



Industry Leadership

package solutions **AGILE** *performance*

value **ROBUST** *future focus* **RELIABLE**  
strategy

**INNOVATION** trustworthy exceeding expectations

# LEADERSHIP

**2015 Annual Report**

equipment **integrated** **UNIQUE** employ  
*precision* *efficiency*

**COMPETITIVE** **OPPORTUNITIES** **performance**  
meeting challenges

custom solutions **GROWTH** **SAFETY**  
**EXPANSIVE** *committed*

**PRODUCT LINE** **FLEXIBLE** reputation

*robust infrastructure* technology

2015 CASH  
FROM OPERATIONS

**\$49+**  
Million

10-YEAR TOTAL  
SHAREHOLDER RETURN

**448%**

PRODUCTS  
OFFERED

**2.5**  
Million

VALVES SOLD  
IN 2015

**4.4**  
Million

**89**

Distributors

**40**

Integrators

**55**

Countries  
Sold Into



**10 Global Locations**  
comprised of  
**862 Employees**

**44**

CONSECUTIVE YEARS IN OPERATION  
WHILE EARNING A PROFIT

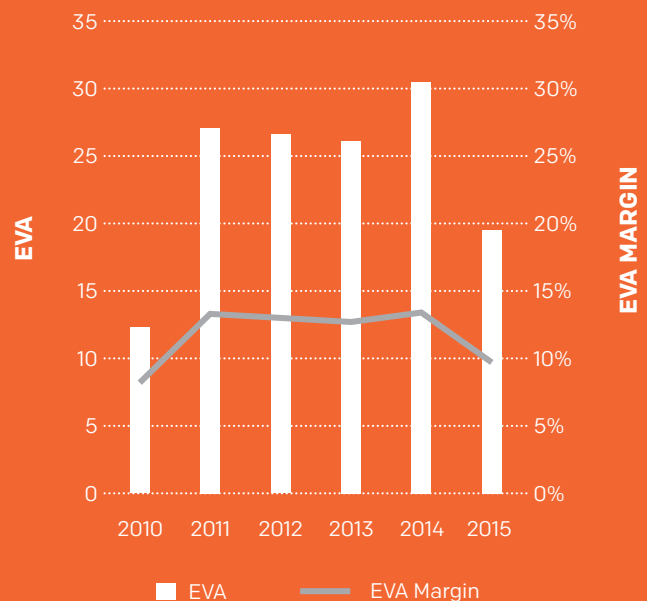
**19**

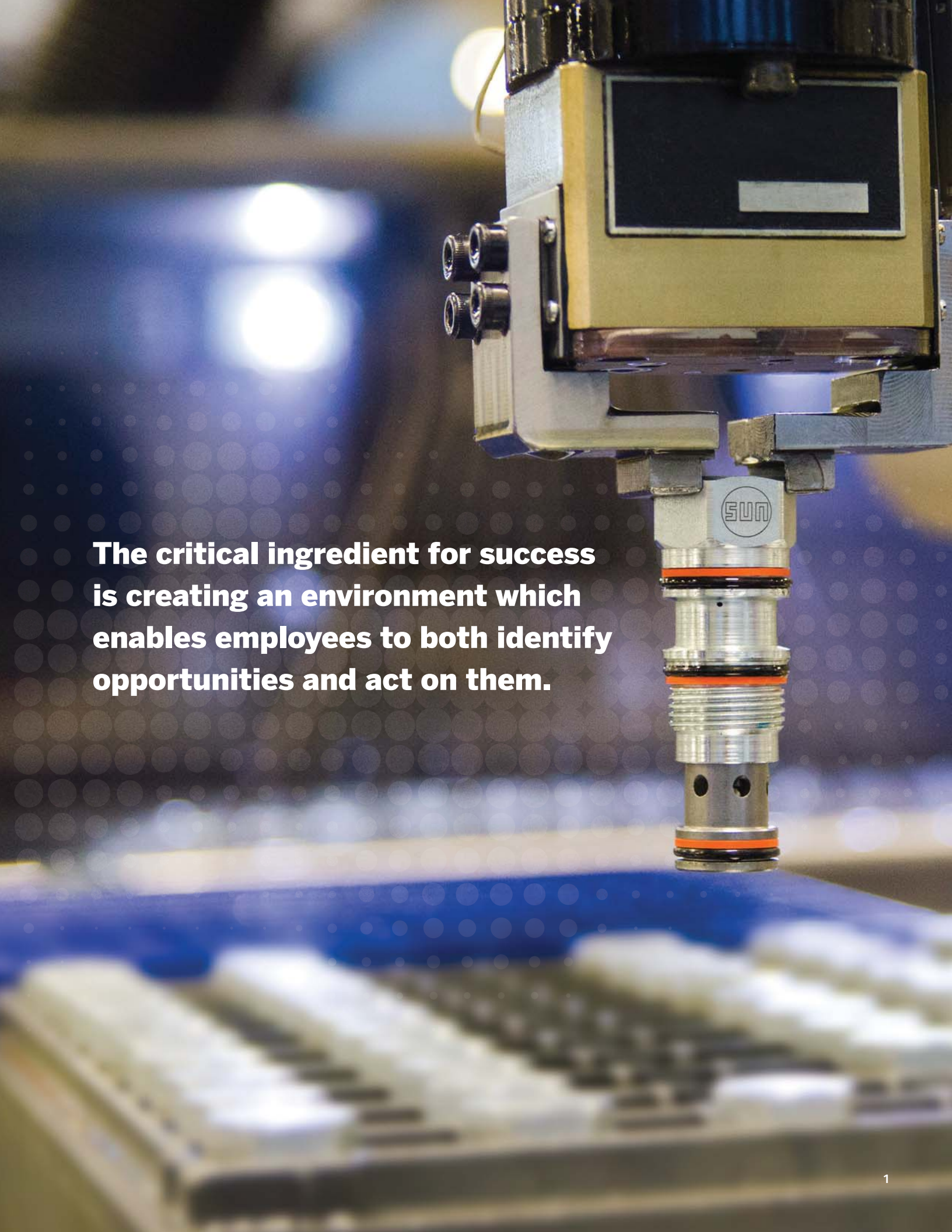
YEARS AS A PUBLIC COMPANY  
WITH QUARTERLY DIVIDEND

OPERATING PROFIT MARGIN

2015  
**23.4%**

2014  
**28.1%**





**The critical ingredient for success  
is creating an environment which  
enables employees to both identify  
opportunities and act on them.**





## A MESSAGE FROM ALLEN CARLSON

# Leading in Difficult Times

When contemplating the focus of this year's letter, I felt a sense of familiarity. Sun has delivered similar messages before: Our business is cyclical, with times of rapid growth followed by times of decline. As we've seen in past economic slowdowns, the media has been chock-full of reports concerning corporate layoffs and restructuring as public companies have responded to short-term earnings pressures. Sure enough, a look back at our messages from the 2000 and 2009 annual reports confirmed my sensation of déjà vu.

Today, Sun's response to difficult times remains the same—continued investment in our company and prudent management of the business without compromising our future success. We aim to sustain growth throughout the cycle. Demand will return as the next cycle begins, and we must remain ready to respond quickly when it does. To do this, we invest in processes, capacity, product development, end markets and people. Because market share gains are made in the beginning of a business cycle, planning and investment for such gains must be done at the bottom of the previous cycle.

Following our proven recipe for success, the actions we took in 2015 and that we are taking now have increased our capability to respond rapidly to a rise in demand. We continue to focus on developing our products, specifically our electrically actuated cartridge valve products.

Additionally, we've devoted increased marketing resources to all regions, furthering our market penetration in the Americas, Europe and Asia. We are operating as we always have, investing today to ensure tomorrow's growth.

Sun does not attempt to predict the unpredictable. We take a long-term approach to our business, knowing that over time, if we do the right things, the market will reward us. As of the writing of this letter, hesitations remain in the global economy; I see no need to reiterate analyst and news headline sentiment.

In September, we announced that Wolfgang Dangel would become Sun's next CEO. Wolfgang is an extremely capable, experienced and respected leader with an immense passion for our company, people and products. As CEO, he will bring a rich combination of leadership skills, market knowledge and customer focus. With a deep appreciation of our past accomplishments, and the energy and skill to drive those to come, he is well suited to lead Sun into the future. I look forward to what's in store.

Allen J. Carlson



## A MESSAGE FROM WOLFGANG DANGEL

# Today's Challenges Are Tomorrow's Opportunities

The opportunities available to Sun are cause for enthusiasm. Our physical presence in Europe and Asia and our global brand set us up well for the next business cycle. So does our reputation for exceptional product performance and reliability plus exceptional delivery and customer service. A healthy balance sheet with a strong cash position makes us agile, and agility allows us to take advantage of opportunities that present themselves along the way. These factors enable us to grow smoothly and sustainably.

Today's economic environment poses many challenges that we'll have to overcome. Sun's various end markets are down with few signs of a near-term turnaround, and a strong U.S. dollar is affecting our international sales. The diversity of our products and regions served, however, helps to mitigate the impact of these negative economic pressures.

Our people are eager to move forward with new initiatives. Electronic controls technology represents one of the fastest-growing segments of the hydraulics market. We believe strengthening our competencies in this area will be instrumental. Additionally, we consider it necessary to reinforce our cartridge valve technologies, whether through adding personnel with new skills or by making

acquisitions. Both today's and tomorrow's steps will ensure future growth and value creation for the long term.

Higher standards and greater demands for efficiency will lead us to better assess our performance and refine our business processes. As we effectively address these challenges, we'll emerge from the down portion of the cycle stronger than the competition and optimally positioned to take advantage of an improved economy. In generating value for our customers through differentiated products and services, we create consistent value for ourselves. Our focus will remain on creating and capturing value for you, our shareholders.

In 2016, we are continuing to build our future while maintaining our steadfast commitment to business ethics and personal integrity. This is who we are. This is what we do. This is Sun today.

A handwritten signature in black ink, appearing to read 'Wolfgang H. Dangel'.

Wolfgang H. Dangel



# Industry Leadership

From its inception in 1970, **SUN HYDRAULICS**  
**HAS BEEN COMMITTED TO BEING THE LEADER**  
in the hydraulics industry.



Our innovative products advance our customers' businesses while keeping the explicit and implicit promises we make. We deliver value to our stakeholders by continually investing in equipment and processes to sustain our high quality and our efficient, profitable operations. Our respected brand and our reputation are the fruit of our commitment to these basic principles.

### A TRADITION OF PRODUCT INNOVATION

Our organization was founded on product innovation. We introduced an industry-unique floating-style cartridge design and signature cartridge cavity, establishing Sun as a leader in the market. Soon after, Sun developed a reputation as the go-to source for stable, reliable valves—the cornerstones of the load-holding industry. Recent innovations in our energy-saving solutions and wireless Bluetooth technology keep Sun Hydraulics in a strong leadership position, poised for continued long-term growth in our market segments.

### QUALITY PRODUCTS SET THE STANDARD

Sun's products have a reputation for predictable, reliable performance. Our unparalleled attention to design enables our valves to operate more precisely and consistently at maximum pressures and flow rates. The quality construction of these products makes them invaluable in demanding industrial and mobile applications.

Sun keeps all critical finishing processes in-house to maintain quality and ensure superior product performance. Extensive automation refines these processes and streamlines operations. Every cartridge valve undergoes rigorous functional testing prior to shipment, and all employees understand their responsibility for maintaining Sun's reputation for quality. It's how we lead the industry.

### A LEADER IN CUSTOMER SERVICE

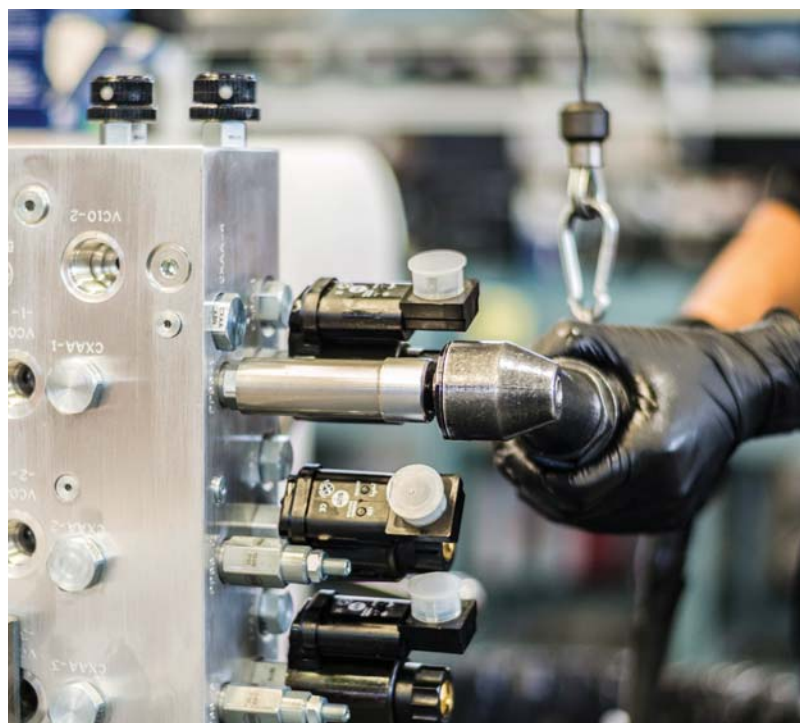
We value our relationships and understand the daily challenges our customers face in meeting their obligations and deadlines. With that in mind, we schedule all shipments to meet our customers' demands. Next-day delivery is unheard of in the hydraulics marketplace, yet for Sun, it's a common occurrence. Fulfilling customer needs is an orchestrated effort across the Company. Operationally, we manufacture products to order to keep on-hand inventory to a minimum. Our capacity and capability ensure that we consistently meet demand.

Our worldwide manufacturing facilities and distribution network enable us to provide reliable delivery and support to customers wherever they are. Whether they're in the Americas, Europe or Asia, we're there to support them, understand the challenges they face, and deliver solutions.

### ENABLING VS. EMPOWERING

Empowering employees without giving them the necessary resources, training and encouragement is setting an organization up for failure. At Sun, we enable employees rather than just empower them. By providing our people with the necessary tools, information and authority, we effectively say, "You make the decisions," and our employees do just that. A visit to our manufacturing facilities clearly shows that Sun chooses to lead rather than manage. Sun operates without a formal hierarchy or job titles; there are no managers directing the employees, no offices with doors. Eliminating management reduces cost and leads to faster and better decisions. Those making the decisions are directly involved in, and directly affected by, the outcomes—they are invested. So ultimately, customer demands drive us, not management directives.

**“Success comes from a combination of tangible actions and intangible qualities.”**





# Diverse Markets

For over 40 years, Sun has offered premium products that provide innovative ways for machine and equipment designers to control motion. **WE SUPPORT A MULTITUDE OF DIVERSE MARKETS AND CUSTOMERS**, resulting in our products being used worldwide in an extensive range of applications.



## ON LAND AND IN THE SEA

A dredging operation off Florida's east coast keeps a passageway free of sand for boating traffic and flood prevention, all while replenishing nearby beaches. The dredge includes a 9,000-gallons-per-minute pump which removes 400 cubic yards of sand per hour. Sun's valves control the swing winch (pictured) used to adjust the speed of the dredge arm movement. Based on the local distributor's recommendation, the dredge incorporates Sun's new Bluetooth Embedded Amplifier, which allows for quick, easy and reliable wireless calibration, giving the ship's captain a new level of convenience and safety.

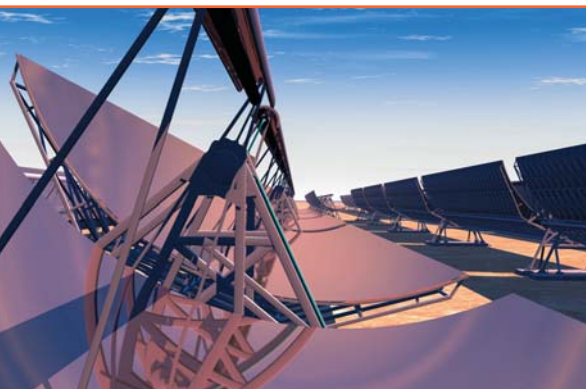
## KEEPING YOU ON TRACK

Trains are a vital way of moving goods today, so track maintenance is essential. Ballast (crushed stone) is used to form the track bed on which the railroad ties sit. Vibration from traveling trains causes ballast around the rails to loosen and move over time. Specialized rail maintenance cars, using a series of hydraulically operated gates, carry and distribute the ballast, dispensing the precise amount where needed. Working with our local distributor, the customer selected Sun products for this application because of their compact design, efficiency and reliability.

## CRUSHING IT

Sun Hydraulics Korea developed seven custom integrated packages for inclusion in a 200-ton mobile rock crusher. This machinery is suitable for industrial applications including highway construction, housing development and tunnel works. A discharge conveyor, driven by hydraulic motors, expels material from the jaw chamber. Accurate belt tension is critical in this application. Sun's solenoid cartridge valves provide the high performance and reliability necessary for the crusher's tension-control system. Sun products ensure proper performance in the most severe environments.





### **EFFICIENT SOLUTIONS FOR ALTERNATIVE ENERGY**

In alternative energy applications, system efficiency is critical. This is certainly the case with the solar collection systems found in China's harsh deserts. Sun Hydraulics China worked with our distributor in that region to design motion controls for the panels of a solar power generation application. The surface of each heat collection panel measures 30 meters (98.4 feet) long by 4 meters (13.1 feet) high, or the length of a basketball court. It is imperative that the system operate continuously, without issue, throughout the entire day. Key to the selection of Sun's product for this application was the product's reputation for efficiency, reliability and durability.



### **REDUCED MAINTENANCE VIA SMART HYDRAULICS**

At large mining operations, truck-mounted sprayer systems are commonly used to improve safety and reduce equipment maintenance. High Country Tek (HCT), Sun's electronic controls subsidiary, worked with our local distributor to develop the next generation of water-dispensing systems. By incorporating Sun's integrated packages featuring HCT controllers, these systems improve water conservation and work conditions through user-friendly system diagnostics, programmability, enhanced monitoring and increased reliability.



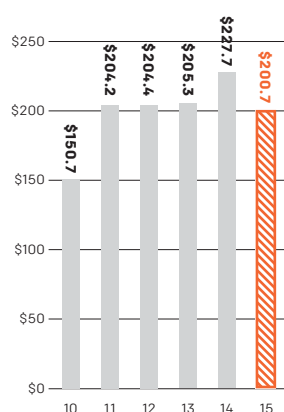
### **PLAYING IT COOL WITH HYDRAULICS**

In mobile equipment, hydraulic cooling systems reduce energy consumption, emissions, maintenance needs and ambient noise. Sun and HCT incorporated a Sun integrated package into its design for a cooling system for REICHdrill's rotary drilling equipment. This customized solution — comprising a Sun manifold, Sun cartridge valves and HCT electronic controller — uses thermal feedback to adjust the rotational speed of the cooling fan. Sun's integrated package helped REICHdrill to reduce overall fan power consumption by 30–40% while diminishing noise and improving pump and motor life. Efficiency advancements such as these are vital in developing future generations of mobile equipment.

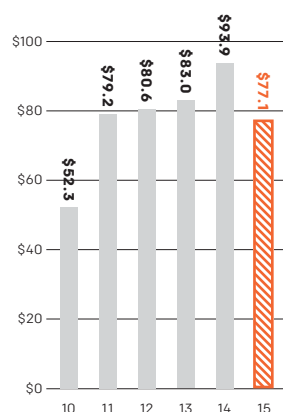
# Financial Highlights

	REPORTING YEAR					
IN THOUSANDS EXCEPT PER SHARE DATA	2015	2014	2013	2012	2011	2010
<b>Statement of Operations</b>						
Net sales	\$ 200,727	\$ 227,673	\$ 205,267	\$ 204,367	\$ 204,171	\$ 150,695
Gross profit	77,093	93,892	82,961	80,572	79,215	52,343
Operating income	46,891	64,071	56,171	54,409	55,269	31,039
Income before income taxes	49,230	65,742	57,172	55,853	57,586	31,643
Net income	\$ 33,138	\$ 43,775	\$ 37,984	\$ 37,398	\$ 37,677	\$ 21,400
Basic net income per common share	\$ 1.24	\$ 1.65	\$ 1.45	\$ 1.44	\$ 1.47	\$ 0.84
Diluted net income per common share	\$ 1.24	\$ 1.65	\$ 1.45	\$ 1.44	\$ 1.47	\$ 0.84
Dividends per common share	\$ 0.45	\$ 1.45	\$ 0.45	\$ 1.48	\$ 0.40	\$ 0.57
<b>Other Financial Data</b>						
Depreciation and amortization	\$ 9,557	\$ 8,718	\$ 7,227	\$ 7,186	\$ 6,721	\$ 6,873
Capital expenditures	6,106	10,667	17,935	13,359	10,143	3,856
<b>Balance Sheet Data</b>						
Cash and cash equivalents	\$ 81,932	\$ 56,843	\$ 54,912	\$ 34,478	\$ 42,834	\$ 33,206
Working capital	145,336	119,815	115,038	90,198	89,744	66,150
Total assets	241,540	222,764	213,478	175,121	167,528	132,034
Total debt	—	—	—	—	—	—
Shareholders' equity	222,187	198,259	191,428	155,273	145,276	115,024
<b>% of Sales</b>						
Gross profit	38.4%	41.2%	40.4%	39.4%	38.8%	34.7%
Operating income	23.4%	28.1%	27.4%	26.6%	27.1%	20.6%
Net Income	16.5%	19.2%	18.5%	18.3%	18.5%	14.2%

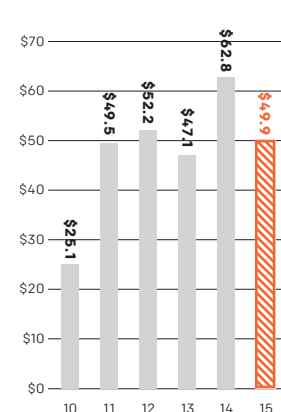
**Net Sales**  
(IN MILLIONS)



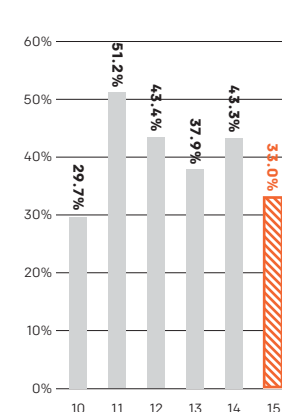
**Gross Profit**  
(IN MILLIONS)



**Cash from Operations**  
(IN MILLIONS)



**Return on Capital Employed**  
(AS A PERCENT)



# Shareholder Information

## CORPORATE OFFICERS

**Wolfgang H. Dangel**  
President, CEO

**Tricia L. Fulton**  
Chief Financial Officer

**Mark B. Bokorney**  
Officer

**Steven Hancox**  
Officer

**Tim A. Twitty**  
Officer

## DIRECTORS

**Marc Bertoneche, PhD**  
Professor, Business Administration  
University of Bordeaux

**Allen J. Carlson**  
President, CEO retired  
Sun Hydraulics Corporation

**Wolfgang H. Dangel**  
President, CEO  
Sun Hydraulics Corporation

**David W. Grzelak**  
Chairman, CEO retired  
Komatsu America Corporation

**Christine L. Koski**  
President, CEO  
nMetric LLC

**Philippe Lemaitre**  
Chairman of the Board  
Sun Hydraulics Corporation  
Chairman, President, CEO retired  
Woodhead Industries, Inc.

**Alexander Schuetz**  
CEO  
Knauf Engineering GmbH

**David N. Wormley, PhD**  
Dean, Engineering School retired  
Pennsylvania State University

## LEGAL COUNSEL

Shumaker, Loop & Kendrick, LLP  
Tampa, Florida

## AUDITORS

Mayer Hoffman McCann P.C.  
Clearwater, Florida

## CORPORATE HEADQUARTERS

Sun Hydraulics Corporation  
1500 West University Parkway  
Sarasota, FL 34243  
Phone: 941-362-1200  
Fax: 941-355-4497

## INVESTOR RELATIONS

If you wish to be placed on Sun Hydraulics' email list for periodic news and financial releases, please send your request to [investor@sunhydraulics.com](mailto:investor@sunhydraulics.com) or visit Sun's website to sign up.

The Company's Annual Reports, Forms 10-K, 10-Q, 3, 4, 5, and press releases are available at the Investor Relations section of Sun's website, [www.sunhydraulics.com](http://www.sunhydraulics.com), or by request from corporate headquarters.

If you would like a hard copy of Form 10-K, a copy will be provided without charge upon request to:

Investor Relations  
Sun Hydraulics Corporation  
1500 West University Parkway  
Sarasota, FL 34243

## TRANSFER AGENT

Computershare  
Campton, Massachusetts

## COMMON STOCK INFORMATION

The Common Stock of Sun Hydraulics Corporation is traded on the NASDAQ Global Select Market under the symbol SNHY.

As of March 4, 2016, there were 173 shareholders of record. The number of record holders was determined from the records of the Company's transfer agent and does not include beneficial owners of common stock whose shares are held in the name of various securities brokers, dealers and registered clearing agencies. The Company believes that there are approximately 12,000 beneficial owners of common stock.

As of March 4, 2016, the closing price per share of SNHY stock was \$33.59 and there were 26,795,833 shares outstanding.

## SHAREHOLDERS ANNUAL MEETING

The annual meeting of shareholders will be held at 10:00 AM Eastern Time on Monday, May 23, 2016, at:

Sun Hydraulics Corporation  
803 Tallevast Road  
Sarasota, Florida 34243



# Worldwide Locations

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info@sunfr.com

## Sun Hydraulics Korea Corporation

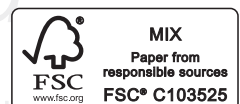
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