



2016 Annual Report

Defined Vision / Designed Transformation

BEYOND HYDRAULICS

Introduction to Sun

Sun Hydraulics Corporation, founded in 1970, in Sarasota, FL, is an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets. In the hydraulics market, we are a leading manufacturer of high-performance screw-in hydraulic cartridge valves, electro-hydraulics, manifolds, and integrated package solutions for the worldwide industrial and mobile hydraulics markets operating under the brand Sun Hydraulics. In the electronics market, we are a global provider of innovative electronic control, display and instrumentation solutions for both recreational and off-highway vehicles, as well as stationary and power generation equipment; these are offered under the brands of Enovation Controls, Murphy and Zero Off. Additionally, High Country Tek ('HCT') is an independent designer and producer of modular, robust, reliable digital and analog electronic controller products for the fluid power industry sold under the brand of HCT.

Sun at a Glance

17.5%
OPERATING PROFIT
MARGIN

\$38.5M
CASH FROM
OPERATIONS

\$48M
ADJUSTED EBITDA

511%
10-YEAR TOTAL
SHAREHOLDER
RETURN

65
COUNTRIES SOLD
INTO

6
BRANDS

14
LOCATIONS

1,100
EMPLOYEES

175
DEGREEED
ENGINEERS

Megatrends Impacting our Future



Safety & Sophistication of Machinery & Equipment

Today's machine and equipment users demand safety, productivity, efficiency and even automated control. Advancements in the design of these machines and equipment require continuous evolution of critical components such as hydraulic and electronic controls and robust display technology.

Globalization

Global population growth and urbanization will generate ongoing demand for infrastructure projects and for food and resource production. This demand will be driven predominantly by Asian megacities, and satisfying it will require equipment and machinery from our key end markets.

Computing Power

In this digital age, what used to be manual or mechanical functions are now driven by electrical power and digitized information that can be processed, stored and transmitted electronically. The ongoing transformation of machinery and equipment requires increasingly sophisticated electronic and electro-hydraulic solutions for consumer and industrial markets.



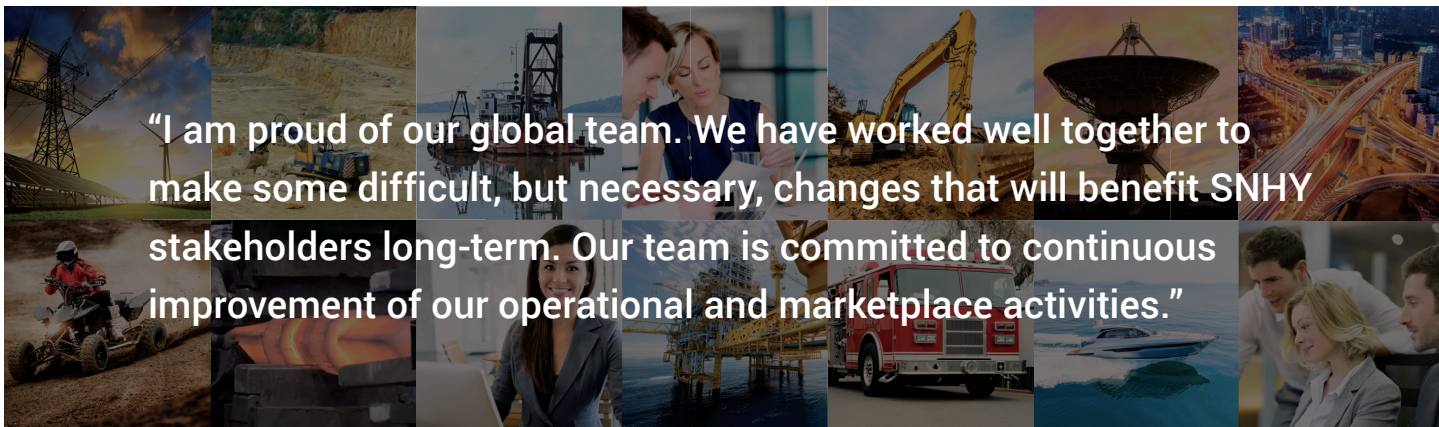
Message to Shareholders

We carried out a transformational reassessment of your company last year. We considered the megatrends impacting the industrial goods markets – globalization, growing sophistication and interconnection of machinery and equipment, growing computing power – and re-examined our long-range direction. Based on our reassessment, we updated our vision for the Company and established a set of aggressive objectives to make that vision a reality. Reaching those goals will be challenging, but we firmly believe it is achievable.

Sun has long been a leader in compact hydraulics, most notably in cartridge valve technology (CVT). During our business reassessment process, we recognized the need to move beyond our industry leading cartridge valves and consider a broader scope of technologies to complement our current product line. Accordingly, we focused our updated long-term strategy on achieving global technology leadership by delivering a range of innovative products and services for the industrial goods sector. This thinking led us to acquire Enovation Controls in December 2016. The addition of Enovation expands our electronic and digital capabilities, giving us access to new, highly specialized markets and customers seeking complete machine control. Additionally, Enovation brings a strong talent pool with a proven track record of new product development and technical innovation, complementing Sun's current competencies.

Given this business expansion, your company will now operate with two reporting segments: hydraulics and electronics. The hydraulics segment consists of all the historical Sun companies except High Country Tek (HCT). We refer to the hydraulics business as Sun CVT. The electronics segment consists of Enovation Controls and HCT. HCT's business is very much aligned with Enovation's; we anticipate synergy between the two of them.

Sun CVT made significant operational strides during 2016. We completely redesigned its development process to emphasize the distinction between innovative and sustaining engineering. In addition, we significantly increased its direct customer interaction worldwide by hiring field application specialists to work with both distribution channel partners and end-use customers in developing new business. Committed to continuous improvement in all our operations and marketplace activities, we established challenging key performance



indicators (KPIs) – metrics that show how effectively a company is achieving its objectives – for our product manufacturing and other operations. Our KPIs at a consolidated level are sales growth by region and operating margins while each location measures safety, quality, delivery and productivity. Finally, but perhaps most importantly, we expanded our leadership team to establish key global roles for engineering, product development, sales and operations which will be critical for achieving scalability and growth.

The current year is off to a good start from a demand perspective. We see signs of improvement in the global economy and specifically in some of our most important end markets. To capitalize on that improvement and reach our goals, we know we have to work not only harder but also smarter. We will be better able to identify growth opportunities through closer interaction with the marketplace. We believe there is nothing more important than getting in front of the customer and understanding his or her needs. There are parts of the globe that we have not yet penetrated which we intend to pursue with local distribution partners. Finally, we will continue to search for M&A opportunities that bring us technology advancements from good, solid companies.

While we have made good strides in the last year, we have a long way to go. We welcome the Enovation team to our organization and look forward to the opportunities that lie ahead. I am proud of our global team members—they have worked well together to make some difficult, but necessary, changes that will benefit our stakeholders over the long term. Rest assured, we are aggressively working toward our goal of \$1 billion in sales by 2025 while maintaining superior profitability and financial strength. We thank you for your confidence and support.

Best Regards,

A handwritten signature in black ink, appearing to read "W. Dangel".

Wolfgang Dangel
CEO and President
March 31, 2017



Vision 2025

Achieve global technology leadership in the industrial goods sector by 2025 with a critical mass exceeding \$1 billion in sales while maintaining superior profitability and financial strength.
(See page 7)



Vision 2025

Achieve global **technology leadership** in the industrial goods sector by 2025 with critical mass exceeding **\$1 billion in sales** (representing, at a minimum, the doubling of Sun's cartridge valve technology sales) while maintaining **superior profitability and financial strength**.

In developing our vision for the Company, we gave great consideration to what we believe is the critical mass of sales that Sun will need by 2025 to remain relevant in the industrial goods sector. We firmly believe we can reach sales of \$1 billion by 2025 with \$500 million achieved organically and \$500 million achieved through acquisitions. As with Enovation Controls, we seek acquisition targets that will advance our technology standing relative to others serving industrial markets. Importantly, any acquisition must contribute to Sun's continued financial success, consisting of superior profitability and financial strength maintained over the long term. Such success is imperative for lasting shareholder value.

Our current initiatives for organic growth include developing new product lines to expand our electrohydraulic offerings, penetrating new geographic markets, expanding sales and marketing efforts in existing geographic markets, and creating new channels to market to reach customers not presently in Sun's purview.

Our strategic roadmap for both segments also includes differentiating products and services; exercising disciplined and thoughtful leadership throughout our global organization; and giving consistent attention to the voice of the customer across all processes and activities. We use internal key performance indicators every day to align our short-term actions with our long-term strategy.

Innovation & Technology

The use of hydraulic technology dates back millennia, but even today we are finding new ways of harnessing the extreme strength and efficiency of fluid power to generate force, speed and motion. Recognizing that equipment and machinery are becoming increasingly interconnected, we are advancing our digital and electronic capabilities by bringing together hydraulics and electronics at Sun. (See page 8)



Electronics and Hydraulics come together for complete machine control



Innovation & Technology

Hydraulics

Over the past 47 years, Sun's hydraulics business has provided global capital goods industries with hydraulic components and systems for transmitting fluid power to control force, speed and motion. Sun's products typically add a fine degree of precision, safety and reliability to the machinery and equipment in which they are used.

We design and manufacture screw-in hydraulic cartridge valves, manifolds and integrated fluid power packages. Our products provide important functionality within a hydraulic system, controlling fluid flow rates, pressures and direction.

In recent years, we have aggressively expanded our offering of electrically actuated cartridge valves. And because hydraulic systems are increasingly relying on signals from onboard electronic control systems to manage functions, it is necessary for many of our hydraulic products to be more future-focused and capable of digital communications.

Electronics

The acquisition of Enovation Controls enables us to further develop our digital and electronic capabilities in line with our goal of technology leadership and in response to the global megatrends affecting our industry. Enovation Controls integrates products and technologies in solutions that connect operators to vehicles or machines through graphical displays, telematics (the long-distance sending and receiving of computerized data) and vehicle and machinery controls. Enovation Controls' product portfolio addresses various end markets and includes electronic controls, displays, instrumentation panels, gages, and battery chargers. Some of these products serve the same markets as our hydraulics segment (e.g., materials handling equipment and off-highway vehicles for the construction, agricultural and utility industries). However, most of the products address markets not historically served by the hydraulics segment (e.g. power generation equipment and recreational marine and power sports vehicles).

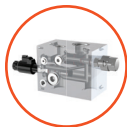
Sun, through its HCT brand, offers easy-to-apply, environmentally ruggedized electronic controllers to suit virtually any application requiring an electro-hydraulic solution and are universally compatible with all major hydraulic OEM proportional products.

Hydraulics



① Flow Control Valves

Proportional throttle valves and priority flow controls ensure that operator input is translated into smooth, controlled, predictable equipment operation.



② Pump Controls & Compensators

Sun solutions provide hydraulic horsepower management, controlling pressure and flow using pressure control assemblies and specialized logic elements to ensure fuel-saving, efficient operation of hydraulic equipment.



③ Directional & Relief Valves

To stabilize equipment in off-highway applications, Sun's directional and relief valves work together to provide safe, reliable control of critical equipment functions.



④ Hydraulic Control Manifolds

At the heart of a hydraulic system, the integrated hydraulic manifold incorporates reliable hydraulic and electro-hydraulic components to direct pressure and flow for the precise control of the equipment.



⑤ Filter Cartridges

To protect expensive hydraulic components such as proportional valves, motors and pumps from abrasive particles and contaminants, Sun's filter cartridges supplement system filtration to provide protection in a low-profile package for critical operations.



⑥ Counterbalance Valves

As the industry leader in counterbalance solutions, Sun offers more than 150 standard counterbalance models for precise, reliable load holding and motion control at an affordable price.

Electronics



A Infotainment Core Expansion® (ICE)

ICE allows you to sync your smartphone, delivering car-like features such as AM/FM radio, Bluetooth connectivity for hands-free notifications on the display for texts, missed and incoming calls, battery life and more, including advanced audio profiles and sound control.



B HelmView Displays®

HelmView Displays are engineered to provide intuitive ease-of-use, best-in-class viewability, GPS mapping, and monitoring of multiple engines, transmission, fuel usage and more. Connectivity includes integrated Wi-Fi, Bluetooth and Ethernet.



C Remote Control Keypad

This CAN keypad remotely controls inputs, which communicates with both the Power Distribution Module (PDM) and Engine Control Module (ECM) via the CAN network. It controls the auto bilge pump switch, blower, keyless start and more.



D GPS Sensor/Receiver

An integral part of Enovation Control's global positioning system. This small, highly accurate GPS receiver and sensor pairs with the cruise system for speed control as well as being used for mapping on other vehicles.

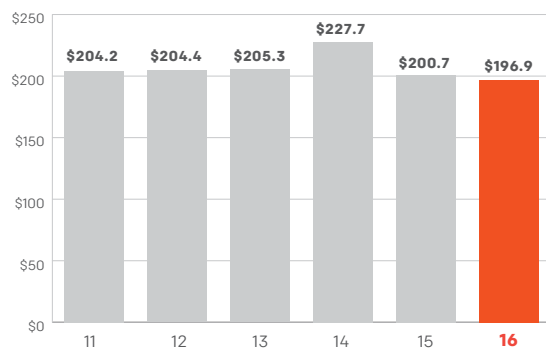


E Power Distribution Module

The Intelligent Xpansion® Power Distribution Module (PDM) expands CAN bus networks and replaces existing fuse and relay boxes with more reliable solid-state switches to drive lights, cooling fans, wiper motors and directional DC motors.

Financial Highlights

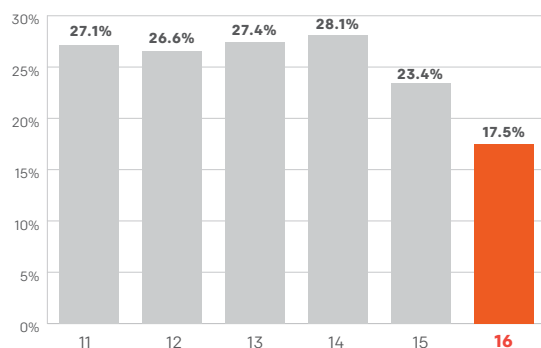
Net Sales
(IN MILLIONS)



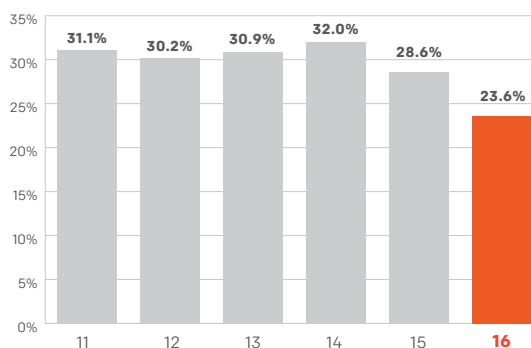
Cash From Operations
(IN MILLIONS)



Operating Margin
(AS A PERCENT)



EBITDA Margin
(AS A PERCENT)



Financial Highlights

| | REPORTING YEAR | | | | | |
|-------------------------------------|----------------|-----------|-----------|-----------|-----------|-----------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
| IN THOUSANDS EXCEPT PER SHARE DATA | | | | | | |
| Statement of Operations | | | | | | |
| Net sales | \$196,934 | \$200,727 | \$227,673 | \$205,267 | \$204,367 | \$204,171 |
| Gross profit | 71,349 | 77,093 | 93,892 | 82,961 | 80,572 | 79,215 |
| Operating income | 34,459 | 46,891 | 64,071 | 56,171 | 54,409 | 55,269 |
| Income before income taxes | 34,901 | 49,230 | 65,742 | 57,172 | 55,853 | 57,586 |
| Net income | \$23,304 | \$33,138 | \$43,775 | \$37,984 | \$37,398 | \$37,677 |
| Basic net income per common share | \$0.87 | \$1.24 | \$1.65 | \$1.45 | \$1.44 | \$1.47 |
| Diluted net income per common share | \$0.87 | \$1.24 | \$1.65 | \$1.45 | \$1.44 | \$1.47 |
| Dividends per common share | \$0.40 | \$0.45 | \$1.45 | \$0.45 | \$1.48 | \$0.40 |
| Other Financial Data | | | | | | |
| Depreciation and amortization | \$11,318 | \$9,557 | \$8,718 | \$7,227 | \$7,186 | \$6,721 |
| Capital expenditures | 6,187 | 6,106 | 10,667 | 17,935 | 13,359 | 10,143 |
| Balance Sheet Data | | | | | | |
| Cash and cash equivalents | \$74,221 | \$81,932 | \$56,843 | \$54,912 | \$34,478 | \$42,834 |
| Working capital | 110,192 | 145,336 | 119,815 | 115,038 | 90,198 | 89,744 |
| Total assets | 444,777 | 241,540 | 222,764 | 213,478 | 175,121 | 167,528 |
| Total debt | 140,000 | — | — | — | — | — |
| Shareholders' equity | 236,397 | 222,187 | 198,259 | 191,428 | 155,273 | 145,276 |
| % of Sales | | | | | | |
| Gross profit | 36.2% | 38.4% | 41.2% | 40.4% | 39.4% | 38.8% |
| Operating income | 17.5% | 23.4% | 28.1% | 27.4% | 26.6% | 27.1% |
| Net Income | 11.8% | 16.5% | 19.2% | 18.5% | 18.3% | 18.5% |

Corporate Information

Directors

Marc Bertoneche, PhD
Professor, Business Administration
University of Bordeaux

Douglas M. Britt
President of Industrial and Emerging
Industries
Flex

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

Corporate Officers

Wolfgang H. Dangel
President, CEO

Tricia L. Fulton
Chief Financial Officer

Gary A. Gotting
Global Lead, Product
Development and Marketing

Kennon Guglielmo
Global Co-Lead, Electronic
Controls

Craig Roser
Global Lead, Sales and Business
Development

Corporate Headquarters

Sun Hydraulics Corporation
1500 West University Parkway
Sarasota, FL 34243
941.362.1200
www.sunhydraulics.com

Common Stock Information

NASDAQ Global Select Market
Symbol: SNHY
Shareholders of record at
March 31, 2017: 296
Approximate beneficial owners
at March 31, 2017: 12,000
Closing stock price at
March 31, 2017: \$36.11

Annual Meeting

Monday, June 5, 2017
10:00 AM EDT
Sun Hydraulics Corporation
803 Tallevast Road
Sarasota, Florida 34243

Legal Counsel

Shumaker, Loop & Kendrick, LLP
Tampa, Florida

Independent Auditors

Grant Thornton, LLP
Tampa, Florida

Transfer Agent

Computershare
Campton, Massachusetts

Investor Relations

KEI Advisors LLC
Karen L Howard
716.843.3942
khoward@keiadvisors.com

A copy of the Company's Form
10-K, filed with the Securities
Exchange Commission, will be
furnished, free of charge on
written request to:

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

Forward Looking Statement

This annual report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements involve risks and uncertainties, and actual results may differ materially from those expressed or implied by such statements. They include statements regarding the intent, belief or current expectations, estimates or projections of the Company, its Directors or its Officers about the Company and the industry in which it operates, and assumptions made by management, and include, among other items, (i) the Company’s strategies regarding growth, including its intention to develop new products and make acquisitions; (ii) the Company’s financing plans; (iii) trends affecting the Company’s financial condition or results of operations; (iv) the Company’s ability to continue to control costs and to meet its liquidity and other financing needs; (v) the declaration and payment of dividends; and (vi) the Company’s ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur.

Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicity of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) fluctuations in global business conditions, including the impact of economic recessions in the U.S. and other parts of the world, (iii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iv) changes in the competitive marketplace that could affect the Company’s revenue and/or costs, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (v) risks related to the integration of the businesses of the Company and Enovation Controls; (vi) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit, which could render the Company’s products or technologies noncompetitive or obsolete; (vii) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and (viii) changes relating to the Company’s international sales, including changes in regulatory requirements or tariffs, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings Item 1. “Business,” Item 1A. “Risk Factors,” and Item 7. “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” in the Company’s Form 10-K for the year ended December 31, 2016. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.



www.sunhydraulics.com

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