

# Letter to the Shareholders



## Dear Shareholders

Belimo is looking back at a successful financial year: Sales in Swiss francs increased by 7.8 percent to CHF 692.7 million, corresponding to a growth of 9.2 percent when adjusted for currencies. The Group has succeeded in achieving an operating income (EBIT) of CHF 123.9 million, which equals to an EBIT margin of 17.9 percent. Net income rose including a one-time tax benefit by 40.5 percent with respect to the comparison period to CHF 121.1 million. Free cash flow amounted to CHF 83.9 million and was – impacted by investments – 11.0 percent lower than in the previous year. For a strong continuation of its growth strategy, Belimo invested again a substantial amount of CHF 50.7 million in research and development during the reporting period.

In our commitment to “Small devices, big impact” Belimo regards sustainability as a major part of its corporate strategy and business model. Through sustainability management, Belimo aims to create long-term value for customers, shareholders, employees, and other stakeholders. This is why sustainability reporting constitutes an integral part of our annual reporting that reflects our commitment to a corporate sustainability management that enhances economic, ecological and social performance.

In order to provide greater transparency to our stakeholders, we set out to further advance our sustainability reporting based on the international reporting framework of the Global Reporting

Initiative (GRI). GRI is a non-governmental organization that provides a systematic and comprehensive framework, which has become a global standard for disclosure by corporations and other organizations on sustainability.

Within the sustainability reporting according to the GRI Standards, we focus on the issues that are essential to the Company's future success. These topics have been identified through a materiality assessment which Belimo conducted. The systematic identification of topics of significance for stakeholder groups of Belimo and the Company's impact on sustainable development is described in the chapter on materiality. As part of the preparation for our Sustainability Report 2019, we have compiled our management approaches on the material topics as in line with GRI requirements.

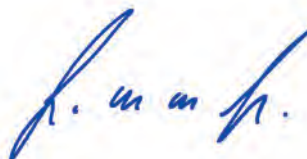
Our aim is to state concisely for the company and for all external stakeholders how Belimo approaches the material topics in a responsible manner. The management approaches comprised in this report are a starting point that Belimo will continue to review and further advance in the coming few years.

The Board of Directors proposes a dividend of CHF 150.00 per share at the 2020 Annual General Meeting. Based on the closing price of CHF 7 290.00 on December 31, 2019, this equates to a return of 2.1 percent per share.

On behalf of the Board of Directors and the Group Executive Committee of BELIMO Holding AG, we would like to thank our customers, suppliers and employees for their loyalty and successful cooperation. We would also like to thank you, our esteemed shareholders, for the great trust you place in us and your loyalty to BELIMO Holding AG.



Patrick Burkhalter  
Chairman of the Board of Directors



Lars van der Haegen  
CEO

# Performance

## Economic Performance

# Profitable Growth with Impact

2019 was an excellent year for Belimo. Amidst a more uncertain overall macro-economic environment, the Company once again achieved outstanding sales performance and generated above-average growth.

In 2019, the Group posted above-average growth and expansion of market presence in all of its market regions. The success of Belimo has been supported by a solid non-residential construction market. The water business performed particularly well. Belimo logged a market-share expansion in water applications with water shares now trending at 44.3 percent (prior year: 43.1 percent) of total sales of CHF 692.7 million. Belimo once again increased its profitability in 2019 and achieved an operating income (EBIT) of CHF 123.9 million, equaling an EBIT margin of 17.9 percent. Net income rose with respect to the comparison period by 40.5 percent to CHF 121.1 million, with a positive, non-recurring effect stemming from the transitional provisions of the Swiss tax reform applied by Belimo in the amount of CHF 22.1 million. All market regions contributed to the favorable result, especially the Americas as the main growth driver.

## Europe

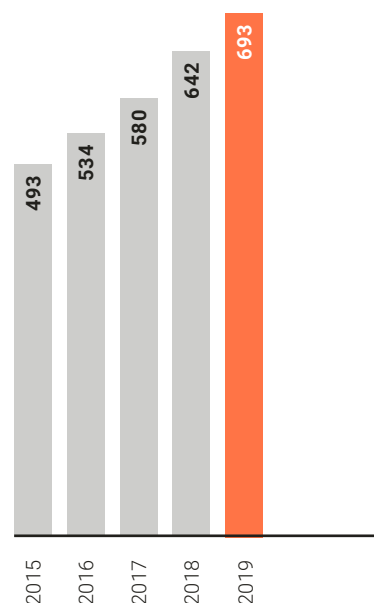
Belimo Group registered net sales of CHF 328.8 million in its largest market region, which corresponds to a growth of 3.6 percent, or 6.8 percent on a currency-adjusted basis in comparison with 2018, and that in a challenging overall macro-economic environment. Supported by an uninterrupted trend towards increasing regulatory requirements for building efficiency, the heating, ventilation and air conditioning (HVAC) market in Europe saw solid growth in 2019. Belimo was able

to increase its market shares mainly in the contracting business. This segment benefited from a solid refurbishment and retrofit market as well as from new legal regulations and legislation for energy efficiency. The Original Equipment Manufacturing (OEM) business also grew, but was nonetheless hampered by a weaker export market. Within Europe, the long-term trend of relocating OEM-production facilities from western to eastern countries could also be seen during the period under review.

With double-digit growth figures (currency-adjusted), 2019 has been an exceptionally successful year in France, Italy, Switzerland, Russia, Austria and the Netherlands. In France, Belimo benefited from a brisk construction activity, which primarily boosted contracting business. Solid growth was also recorded in Italy,

## Net Sales

in CHF million



## Management Approach

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### How We Achieve

#### Economic Performance

Ever since its foundation, Belimo views successful customers as the foundation of a strong and sustainable economic performance. Only by creating more value for the customer than its competitors (CESIM®), Belimo believes it is able to trigger a spiral of success where higher demand for its products leads to a higher number of shipped actuators, valves and sensors. In turn, this increases productivity and leads to higher profits. In this sense, Belimo views profit not as the objective, but as the result of making its customers successful.

### How We Manage

#### Economic Performance

A key element in sustaining economic performance is the optimal utilization of available resources and balancing growth and profitability. Originating from its conviction that the greater the concentration, the stronger the force on the most effective point, Belimo attaches great importance to keeping a razor-sharp focus on its niche and maintaining market leadership. This not only safeguards against competitors but also allows Belimo to retain innovation and quality leadership. Further effects of its management approach include: Driving pure organic growth, outsourcing production and services to others with greater expertise or economies of scale, as well as commitment to solving customer problems no matter their cause.

### How We Measure

#### Economic Performance

The three overarching financial figures tracked to evaluate the economic performance of Belimo are sustained growth, high profitability (EBIT margin) and the optimal use of capital.

Sustained growth encompasses the annual growth rate and cost ratios – balance between investments and results – of the four strategic initiatives (see pages 14 to 16). Division Heads manage their areas of responsibility based on the development of cost ratios – or in other words operating costs in percent of market or group sales. The optimal use of capital entails effective management of core processes and is reflected in an accurate net working capital level. The ratio of in-house value added serves as a proxy to measure the optimal use of capital.

Further leading indicators for gauging the approach's effectiveness are market share and profitability in total and in comparison with (new) products and regions as well as R&D in total and in comparison to the largest competitors.

where it was supported not only by private investment but also by strong export activity. Meanwhile, the Swiss market benefited from a strong demand in commercial construction. The Roche Tower 2 in Basel (Switzerland) is a good example to illustrate this development. With a height of 205 meters, the office building will be the tallest in Switzerland and more than 2 000 Belimo 6-way valves will be installed. Completion is expected by 2022.

Net sales in Germany as the largest European market exceeded prior-year levels on a currency-adjusted basis, but were below prior year development. In April 2019, Belimo began ramping up its new service and logistics center in Großröhrsdorf near Dresden (Germany), which is scheduled to become fully operational in 2020. Initial orders were already being processed there by the end of 2019. With this new service center, Belimo is moving ever closer to its customers, adding capacity in the field of sensors and meeting individual customer needs. Water applications and sensors were the strongest sales drivers in the European market region, delivering clear above-market growth, while air applications performed slightly ahead of the market.

### Americas

In the Americas market region, the Group increased its sales to CHF 272.8 million, representing a growth of 12.3 percent in Swiss francs, or 11.0 percent on a cur-

rency-adjusted basis, further establishing the position of Belimo as a market leader. Healthy economic growth in the US and Canada translated into positive market conditions for the region.

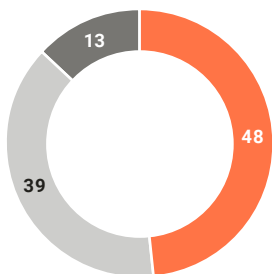
In the US and Canada in particular, 2019 has been a highly successful year for Belimo with excellent growth rates of 11.4 percent and 18.9 percent, respectively. All segments recorded significant growth in prior-year comparison, with the performance of products for water applications such as the Belimo Energy Valve™ markedly ahead of air applications. The growth in Canada was achieved by consistently implementing a highly project-centered sales process, which focused on satisfying the unique needs of all project decision influencers. These include end users, consulting engineers, controls contractors and OEMs. The Americas market region experienced sustained growth in all verticals. The data center vertical in particular grew at an outsized pace, enhancing sales results from both OEM and contracting business.

### Asia Pacific

In the Asia Pacific market region, Belimo recorded CHF 91.1 million in sales, corresponding to a gratifying growth of 10.7 percent, or 12.7 percent on a currency-adjusted basis, in an increasingly difficult market environment. Growth momentum picked up in the second half of 2019, resulting in a higher all-year performance.

**Net Sales by Region**

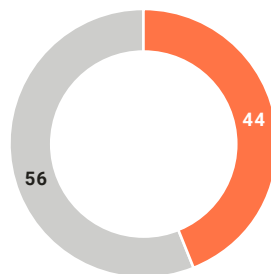
in %



- Europe: 48%
- Americas: 39%
- Asia Pacific: 13%

**Net Sales by Application**

in %



- Water: 44%
- Air: 56%

Belimo increased its market share in China, its largest market in the region, where a 16.3 percent sales growth was recorded, or 19.5 percent on a currency-adjusted basis, and this on top of a 23.7 percent growth year in 2018, demonstrating once again the sustained success of the cluster strategy being pursued, with its focus on selected metro areas.

High governmental spending in subway infrastructure as well as private enterprise investments in data centers were the underlying drivers of growth in the strong OEM business in the region. Notable large subway projects in 2019 included the Xian and Chengdu networks in China. For the other countries, noteworthy verticals included office buildings and hotel projects. In India, Belimo had particularly great success with the demand-based zone control solution, Belimo ZoneEase VAV™. Air applications were the main driver of growth in the Asia Pacific market region.

### Financials

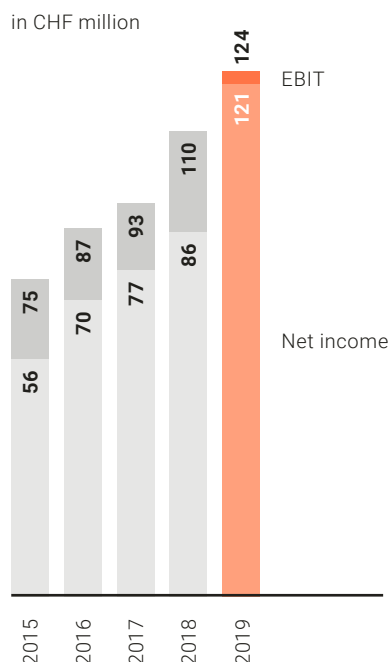
EBIT increased during the year under review by 12.8 percent to CHF 123.9 million, resulting in an EBIT margin of 17.9 percent. Profitability was improved, thanks to higher sales volumes as well as to efficiency gains in the production and distribution organization.

Operational Expenditures: Material expenses as percentage of net sales declined in 2019 by 1.1 percentage points to 40.3 percent. In line with its growth strategy, the number of employees (full-time equivalents, FTEs) rose by 148 during the period under review. The average number of FTEs in 2019 was at 1 712. Personnel expenses amounted to CHF 188.3 million, or 27.2 percent of net sales, while net sales per FTE were at CHF 405 000. Overall, Belimo spent CHF 50.7 million (7.3 percent of net sales) for research and development in the interests of advancing its innovative capacity for continuous advancement of its market leading position.

Depreciation and Amortization: Depreciation and amortization of property plant and equipment and intangible assets rose to CHF 30.4 million in the period under review, representing 4.4 percent of net sales. This figure was impacted mainly by the purchase of real estate and building in Großröhrsdorf (Germany) in 2019 as well as by the new accounting methods for leases, which went into effect during the year under review.

Net Income: Net income grew in the period under review by 40.5 percent to CHF 121.1 million, or 17.5 percent of net sales. Taking into account the higher profit for the year, earnings per share rose by 40.5 percent to CHF

### EBIT / Net Income



197.00 (prior year CHF 140.22). The negative financial result of CHF 4.1 million was mainly attributable to foreign exchange losses of CHF 2.4 million in 2019. The transitional provisions of the Swiss tax reform applied by Belimo had a nonrecurring, positive effect on net income in the year under review of CHF 22.1 million.

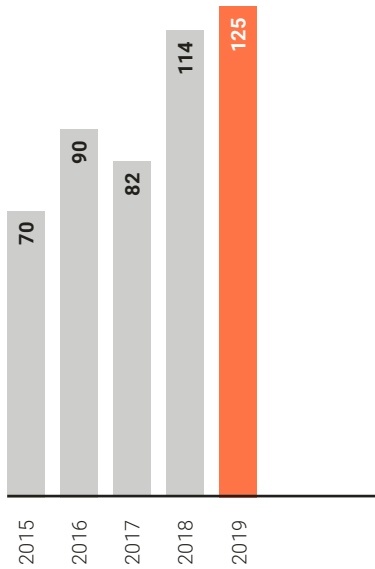
Balance Sheet: Belimo has once again maintained a healthy and sound balance sheet in 2019. In order to reduce its substantial cash reserves, the Company will increase dividend payments to CHF 150.00 per share. Total assets rose by CHF 70.5 million to CHF 602.0 million in 2019. In line with the Group's strong sales performance, its net working capital increased by CHF 9.8 million, totaling CHF 176.5 million. Year-end cash and cash equivalents amounted to CHF 172.6 million.

Return on Capital: The return on equity-ratio has increased to 25.6 percent and shareholder equity rose to 84.3 as percentage of total assets, while the return on invested capital remained unchanged at a level of 27.8 percent.

Cash flows: In 2019, Belimo generated a strong operating cash flow of CHF 125.4 million. The cash flow used in investing activities amounted to CHF 41.5 million, including the ramp-up of the new service and logistic center in Großröhrsdorf (Germany). The financing cash flow included the dividend payment of CHF 61.5 million in 2019 (CHF 100.00 per share), in addition to leasing

**Cash Flow from Operating Activities**

in CHF million



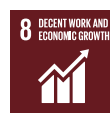
payments in accordance with IFRS 16. Additional impacts on the overall cash flow were the acceleration of the growth strategy in the Asia Pacific market region as well as the expenditures for research and development. Cash and cash equivalents increased by CHF 17.4 million to a total of CHF 172.6 million.

**Business Outlook 2020**

Belimo continues to be confident of its markets for 2020, but nonetheless expects a revenue growth slightly below the five-year average. Overall, the long-term outlook remains positive, as the main drivers of growth in form of megatrends remain unchanged. Increased uncertainty, however, has a dampening effect on the short-term and mid-term outlooks.

The US construction market remains to be strong, albeit late-cycled. Belimo anticipates stable market development in most European countries. The economy in certain European countries, however, remains challenging, e.g. in Germany and Great Britain. With the Energy Performance of Buildings Directive (EPBD) of the European Union coming into effect in 2020, an increased demand for building automation in European countries is anticipated in the years ahead. In Asia Pacific, the outbreak of the Coronavirus is likely to affect sales revenues, especially in China. A major strain on the global economy continues to be the U.S.-China trade conflict, with potential negative ramifications for overall economic conditions. In Europe, continuing Brexit-related uncertainties may have negative impacts on the regional economy. In addition, currency risks persist.

Despite a lower expected growth rate for 2020, Belimo continues to invest in its growth initiatives.



**UN Sustainable Development Goals Approach**

With its sustained economic growth story and the continuous creation of new decent workplaces Belimo, contributes to SDG 8 "Decent Work and Economic Growth". Other contributions are the empowerment of employees, the fostering of their skills as well as offering equal opportunity employment.



## Key Figures

	2019	2018 restated <sup>1)</sup>	Change
in CHF million			
Net sales	692.7	642.4	7.8%
Operating income before interest, taxes, depreciation, amortization (EBITDA) in percent of net sales	154.2 22.3%	135.0 21.0%	14.2%
Operating income before interest and taxes (EBIT) in percent of net sales	123.9 17.9%	109.8 17.1%	12.8%
Net income in percent of net sales	121.1 17.5%	86.2 13.4%	40.5%
Cash effective investments in property, plant and equipment and intangible assets	40.7	20.5	98.4%
Cash flow from operating activities in percent of net sales	125.4 18.1%	113.9 17.7%	10.1%
Free cash flow in percent of net sales	83.9 12.1%	94.3 14.7%	-11.0%
in percent			
Return on equity (ROE)	25.6	20.3	
Return on invested capital (ROIC)	27.8	27.8	
in CHF			
Earnings per share	197.00	140.22	40.5%
Dividend per share	150.00	100.00	50.0%
Number of employees (FTEs) as at December 31			
	1 789	1 640	9.0%
Actuators shipped, in million items	7.2	6.7	6.2%
Total CO <sub>2</sub> impact of Belimo devices (in tons of CO <sub>2</sub> e)	- 7 558 620	-	-

<sup>1)</sup> Restatement of non-current employee benefits. For additional information see note 1.3 of the financial report 2019.

### Value added and its distribution

Significant GRI disclosures for the creation and distribution of value in accordance with GRI Standards can be found in the financial report.

### Direct economic value added

- Sales and operating profit: see Consolidated Financial Statement Belimo Group, Consolidated Income Statement
- Personnel expenses: see Notes to the Consolidated Financial Statements Belimo Group, Note 4 Personnel Expenses
- Income Taxes: see Notes to the Consolidated Financial Statements Belimo Group, Note 7 Income Taxes
- Payments to the providers of capital: see Consolidated Financial Statement Belimo Group, Consolidated Statements of Cash Flows

### Economic value retained

Investments in and divestments of tangible and intangible assets: see Consolidated Financial Statement Belimo Group, Consolidated Statements of Cash Flows



Balanced Investment Portfolio

# Growth Strategy and Innovation

In 2019, Belimo continued to pursue its growth strategy and has attained numerous milestones. As a whole, the Company still sees abundant growth potential in each of its four strategic initiatives.

## Grow Existing Business with Actuators and Valves

In its first strategic initiative, growing existing business with damper actuators and control valves, Belimo has further established its market share and broadened its product portfolio. While both air (actuators) and water (valves) applications reported steady growth, the valve segment, in which Belimo has a lower market share in comparison with actuators, grew at a gratifyingly strong rate. This was made possible by focusing resolutely on the development of this segment.

A particular highlight in the water segment in 2019 was the rapid growth rate of new products such as the zero-leakage Belimo ZoneTight™ valve range. Belimo was able to establish these offerings further – especially in the OEM business. Meanwhile, the Belimo ZoneTight™ range was further extended in June 2019 by the launch of the world’s smallest compact 6-way valve. This extremely compact 6-way valve was developed for zone applications, where restricted space is often a key factor.

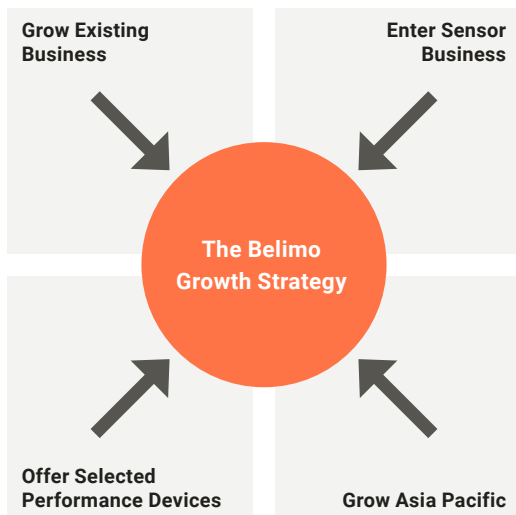
Furthermore, the promotion of pressure-independent control valves resulted in high acceptance and sales growth. Belimo is seeing a shift towards pressure-independent valve technology in both central plants and zones.

Additional innovations in the first strategic initiative have been the launch of the VRU Universal VAV controller for variable air volume control (VAV) in sensitive areas such as laboratories or hospitals, and a new generation of smoke control damper actuators (BEN/BEE) has been successfully brought to market.

## Enter Sensor Business

The sensor business is the second strategic initiative of Belimo. These devices are a key technology for achieving a favorable room climate and optimizing the use of energy. They measure temperature, humidity, pressure, air quality, air flow or energy in rooms, air ducts and pipes.

Belimo launched pipe and duct sensors as its first product range in 2017. Since then, the Company has continued to expand its offering, while further experiencing strong sales growth in the segment. Belimo sensors are now well-accepted in the industry – thereby further strengthening the positioning of Belimo as a one-stop shop for all field devices.



## Management Approach

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### Balancing Investments In Our Product Portfolio

To ensure long-term success, it is essential for Belimo to maintain a balanced investment portfolio. This involves keeping the right balance between investments in existing and new business areas. In its existing business, Belimo focuses on maintaining the broadest, most innovative product range, while in the new business, Belimo aims to create growth opportunities through unique and innovative solution offerings. Investments in product innovation, training and marketing must be balanced as well. This guarantees a pull for innovative offerings and that the Belimo sales force and its partners are well-trained and motivated to penetrate the market. Balanced investments also serve as a risk mitigation strategy: Credibility in new business areas accelerates the introduction of new offerings and shields off competition from existing offerings.

### How We Manage Our Portfolio

Balancing investments between existing and new business is mainly the responsibility of the Markets & Innovation Committee (M&I), a formal team of senior Belimo executives from all three regions. The M&I carefully assesses and prioritizes the projects that are to be released for development. Balancing investments between innovation, marketing and training is part of the annual strategy process of the Executive Committee that is reviewed by the Board of Directors. The assignment of an executive business owner and a strategy coach to each of the four initiatives, an implementation strategy, as well as a progress review on a quarterly basis ensure that opera-

tions and existing business activities are given sufficient consideration from management.

### Regular Strategic Controlling

To ensure balanced allocation between investments into the different areas of the company, it is necessary to track the following operative figures: planning (five years), budgeting (yearly) and controlling of innovation costs per strategic growth initiative ("strategy is where the money goes"). Other crucial factors include: planning, budgeting and controlling cost for innovation, marketing and training. The growth initiatives and the above key figures are discussed and adjusted in the annual strategy process by the Executive Committee and are confirmed by the Board of Directors. Once confirmed they become part of the "Belimo Strategy Map." Respective KPIs of each initiative are tracked and discussed on a quarterly basis by the Executive Committee and key management of the respective initiative.

Measuring and managing flows are the core business at Belimo. An ultrasonic flow meter has been introduced to round off its product portfolio. This device clearly differentiates the Company's offerings by measuring and automatically compensating for glycol and temperature changes in an HVAC system. The range of ultrasonic flow sensors was broadened during the period under review, with Belimo now offering eleven sizes, ranging from DN 15 to DN 150.

Furthermore, Belimo has literally "stepped into the room" during the period under review by adding a comprehensive offering of room sensors and room operating units. Belimo presented its first series of active and passive room sensors at ISH in Frankfurt (Germany), the world's leading industry exhibition, in March 2019. They generated strong interest and were subsequently released for sales in the fall. The room sensors feature not only the option of configuration via app but also a timeless thin design, to the delight of many architects.

### Offer Selected Performance Devices

Belimo drives the trend towards making field devices smarter, allowing for substantial additional energy savings in comparison with conventional valves. The combination of sensor, actuator and valve technologies and embedded logic is key when it comes to making devices "smart". These "Performance Devices" had a substantial impact on the Company's high rate of growth in 2019.

One very successful representative of these products is the Belimo Energy Valve™, an award-winning innovation that continuously measures energy, controls power and manages Delta T to avoid the Delta T syndrome. In addition, it is IoT-ready (Internet of Things) for integration with the IoT solutions used in contemporary buildings. Read more on what the Delta T syndrome is and how it can be resolved with the Belimo Energy Valve™ in our case study featuring the Citizen's Plaza in Nashville (Tennessee, USA) on page 55.

Another representative of the Performance Devices product category is the Belimo ZoneEase™ VAV, which continues to be highly successful in the Asia Pacific market region. It is an innovative solution for room and zone ventilation in large building complexes, offering many advantages, first among them being its time-saving commissioning process via smartphone.

### Grow Asia Pacific

The Asia Pacific region represents an important, fast-growing market, where Belimo is strengthening its presence and expanding its leading position.

Increased investments for developing sales and distribution capabilities as well as the launch of further products specifically developed for the region characterized the period under review. Belimo pushed ahead with its cluster strategy in selected Chinese metropolitan areas. It now runs sales offices in six cities, with imminent plans for opening four new ones.

The metropolitan areas in China continue to undergo rapid development – in terms of buildings as well as of infrastructure. Particularly to be noted with respect to infrastructure are the new subway stations that require demanding HVAC systems, including Belimo actuators, valves and sensors.

In India, the second largest market in the market region, Belimo plans to expand its operations in the near future. As part of this initiative, it is building a new facility that will house customization, sales and a customer experience center for training purposes. The customizing center in Kuala Lumpur (Malaysia), which opened in 2018, is now fully operational.