport, energy and operating costs demanded that we show a high degree of flexibility and responsiveness. Thanks to operational performance improvements and acquisitions, we succeeded in expanding our market presence and securing our profitability. A well-filled product pipeline in the growth segment of ventilation gives us confidence looking into the future. We also made further progress in the areas of digitalisation and sustainability. We will continue to pursue our strategy of “growth for ventilation, harvest for radiators” into the future.

Above-average sales growth in the ventilation segment thanks to acquisitions

Zehnder Group increased its sales in the reporting year 2022 by 17% to EUR 812.5 million (previous year: EUR 697.1 million). The organic growth, primarily influenced by price increases, amounted to 7%¹. Acquisitions contributed 8% to sales growth. The Group, whose consolidated financial statements are reported in euros, also benefited from positive currency effects of approximately 2%. The continued limited availability of electronic components hampered

further growth in the ventilation segment. However, the strained supply situation improved towards the end of the year; hence increasing shipments were achieved against delivery backlogs.

The ventilation segment achieved sales of EUR 450.3 million in 2022, which corresponds to a growth rate of 28% (of which 10% was organic). The Airia, Caladair, Filtech and Fortuneway acquisitions contributed a total of 16% to the growth achieved in ventilation. The ventilation segment represented approximately 55% of the Group's total sales, an increase of 5 percentage points compared with the previous year. All three product lines – residential ventilation, heat exchangers, and clean air solutions – showed a positive development.

EUR 349.4 million (previous year: EUR 289.1 million) of sales were achieved in the EMEA region (Europe, Middle East and Africa). The growth mainly came from Germany, the UK, and Belgium, as well as from the Caladair and Filtech acquisitions. In Germany, the businesses with service packages for maintenance of Zehnder ventilation systems was successfully expanded. In the UK, the Group increased its sales with various product groups, including sales of ventilation units with heat recovery for passive house projects. EUR 59.4 million of the ventilation sales (previous year: EUR 19.6 million) was attributable to the North America region. Thanks to the acquisition of the Canadian company Airia in February 2022, the share of sales from ventilation in North America increased from 35% to nearly 60%, making a decisive contribution to the expansion of the ventilation business. The Asia-Pacific region generated sales of EUR 41.6 million (previous year: EUR 43.9 million). The Chinese market continued to prove a very challenging one. Due to the heat exchanger business of Fortuneway as well as favourable currency effects, the decline in sales was limited.

“Thanks to the acquisition of Airia in Canada, the share of sales from ventilation in North America increased from 35% to nearly 60%.”

The radiator segment achieved sales of EUR 362.1 million in the reporting year. This corresponded to roughly 45% of Zehnder Group's total sales. Compared with the previous year, revenue grew by 5% (of which 4% was organic) due to price increases and positive currency effects. The radiator segment showed a volume decline in 2022 compared with 2021. EUR 310.1 million (previous year: EUR 296.4 million) of sales was attributable to the EMEA region, driven by growth in Germany, Italy, and Switzerland and despite a decline in sales in the UK. In the North America region, sales of EUR 44.3 million (previous year: EUR 36.0 million) were achieved. Demand for radiators remained resilient and online sales gained momentum. The Asia-Pacific region contributed EUR 7.8 million (previous year: EUR 12.0 million) to the total sales in the radiator segment.

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

Solid operating result in challenging environment

The operating result (EBIT) rose slightly by 3% to EUR 71.4 million in 2022. This corresponds to an EBIT margin of 8.8% (previous year: 9.9%).

The consequences of the war in Ukraine and global supply chain shortages led to increases in material, transport, energy and operating costs. Due to longer

delivery times, these costs could not yet be fully compensated by higher sales prices. To ensure profitability, Zehnder Group worked on improving operating processes and operational excellence, with a focus on tasks such as digitalisation, product and market development, as well as marketing. During the reporting year, the Europe-wide ERP system was updated, the webshop was expanded, the ComfoPlan online planning tool for comfort ventilation systems was completely revised, and a new IoT (Internet of Things) cloud was created. The cloud solution enables installers to monitor and perform remote maintenance on customer end devices. In addition, new HR software is currently being introduced gradually across Europe, which will help to digitalise and harmonise personnel processes.

“We are focusing on tasks that generate profitable growth. This includes digital transformation.”

The ventilation segment achieved an EBIT of EUR 54.8 million. This corresponds to an increase of 33% compared with the same period in the previous year. The EBIT margin rose to 12.2% (previous year: 11.7%). Growth and profitability were hampered by ongoing delivery issues in the ventilation product line in EMEA and North America, as well as due to the real estate crisis in China. In contrast, the positive development of the two product lines heat exchangers and clean air solutions had a positive effect on profitability.

In the radiator segment, the EBIT figure fell by 41% to EUR 16.6 million in 2022. The EBIT margin decreased to 4.6% (previous year: 8.1%), caused by low production utilisation due to declining volumes and rising energy and labour costs. The still unprofitable climate ceilings product line, the sharp decline in sales in China and lower margins in North America negatively impacted the result. In addition, Zehnder Group recorded one-off costs of approximately EUR 1.0 million for the discontinuation of business activities in Russia during the reporting period.

The tax rate, which had been reduced in previous years due to positive extraordinary effects, rose to 20% in the reporting period (previous year: 12%). Net profit accounted for EUR 56.7 million (previous year: EUR 60.3 million).

A well-filled product pipeline

In the reporting year, expenditure on research and development amounted to EUR 24.7 million (previous year: EUR 21.4 million). In keeping with the strategy, approximately 70% of this was focused on the ventilation segment. Due to delivery issues and the challenging market situation, product launches were postponed to a certain extent or redesigns were undertaken in order to increase delivery capacity. During the reporting year, the indoor climate system solution Zehnder ComfoClima was launched in several European markets. In addition to fresh air supply, it also provides cooling in summer and heating in winter. The product combination of Zehnder ComfoClima & Thermal Shield was awarded the VSK Award 2022 in the “Health and Comfort” category at the VSK, the largest Dutch trade fair for heating, sanitary engineering and air-conditioning. Zehnder Group also presented the ComfoAir Flex, a compact ceiling unit that can be flat-mounted and is particularly suitable for multi-family houses where available space is limited. Another space-saving solution for multi-family houses is the Zehnder ComfoVar Aero residential ventilation module. During the reporting period, this was introduced for the first time in the Netherlands and Switzerland. In addition, the strategically important large units from the ventilation company Caladair, which was acquired in 2021, were integrated into the Zehnder Group portfolio.

In the clean air solutions business, the launch of the new generation of industrial air cleaning units in November 2022 was ground-breaking. The Zehnder CleanAir Max air cleaning system combines intelligent technology, a modular design and a pioneering filter system to achieve the best possible air quality in every business.

“In the Netherlands, the combination of Zehnder ComfoClima & Thermal Shield won the VSK Award in the Health and Comfort category. In Spain, Aúna Distribución named our Zehnder radiator Zenia as the product with the best design.”

In the radiator segment, the introduction of the five new colour schemes underscored Zehnder Group's high design standards. Together with renowned colour trend experts, future trends in the fields of architecture, interior design, bathrooms, living rooms, surfaces and materials were analysed with the aim of creating an attractive colour palette for customers. In the design category, the Zehnder Zenia bathroom radiator was named the product with the best design at Premios Aúna 2022 in Spain. Aúna Distribución, which awards this prize, is the largest group of independent distributors of electrical equipment, renewable energy, plumbing and heating systems in Spain.

Investments in infrastructure development

In 2022, Zehnder Group invested EUR 27.1 million in property, plant and equipment and intangible assets (previous year: EUR 21.9 million).

The largest single investment during the reporting year was the construction of the new “Center of Climate” in Lahr (DE). This centre for healthy indoor climate serves as a meeting place for customers, partners, and employees and includes training rooms and practical workshops, a showroom, meeting and conference rooms, office space and a restaurant. The move in is scheduled to take place in spring 2023. At the same time, the range of training courses for all our partners, such as architects, energy consultants, planners, installers, and caretakers was expanded. Training by professionals for professionals enjoys a prominent position in the Zehnder Group. A total of more than 20,000 customers and business partners are trained every year at various locations in the Zehnder Academies.

“Our new Center of Climate with modern training and office spaces at the Lahr site will strengthen customer loyalty in our largest sales market, Germany, and provide attractive workplaces for our employees.”

In Bolesławiec (PL), a building extension with attractive workplaces for employees, a staff restaurant and a design and development department with a modern equipped laboratory started in 2022. The new section of the building is scheduled for completion in the first quarter of 2023 and will support future growth in Poland.

Capacity for heat exchanger production was expanded in Waalwijk (NL) and Reinsdorf (DE). Zehnder Group also invested in the modernisation, automation, and optimisation of production processes at various locations.

Further company acquisitions in the ventilation sector

In 2022, Zehnder Group continued its acquisition activities in the ventilation sector, investing a total of EUR 63.9 million (previous year: EUR 15.6 million) in new subsidiaries.

In February 2022, the Group acquired the ventilation company Airia Brands Inc., which is based in London, Ontario, Canada. Airia has been involved in the development, production and distribution of heat recovery ventilation systems for more than 35 years. These systems are marketed in Canada and the USA under the established Lifebreath brand and are primarily used in new residential constructions. The company location in London and the established Lifebreath brand were retained and the approximately 200 employees, including the operational management team, were taken over.

“With the acquisition of Airia in North America and Filtech in Europe, we are expanding our market position and strengthening our technological know-how in the ventilation segment.”

In April 2022, Zehnder Group acquired Filtech, a long-standing supplier of high-quality air filters. Besides its headquarters and a production facility in the Dutch municipality of Udenhout, the company also has two additional production sites in Modane (FR) and Rancate (CH). These highly automated production facilities serve various markets with a focus on customers in the heating, ventilation, and air conditioning sectors. The Filtech brand and the three locations were also retained and the staff of approximately 70, including management, was taken over.

Solid net liquidity despite investments and share buyback

Cash flow from operating activities decreased in the financial year 2022 to EUR 59.3 million (previous year: EUR 79.9 million). Firstly, trade receivables increased due to the growth in sales. Secondly, inventories increased on the one hand due to the rise in purchase prices and on the other hand because more stock was accumulated to ensure improved delivery capacities. At the same time, investments in subsidiaries and acquisitions increased significantly. In addition, treasury shares were bought back under the share buyback programme and also outside of this scheme. As a result, net liquidity¹ decreased to EUR 45.4 million at the end of 2022 (previous year: EUR 123.2 million). Equity amounted to EUR 340.8 million (previous year: EUR 364.4 million). This corresponds to an unchanged high equity ratio of 64% (previous year: 66%).

“Despite large investments in subsidiaries and our share buyback programme, we have solid net liquidity and a continued high equity ratio.”

As part of the ongoing share buyback programme, Zehnder Group repurchased 257,632 listed registered shares A for a total price of EUR 17.8 million during the reporting period. It also acquired a further 60,000 listed registered shares A outside the programme for a total of EUR 4.3 million. These are earmarked for employee participation programmes.

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

Strong sense of solidarity among Zehnder employees

At the end of 2022, the number of full-time equivalent employees increased from 3,634 in the previous year to 3,863. The increase in the number of employees in the reporting period can primarily be attributed to acquisitions. This brought the average number of employees up to 3,827 (previous year: 3,554). Of these, 401 were employed temporarily (previous year: 411) and 64 (previous year: 58) were apprentices. A total of 1,816 employees (previous year: 1,523) work in the ventilation segment and 2,011 (previous year: 2,031) in the radiator segment.

The war in Ukraine in 2022 had direct consequences for Zehnder Group and its employees. This was particularly evident in neighbouring Poland, the main destination for refugees from Ukraine. Since the outbreak of the war, millions of people, mostly women and children, have fled across the border. Many Zehnder employees took an active role during this humanitarian crisis. They assisted with receiving refugees, collected non-cash and cash donations and organised the transport of humanitarian aid. The plant in Bolesławiec promoted the hiring of Ukrainian refugees through a bilingual onboarding process – in Polish and Ukrainian – and by translating important work documents. This made it possible to fill vacancies on the one hand, and to offer jobseekers from Ukraine an attractive workplace on the other. Zehnder Group also held an internal fundraising campaign for Ukrainian refugees. CHF 100,000 was donated to a recognised international aid organisation.

In spring 2022, Zehnder Group successfully completed its first global leadership development programme. As part of this programme, 30 participants worked on developing their leadership skills and social competencies, and expanded their network within the Zehnder Group. Forward-looking topics such as diversity, intercultural communication, digitalisation, and sustainability were addressed. The second edition of the programme started in autumn 2022. In selecting the participants, emphasis was placed on aspects such as empowering women in their leadership roles. The percentage of female participants in the second round reached 30%.

“With the aim of strengthening Zehnder’s employer brand and helping it position itself more specifically as an attractive employer on the labour market, Zehnder Group launched an employer branding project.”

The Group Executive Committee is well aware that Zehnder Group’s outstanding performance is rooted first and foremost in the commitment, enthusiasm, and passion demonstrated by its employees. They contribute to shaping sustainable success at Zehnder within a motivating and meaningful working environment. Personal responsibility and personal development are encouraged for every single employee – through mutual respect, appreciation, and openness. In order to convey this unique working environment even more transparently, both internally and externally, to attract new talent, to transform existing professionals into corporate ambassadors, and to strengthen the Zehnder employer brand, Zehnder Group began to implement an employer branding project during the reporting year.

Continued strategic progress achieved

The “growth for ventilation – harvest for radiators” strategy has proven its value, even in these challenging times. The acquisition of Airia helped Zehnder Group gain greater visibility in the Canadian market in terms of residential ventilation with heat recovery. There is also considerable potential for expansion in the US.

The production facility in Buffalo NY was further expanded during the reporting year. In the EMEA region, the acquisitions of Filtech and Caladair represented important steps in driving ventilation growth. In addition, new service packages were developed alongside new products. This enabled Zehnder Group to introduce maintenance contracts for regular, professional maintenance of ventilation systems in additional markets during the reporting year.

“Our strategy of ‘growth for ventilation – harvest for radiators’ has proven its value even in these challenging times. Our investment focus is on Europe. We also want to make greater use of our potential in North America.”

The Group has another two promising product lines in its ventilation portfolio: heat exchangers and clean air solutions. Combined, these product lines account for roughly 20% of ventilation sales and are expected to be developed into independent segments in the medium to long term. In the heat exchanger segment, the international CORE brand presence was strengthened in 2022 and manufacturing capacities were expanded. In clean air solutions, the introduction of a new generation of air cleaning units marked another milestone.

With respect to radiators, Zehnder Group enjoys a strong market position, particularly in the areas of bathroom radiators and multi-column radiators. During the reporting period, the focus was on optimising production processes, further improving quality and increasing productivity. Development competencies in the areas of electronics and control units were also expanded with the aim of ensuring a strong position for the radiator business in the future.

Paving the way for comprehensive sustainability

As an international manufacturer of indoor climate solutions, Zehnder Group operates in a sector where applications contribute a significant share to global greenhouse gas emissions due to the use of fossil fuels. Buildings are currently responsible for approximately 40% of the energy-related greenhouse gas emissions worldwide. With its solutions, Zehnder Group is committed to contributing to the goal of climate neutrality and therefore takes the entire value chain into account in its product innovations. At the same time, Zehnder Group strives to offer its employees a motivating, healthy, and meaningful working environment. Lastly, the Group also aims to support society in tackling current challenges by acting responsibly.

“Sustainable action is an integral part of our corporate DNA.”

In order to measure its impact on the environment and society and to define ambitious and achievable targets, the Group collected and analysed extensive data Group-wide for the reporting year 2022. The Group initiated change processes with the aim of further promoting environmentally conscious and socially responsible action. Zehnder Group published an initial site assessment and forward-looking sustainability agenda in September 2022 (see: www.zehndergroup.com/en/sustainability-zehnder). A sustainability report for the full year of 2022 based on the GRI (Global Reporting Initiative) standards, including quantitative future targets, is due to be published in June 2023.

Earnings-oriented dividend policy

Based on the results of the reporting year 2022, the Board of Directors proposes to the Annual General Meeting on 23 March 2023 a dividend of CHF 1.80 (previous year: CHF 1.80) per registered share A. The payout ratio of 37% is in line with the previous dividend policy of Zehnder Group, which envisages paying out 30–50% of consolidated net profits.

“We are pursuing an earnings-oriented dividend policy. In addition, Zehnder Group launched a share buyback programme in 2021.”

The share buyback programme started in 2021 will be continued. It will run until 22 March 2024 at the latest. Cancellation of the maximum of 487,800 repurchased registered shares A will be proposed at the Annual General Meeting after completion of the programme.

Outlook for the 2023 financial year

Heightened awareness of the sustainable use of resources and a healthy indoor climate as well as government subsidy programmes are increasing the demand for energy-efficient, healthy, and comfortable indoor climate solutions, such as those offered by Zehnder Group. At the same time, a recession is looming in the context of the ongoing war in Ukraine, a tense geopolitical situation, persistent global supply chain shortages and high inflation and interest rates.

Zehnder Group is consistently pursuing its proven strategy – growth for ventilation, harvest for radiators – and is focusing on long-term investments despite the challenging environment. These include market development, product and service innovation, production capacity expansion, digital transformation and commitment to sustainability.

For the financial year 2023, the Group aims to achieve further sales growth and an EBIT margin comparable to that of 2022. The medium-term targets of an average annual sales growth of 5% and an EBIT margin of 9–11% remain in place.

“We confirm our medium-term targets: an average annual sales growth of 5% and an EBIT margin of 9–11%.”

Many thanks

On behalf of the Board of Directors and the Executive Committee, we would once again like to express our gratitude and appreciation to our employees for their performance and ongoing commitment to Zehnder Group.

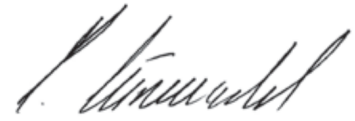
We would also like to thank our customers and partners for their loyalty to our range of products and services and the excellent working relationships that the company has established with them.

Finally, we would like to thank you, our valued shareholders, for your continued loyalty and your confidence in our successful future.

With kind regards,



Dr Hans-Peter Zehnder
Chairman of the Board of Directors



Matthias Huenerwadel
Chairman of the Group Executive
Committee, CEO

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