

# Report to shareholders



Philip Mosimann, Chairman of the Board of Directors, and Jacques Sanche, Chief Executive Officer

## Dear Shareholders

2018 was a successful year for Bucher Industries. Sales grew by 16%, surpassing the CHF 3 billion mark for the first time, with all divisions contributing to this positive development. Markets were characterised by strong economic momentum, especially in the first half of the year, which eased somewhat towards the end of the reporting period. The Group's operating profit margin was 9.1%. Profit for the year amounted to CHF 215 million, and earnings per share was CHF 20.77.

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**Pleasant business performance** Overall, the markets of Bucher Industries developed well in the reporting period and the Group was able to take advantage of this positive environment. Both order intake and sales exceeded CHF 3 billion for the first time, with order intake rising by 12% to CHF 3 206 million, and sales growing by 16% to CHF 3 065 million. All divisions increased sales in double-digit percentage terms and contributed to this pleasing growth. Bucher Municipal even grew its sales by a quarter. The Group posted an operating profit of CHF 278 million, with the operating profit margin rising to 9.1%. The profit for the year saw a marked increase of 28% to CHF 215 million, translating into earnings per share of CHF 20.77.

**Solid financial position** Bucher Industries invested CHF 103 million in the expansion of its production infrastructure as well as in the modernisation and automation of its production machinery, and significantly raised spending on the development of new products. An additional CHF 68 million was invested in external growth. Supported by the good economic environment, net operating assets decreased by 3 percentage points to 44.8% of sales, despite higher investments. This, combined with greater profitability, improved the return on net operating assets after taxes (RONOA) to 15.7%. The return was once again significantly higher than the cost of capital and only slightly below the long-term target of 16%. Higher capital expenditure, the volume-related increase in capital commitment and the payment of the dividend led to negative free cash flow of CHF 39 million. Due to brisk acquisition activity, net liquidity fell by CHF 55 million to CHF 159 million. With an equity ratio of 53.7% and a continued high level of liquid assets, the financial independence of Bucher Industries and opportunities for further growth remain intact.

**Strengthening through acquisitions** By taking over a majority interest in Wuxi Deli Fluid Technology, Bucher Hydraulics expanded its presence in China and its global product offering. This makes Bucher Hydraulics a globally leading manufacturer of hydraulic power packs. Following the complete takeover of the Sanjin joint venture in China, Bucher Emhart Glass is now driving forward its consistent and rapid development. The buyout of the minority shareholders fosters even stronger collaboration within the division and allows for the systematic and direct transfer of knowledge regarding technology, production efficiency and product development. Bucher Emhart Glass also took over the glass container laser marking business of Qualimarq, a pioneer in the field and the leading global provider of state-of-the-art technologies for the laser marking of hot glass containers. They are becoming an integral part of the end-to-end initiative for glass container manufacturing. Kuhn Group acquired the remaining 62% of the shares of Artec Pulvérisation, one of the leading providers of self-propelled agricultural sprayers in France. Bucher Landtechnik, a business unit of Bucher Specials, purchased the import business of Grunderco, Switzerland.

**Kuhn Group** The agricultural machinery market was very mixed in regional terms. In Europe, market performance was satisfactory, primarily due to robust demand in the European dairy and livestock sector at the beginning of the reporting period. The long drought in northern European regions was detrimental to the production of grain and grass. In North America, the market for agricultural machinery was challenging once again. This was due to the continued drop in net income for farmers because of lower dairy and grain prices, higher input costs and punitive Chinese tariffs on the import of US agricultural products. The Brazilian market recovered during the year, and the important French market experienced a pleasing upturn. Against this backdrop, Kuhn Group grew its sales a gratifying 12% and posted a 6% increase in order intake. As a result of challenges in the supply chain and in the expansion of the work force, the ongoing low sales in the USA and high steel costs, the operating profit margin was 8.1%, slightly below the previous year's level.

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**Bucher Municipal** As in the previous year, public sector demand for municipal vehicles was strong, due to the good economic situation in the main markets of Europe and Australia. In the second half of the reporting period, growth for sweepers and refuse collection vehicles weakened at a high level, while demand for sewer cleaning vehicles remained strong for the entire year. The winter maintenance equipment business saw a significant upturn thanks to the plentiful snow throughout the long 2017/2018 winter season. Bucher Municipal benefited from the good market situation. Order intake increased by 14%, while sales rose by 27% to an exceptionally high level. All business units operated at close to full capacity and contributed to this positive development. The operating profit margin rose to a pleasing 9.0% thanks to the excellent sales development and the new organisational structure.

**Bucher Hydraulics** The markets of Bucher Hydraulics reported extremely dynamic growth in 2018, just as they had done in the previous year. Towards the end of the reporting period, the trend levelled off in Europe, especially in the key German market, as well as in China. In this strong market environment, order intake grew 21%. Sales were up 15%, with the first-time consolidation of the joint venture Bucher Hydraulics Wuxi making a contribution. Due to the very high capacity utilisation, the order book increased significantly. The operating profit margin of 13.1% was just below the high level of the previous year. The reasons for this were the consolidation of Bucher Hydraulics Wuxi, additional costs as a result of the very high capacity utilisation and higher material and personnel costs.

**Bucher Emhart Glass** Demand for glass containers continued to rise during the reporting period. The sound state of the global economy, which usually boosts demand for higher-quality glass containers, and the current trend in society away from plastic and towards greater use of recyclable glass contributed to the good development. This prompted glass container manufacturers to duly expand production capacity. Bucher Emhart Glass benefited from this exceptionally positive market environment, reporting an 11% increase in order intake and a 17% rise in sales. Sanjin, the good cooperation with O-I and the business with inspection machines also contributed to this development. Thanks to the very good capacity utilisation, the optimisation programmes launched in recent years and the improvement at Sanjin, Bucher Emhart Glass reached double-digit figures for the first time in a long time with a very pleasing operating profit margin of 10.1%.

**Bucher Specials** The markets of Bucher Specials' business units registered on the whole positive developments during the reporting period. Following a poor grape harvest due to the previous year's frosts, the European market for winemaking equipment was more positive than expected in some regions. Demand for beverage technologies was dampened by political developments and financing difficulties of customers in Eastern Europe and Turkey. In the Swiss market for agricultural machinery, farmers were reluctant to invest mainly due to the uncertainty in agricultural policy and the drought in the summer. The markets for mobile and industrial automation technology continued to develop well. The division's order intake grew by 9%, and sales were up a pleasing 14%, with all business units contributing. The operating profit margin of Bucher Specials was 7.8%, which was slightly lower than the previous year. This was due to the acquisition of the import business of Grunderco and the associated acquisition and integration costs.

**Dividend** The board of directors will propose a dividend of CHF 8.00 per share to the annual general meeting on 17 April 2019. The dividend paid in the previous year was CHF 6.50 per share. This proposal is in keeping with a consistent dividend policy and takes account of both the Group's profit for 2018 and the outlook for the current year.

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**Board of directors and group management** On 18 April 2018, the annual general meeting elected Martin Hirzel, CEO of Autoneum Holding AG, to the board of directors. Martin Hirzel's election brings the number of board members to seven. Manuela Suter assumed the function of CFO on 1 January 2018 and became a member of group management.

**Thanks to our employees** Bucher Industries had a successful financial year in 2018, with record levels of both sales and group profit for the year. This is mainly due to our employees, who work with great commitment to the company year after year. Our goal is to strengthen this commitment and to share our knowledge and experience. To this end, we focus on the targeted development of our employees, with training sessions, individually tailored educational programmes, cross-border exchanges and additional tasks for on-the-job learning. We have included in this annual report five stories that illustrate the value of exchanging experience and knowledge beyond the confines of a single country. This exchange of expertise is crucial for continuing to provide innovative products and excellent service going forward and for continuing together on this path of success, which now spans more than 200 years. We would like to take this opportunity to thank our employees for their hard work and dedication last year, and we look forward to shaping the future together with them.

**Outlook 2019** The Group is forecasting that the market environment will remain positive in the current year, with a slowdown in growth momentum at a high level. Kuhn Group expects that the overall market trend will be flat, and is therefore forecasting that sales for the current year will be in line with 2018. The operating profit margin is likely to increase slightly. At Bucher Municipal, there are uncertainties especially in the key European market, and with regard to Brexit in particular. The division anticipates that for 2019, there will be a modest decline in sales compared to the record high of 2018, which was characterised by exceptionally high capacity utilisation. As a result, the operating profit margin is likely to decline slightly. Bucher Hydraulics expects that demand will continue to flatten. Together with the acquisition of the joint venture Bucher Hydraulics Wuxi, the division is forecasting a modest increase in sales for the current year. The operating profit margin is likely to be somewhat lower than 2018 due to capacity expansions and the consolidation of Bucher Hydraulics Wuxi. Bucher Emhart Glass expects the good business performance to continue. For 2019, the division anticipates that sales and the operating profit margin will be in line with the levels seen in the last year. The market environment of Bucher Specials is likely to see a mixed development. Thanks to the acquisition of the import business of Grunderco and the continued positive development in mobile and industrial automation, the division is, however, expecting a slight increase in sales in the current year and an operating profit margin that is in line with 2018. Due to the high order book at the start of the current year and the expected economic environment, the Group's sales are likely to be in line with the sound 2018 financial year. The operating profit and the profit for the year should also be at a similar level to last year.

The accounting standards were changed from IFRS to Swiss GAAP FER with effect from 1 January 2019. The switch will not have any impact on order intake or sales. However, it will lead to an increase of up to half a percentage point in the operating profit margin of the divisions and the Group, and will improve Group profit for the year by a few per cent. The impact of the change in accounting standards is not reflected in the outlook of the divisions and the Group provided above.

Niederweningen, 6 March 2019



Philip Mosimann  
Chairman of the Board of Directors



Jacques Sanche  
Chief Executive Officer