Quarterly report as of September 30, 2015

# Geberit achieves solid results in a challenging environment

Geberit AG, Rapperswil-Jona, October 27, 2015

**The Geberit Group's results in the first three quarters of 2015 continued to be shaped by the challenging environment in the construction industry and the integration of the acquired Sanitec business. Overall, net sales increased by 21.8% to CHF 1972.6 million. Net sales adjusted for acquisition and currency effects grew by 2.1% despite a strong equivalent period in the previous year. The adjusted operating profit increased by 1.3% to CHF 483.3 million, while adjusted net income dropped by 3.8% to CHF 397.8 million. For 2015, Management expects to achieve currency-adjusted net sales growth of 2% to 3% for the original Geberit business and currency-adjusted net sales for the Sanitec business below the previous year's level. The adjusted operating cashflow margin for the year as a whole should reach around 26%.**

## Consolidated net sales

In the first nine months of 2015, net sales[1)] for the Geberit Group increased by 21.8% to CHF 1972.6 million. This growth was influenced by the Sanitec Group, which was consolidated into the Geberit Group as of February 1, 2015, as well as by significantly negative exchange rate effects in the amount of CHF 162 million, resulting from the abandonment of the minimum exchange rate by the Swiss National Bank. Currency-adjusted and in organic[2)] terms, an increase of 2.1% was recorded. This positive growth was achieved despite the currency rebate in the amount of 10% in the Swiss market, the very difficult market environment still seen in many European markets and a strong equivalent period in the previous year, especially in the first half of the year. From the beginning of February 2015, Sanitec’s product range accounted for CHF 481 million of net sales.

Net sales in the third quarter reached CHF 665.1 million, which is equivalent to an increase of 25.3%; currency-adjusted organic growth amounted to 1.3%.

## Net sales by markets and product areas

In organic terms and local currencies, Europe – the largest region – grew by 1.3%. Strong growth rates were recorded in the United Kingdom/Ireland (+8.8%), the Iberian Peninsula (+8.0%), the Benelux Countries (+6.9%) and the Nordic Countries (+5.8%). Germany (+2.4%), Italy (+1.5%), Central/Eastern Europe (+1.4%) and Austria (+0.2%) also grew. Switzerland (-7.9%) suffered from the currency discount of 10% introduced at the beginning of February due to the strong Swiss franc. France (-1.3%) was negatively affected by difficult market conditions. Outside Europe, the Middle East/Africa (+23.5%) and America (+9.9%) regions posted growth. There was growth of only 1.8% in the Far East/Pacific region as a result of the very weak market environment in China.

In the product areas, Sanitary Systems posted currency-adjusted growth of 4.0%, while net sales of Piping Systems fell by 0.5%.

1) Switch to net sales as the relevant sales figure with respect to the 2015 financial year
2) Organic/acquisition-adjusted: adjusted for the additional sales from the Sanitec acquisition

**Results**
In the 2015 financial year, the results of the Geberit Group are affected by various special effects in connection with the Sanitec acquisition. For better comparability, adjusted[3)] figures are therefore reported and commented on. The adjusted operating cashflow (adj. EBITDA) increased by 4.0% to CHF 557.1 million, which corresponds to an adjusted EBITDA margin of 28.2%. The adjusted operating results (adj. EBIT) increased by 1.3% to CHF 483.3 million, which corresponds to an adjusted EBIT margin of 24.5%. The strong Swiss franc reduced the operating results significantly. The operating margin was positively influenced by advantageous volume and product mix effects as well as lower costs of raw materials. The currency discount of 10% in the Swiss market, negative currency effects, increased personnel and pension costs, and the generally lower margins of the Sanitec business had a negative impact. The adjusted net income decreased by 3.8% to CHF 397.8 million, with an adjusted return on net sales of 20.2%. The adjusted earnings per share decreased by 3.3% to CHF 10.65 (previous year CHF 11.01).

The negative special effects[4)] as a result of the Sanitec acquisition amounted to CHF 69 million at the operating results level and CHF 59 million at the net income level.

The lower net cashflow was a result of the decline in EBITDA and higher financing costs. As a result of the strong increase in inventories and receivables in the first nine months of 2014, there was a smaller increase in net working capital compared to the previous year, whereas higher investments in property, plant and equipment were recorded. As a result, free cashflow grew slightly by 0.5% to CHF 325.0 million.

**Financial situation**
The financial situation of the Geberit Group has altered markedly following the acquisition of Sanitec. As expected, the equity ratio decreased in comparison to the level at the end of 2014, from 70.6% to 40.6%. The development of net debt (debt less liquid funds) was significantly influenced by the financing of the Sanitec takeover. In addition, the dividend payment to the shareholders in the amount of CHF 310.7 million and the share buyback program contributed to turning the net cash of CHF 739.2 million at the end of 2014 into net debt of CHF 760.5 million. Despite these changes, the financial situation remains very healthy – especially due to the strong cashflow generation.

By September 30, 2015, 469,000 shares had been acquired as part of the share buyback program, which corresponds to 25% of the originally planned, entire program, at a sum of CHF 150.6 million. Based on the price of Geberit registered shares at the end of September 2015, the estimated value of the shares to be bought back by the end of the program in April 2016 is approximately CHF 240 million or 2% of the share capital recorded in the commercial register.

**Status of Sanitec acquisition**
The integration activities launched in the second quarter of 2015 continue to run according to plan. In addition, the squeeze-out process for the outstanding 0.2% of Sanitec shares was concluded successfully in September 2015.

[3)] Adjusted: adjusted for costs in connection with the Sanitec acquisition (transaction, integration, and one-off financing costs as well as the amortization of intangible assets and one-off costs resulting from the inventory revaluation)
[4)] Transaction, integration, and one-off financing costs as well as the amortization of intangible assets and one-off costs resulting from the inventory revaluation

## Outlook for the entire year 2015

The construction industry is expected to remain challenging. The individual regions/markets and construction sectors are developing very differently. In Europe, volumes in the construction industry are continuing to contract overall. With the exception of a few markets such as Germany, the United Kingdom and Poland which are developing positively, no recovery is in sight in most other markets, and markets such as Italy and France are expected to see further falls in demand. Non-residential construction is failing to recover, but this is at least partially being compensated by a flat to slightly positive trend in residential construction. In North America, the indicators in public construction projects are currently not pointing to a recovery on a relevant scale. In the Far East/Pacific region, the market in China is showing a clear downward trend overall. The outlook for the Middle East and South Africa remains positive.

The strengthened Swiss franc is also contributing to the more difficult conditions, with a consequential negative effect on both sales and results. In general, the effects of currency fluctuations on margins are minimized as far as possible with an efficient natural hedging strategy. This entails making sure that costs in the various currency areas are incurred in the same proportion in which sales are generated. The impact on the operating profit margins is, therefore, relatively small. In addition, a currency rebate of 10% was established in the Swiss market at the beginning of February 2015 as a result of the stronger Swiss franc. Management remains committed to adjusting itself to the changed exchange rate conditions by continuously enhancing the cost structure.

The good results achieved by the Geberit Group in the first nine months despite the tense situation in many European markets and the strong equivalent period in the previous year give the company every reason to be confident of achieving solid results for 2015 as a whole. Much importance is also attached to the integration of the Sanitec activities. For 2015, Management expects to achieve currency-adjusted net sales growth of 2% to 3% for the original Geberit business and currency-adjusted net sales for the Sanitec business below the previous year's level. The margin dilution due to the integration of Sanitec and the effects of the currency rebate in Switzerland are likely to lead to an adjusted operating cashflow margin (adj. EBITDA margin) of around 26% for the year as a whole.

## Goals 2018 for the Geberit Group

As a result of the integration of the Sanitec activities as well as the conversion of reporting to net sales from the 2015 financial year, there was a review and an adjustment of the medium-term goals for the entire Group which should be achieved as per 2018. As per 2018, the growth of net sales in local currencies, adjusted for acquisitions, should amount to between 4% and 6% on average over the business cycle, the target corridor for the operating cashflow margin is 28% to 30%. The return on invested capital (ROIC) should reach as per 2018 25%.

## Key financial figures as of September 30, 2015

| Millions of CHF | 1/1 – 9/30/2015 | 1/1 – 9/30/2014 |
|---|---|---|
| Net sales | 1972.6 | 1619.8 |
| Change in % | +21.8 | +5.2 |
| Change in %, currency-adjusted/organic | +2.1 | +6.8 |
| Adj. operating cashflow (EBITDA) | 557.1 | 535.9 |
| Change in % | +4.0 | +11.5 |
| Margin in % of net sales | 28.2 | 33.1 |
| Operating cashflow (EBITDA) | 510.0 | 535.9 |
| Change in % | -4.8 | +11.5 |
| Adj. operating profit (EBIT) | 483.3 | 477.3 |
| Change in % | +1.3 | +13.6 |
| Margin in % of net sales | 24.5 | 29.5 |
| Operating profit (EBIT) | 413.9 | 477.3 |
| Change in % | -13.3 | +13.6 |
| Adj. net income | 397.8 | 413.7 |
| Change in % | -3.8 | +14.7 |
| Margin in % of net sales | 20.2 | 25.5 |
| Net income | 338.4 | 413.7 |
| Change in % | -18.2 | +14.7 |
| Adj. earnings per share (CHF) | 10.65 | 11.01 |
| Change in % | -3.3 | +14.8 |
| Earnings per share (CHF) | 9.06 | 11.01 |
| Change in % | -17.7 | +14.8 |
| | **9/30/2015** | **12/31/2014** |
| Equity | 1483.0 | 1717.1 |
| Equity ratio in % | 40.6 | 70.6 |
| Net debt | 760.5 | -739.2 |
| Number of employees | 12,453 | 6247 |

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