

August 3, 2016



## Sun Hydraulics Reports 2016 Second Quarter Results, Tambien Hablamos Espanol

SARASOTA, FL -- (Marketwired) -- 08/03/16 -- Sun Hydraulics Corporation (NASDAQ: SNHY) today reported financial results for the second quarter of 2016 as follows:

(Dollars in millions except net income per share)

|                       | July 2, 2016 |       | June 27, 2015 |       | Decrease |
|-----------------------|--------------|-------|---------------|-------|----------|
| Three Months Ended    |              |       |               |       |          |
| Net sales             | \$           | 50.8  | \$            | 54.0  | (6)%     |
| Net income            | \$           | 7.0   | \$            | 9.2   | (24)%    |
| Net income per share: |              |       |               |       |          |
| Basic                 | \$           | 0.26  | \$            | 0.35  | (26)%    |
| Diluted               | \$           | 0.26  | \$            | 0.35  | (26)%    |
| Six Months Ended      |              |       |               |       |          |
| Net sales             | \$           | 101.8 | \$            | 108.4 | (6)%     |
| Net income            | \$           | 15.2  | \$            | 19.6  | (22)%    |
| Net income per share: |              |       |               |       |          |
| Basic                 | \$           | 0.57  | \$            | 0.74  | (23)%    |
| Diluted               | \$           | 0.57  | \$            | 0.74  | (23)%    |

"Sales for the second quarter of 2016 were slightly above expectations," reported Wolfgang Dangel, Sun's President and CEO. "Year-over-year, global demand weakened by 6% as end market headwinds continued to influence results. The Americas experienced a 10% decline, primarily due to the continued impact of lower oil prices and lack of investment in the mining sector. The European and Asian Pacific regions were down only marginally, at 3% and 1% respectively. Profitability was in line with our projections as currency impacted EPS by less than \$0.01 over last year."

"Demand in our various end markets remains sluggish, but we are encouraged by increased sales in selected markets throughout Asia Pacific which are directly attributable to our increased marketing efforts in the region", acknowledged Dangel. "We believe that continued investment is a necessary component to drive long-term results. To this end, we are accelerating lean manufacturing efforts, expanding our electronic and digital capabilities, acquiring talent to complement our current competencies, and acting on opportunities where we can grow in both new and existing geographic regions."

"Over the last few weeks, we announced two exciting initiatives," Dangel added. "The first is our load holding valve selection tool -- [QuickSelect™](#) which aids our customers in choosing the right product for their specific application. And the second is the Spanish language version of our industry-acclaimed [website](#) which introduces Sun to a new audience. In addition to Spanish, our website also supports English, French, Chinese and German. These initiatives are long-term investments focused on strong customer relationships and enhanced market penetration."

"The economic environment remains clouded, with geopolitical instability impacting visibility so it is more important than ever that we maintain our long-term mindset," concluded Dangel. "By continuing to invest in future growth, we will remain positioned to respond to customer demand with our superior product and service performance."

### Outlook

Third quarter 2016 revenues are expected to be approximately \$46 million, down 4% from the third quarter of 2015. Earnings per share are estimated to be \$0.19 to \$0.21, compared to \$0.32 in the same period a year ago. The 2015 earnings include a one-time gain on the sale of the building in Korea of approximately \$0.04. The 2016 estimate includes additional expenses incurred for growth initiatives mentioned and related compensation of approximately \$0.04. Additionally, CEO transition expenses will negatively impact EPS by approximately \$0.01. The transition costs will continue to reduce earnings through the first quarter of 2017. The remainder of the expected decline is

attributable to decreased volume. Currency is not expected to have a substantial impact on earnings per share in third quarter estimates.

### **Webcast**

Sun Hydraulics Corporation will broadcast its 2016 second quarter financial results conference call live over the Internet at 9:00 A.M. E.T. tomorrow, August 4, 2016. To listen to the webcast, go to the Investor Relations section of [www.sunhydraulics.com](http://www.sunhydraulics.com).

### **Webcast Q&A**

If an individual wishes to ask questions directly during the webcast, the conference call may be accessed by dialing 1-888-395-3227 and using 9774362 as the access code. Questions also may be submitted to the Company via email by going to the Sun Hydraulics website, [www.sunhydraulics.com](http://www.sunhydraulics.com), and clicking on Investor Relations on the top menu. Scroll down to the bottom of the page and click on contact email: [investor@sunhydraulics.com](mailto:investor@sunhydraulics.com), which will open an email window to type in your message. Sun leadership will then answer these and other questions during the Company's webcast. A copy of this earnings release is posted on the Investor Relations page of our website under "Press Releases."

Sun Hydraulics Corporation is a leading designer and manufacturer of high performance screw-in hydraulic cartridge valves and manifolds for worldwide industrial and mobile markets. For more information about Sun, please visit our website at [www.sunhydraulics.com](http://www.sunhydraulics.com).

### **FORWARD-LOOKING INFORMATION**

*Certain oral statements made by management from time to time and certain statements contained herein that are not historical facts are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and, because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements, including those in Management's Discussion and Analysis of Financial Condition and Results of Operations are 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; (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) conditions in the capital markets, including the interest rate environment and the availability of capital; (iii) changes in the competitive marketplace that could affect the Company's revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iv) 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; (v) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and (vi) 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 heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-Q for the quarter ended July 2, 2016, and under the heading "Business" and particularly under the subheading, "Business Risk Factors" in the Company's Form 10-K for the year ended January 2, 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.*

**SUN HYDRAULICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(in thousands except per share data)**

**Three months ended**

|  | <u>July 2, 2016</u><br><i>(unaudited)</i> | <u>June 27, 2015</u><br><i>(unaudited)</i> |
|--|---|--|
| <b>Net sales</b>                                   | \$ 50,809                                 | \$ 54,016                                  |
| Cost of sales                                      | 31,856                                    | 32,612                                     |
| <b>Gross profit</b>                                | <b>18,953</b>                             | <b>21,404</b>                              |
| Selling, engineering and administrative expenses   | 8,509                                     | 7,329                                      |
| <b>Operating income</b>                            | <b>10,444</b>                             | <b>14,075</b>                              |
| Interest (income) expense, net                     | (386)                                     | (344)                                      |
| Foreign currency transaction (gain) loss, net      | (151)                                     | 260  |
| Miscellaneous (income) expense, net                | 387                                       | 185  |
| <b>Income before income taxes</b>                  | <b>10,594</b>                             | <b>13,974</b>                              |
| Income tax provision                               | 3,604                                     | 4,726                                      |
| <b>Net income</b>                                  | <b>\$ 6,990</b>                           | <b>\$ 9,248</b>                            |
| <b>Basic net income per common share</b>           | <b>\$ 0.26</b>                            | <b>\$ 0.35</b>                             |
| <b>Weighted average basic shares outstanding</b>   | 26,908                                    | 26,684                                     |
| <b>Diluted net income per common share</b>         | <b>\$ 0.26</b>                            | <b>\$ 0.35</b>                             |
| <b>Weighted average diluted shares outstanding</b> | 26,908                                    | 26,684                                     |
| <b>Dividends declared per share</b>                | <b>\$ 0.090</b>                           | <b>\$ 0.090</b>                            |

**Six months ended**

|  | <u>July 2, 2016</u><br><i>(unaudited)</i> | <u>June 27, 2015</u><br><i>(unaudited)</i> |
|--|---|--|
| <b>Net sales</b>                                   | \$ 101,837                                | \$ 108,402                                 |
| Cost of sales                                      | 63,343                                    | 65,603                                     |
| <b>Gross profit</b>                                | <b>38,494</b>                             | <b>42,799</b>                              |
| Selling, engineering and administrative expenses   | 16,164                                    | 14,615                                     |
| <b>Operating income</b>                            | <b>22,330</b>                             | <b>28,184</b>                              |
| Interest income, net                               | (758)                                     | (661)                                      |
| Foreign currency transaction gain, net             | (265)                                     | (699)                                      |
| Miscellaneous (income) expense, net                | 564                                       | 212  |
| <b>Income before income taxes</b>                  | <b>22,789</b>                             | <b>29,332</b>                              |
| Income tax provision                               | 7,591                                     | 9,707                                      |
| <b>Net income</b>                                  | <b>\$ 15,198</b>                          | <b>\$ 19,625</b>                           |
| <b>Basic net income per common share</b>           | <b>\$ 0.57</b>                            | <b>\$ 0.74</b>                             |
| <b>Weighted average basic shares outstanding</b>   | 26,857                                    | 26,645                                     |
| <b>Diluted net income per common share</b>         | <b>\$ 0.57</b>                            | <b>\$ 0.74</b>                             |
| <b>Weighted average diluted shares outstanding</b> | 26,857                                    | 26,645                                     |
| <b>Dividends declared per share</b>                | <b>\$ 0.270</b>                           | <b>\$ 0.270</b>                            |

**SUN HYDRAULICS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
*(in thousands except per share data)*

|                           | <u>July 2, 2016</u><br><i>(unaudited)</i> | <u>January 2, 2016</u> |
|---------------------------|---|------------------------|
| <b>Assets</b>             |   |                        |
| Current assets:           |   |                        |
| Cash and cash equivalents | \$ 99,629                                 | \$ 81,932              |
| Restricted cash           | 40  | 44                     |

|   |                   |                   |
|---|-------------------|-------------------|
| Accounts receivable, net of allowance for doubtful accounts of \$218 and \$184                              | 19,751            | 13,531            |
| Inventories   | 12,310            | 13,047            |
| Income taxes receivable   | --                | 123               |
| Deferred income taxes   | 462               | 460               |
| Short-term investments  | 38,234            | 44,174            |
| Other current assets  | 3,458             | 3,707             |
| Total current assets  | 173,884           | 157,018           |
| Property, plant and equipment, net  | 71,573            | 74,121            |
| Goodwill  | 4,852             | 4,988             |
| Other assets  | 6,355             | 5,413             |
| <b>Total assets</b>   | <b>\$ 256,664</b> | <b>\$ 241,540</b> |
| <b>Liabilities and shareholders' equity</b>   |                   |                   |
| Current liabilities:  |                   |                   |
| Accounts payable  | \$ 5,457          | \$ 4,422          |
| Accrued expenses and other liabilities  | 4,569             | 4,849             |
| Income taxes payable  | 1,634             | --                |
| Dividends payable   | 2,422             | 2,411             |
| Total current liabilities   | 14,082            | 11,682            |
| Deferred income taxes   | 7,665             | 7,411             |
| Other noncurrent liabilities  | --                | 260               |
| Total liabilities   | 21,747            | 19,353            |
| Commitments and contingencies   | --                | --                |
| Shareholders' equity:   |                   |                   |
| Preferred stock, 2,000,000 shares authorized, par value \$0.001, no shares outstanding                      | --                | --                |
| Common stock, 50,000,000 shares authorized, par value \$0.001, 26,921,211 and 26,786,518 shares outstanding | 27                | 27                |
| Capital in excess of par value  | 87,246            | 82,265            |
| Retained earnings   | 159,226           | 149,938           |
| Accumulated other comprehensive income (loss)   | (11,582)          | (10,043)          |
| Total shareholders' equity  | 234,917           | 222,187           |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 256,664</b> | <b>\$ 241,540</b> |

**SUN HYDRAULICS CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*(in thousands)*

|   | <i>Six months ended</i> |                      |
|---|-------------------------|----------------------|
|   | <u>July 2, 2016</u>     | <u>June 27, 2015</u> |
|   | <i>(unaudited)</i>      | <i>(unaudited)</i>   |
| <b>Cash flows from operating activities:</b>                                      |                         |                      |
| Net income  | \$ 15,198               | \$ 19,625            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                      |
| Depreciation and amortization   | 5,034                   | 4,572                |
| (Gain)Loss on disposal of assets  | 316                     | 94                   |
| Provision for deferred income taxes   | (131)                   | 98                   |
| Allowance for doubtful accounts   | 34                      | (29)                 |
| Stock-based compensation expense  | 2,884                   | 1,959                |
| (Increase) decrease in:   |                         |                      |
| Accounts receivable   | (6,254)                 | (1,992)              |

|  |                  |                  |
|--|------------------|------------------|
| Inventories  | 737              | 1,668            |
| Income taxes receivable  | 123              | --               |
| Other current assets   | 249              | (37)             |
| Other assets   | (55)             | 373              |
| Increase (decrease) in:  |                  |                  |
| Accounts payable   | 1,035            | 765              |
| Accrued expenses and other liabilities   | 1,399            | 1,050            |
| Income taxes payable   | 1,634            | 327              |
| Other noncurrent liabilities   | (260)            | (3)              |
| Net cash provided by operating activities  | <u>21,943</u>    | <u>28,470</u>    |
| <b>Cash flows from investing activities:</b>   |                  |                  |
| Investment in licensed technology  | (850)            | (575)            |
| Capital expenditures   | (2,557)          | (3,079)          |
| Proceeds from dispositions of equipment  | 2                | --               |
| Purchases of short-term investments  | (9,637)          | (12,025)         |
| Proceeds from sale of short-term investments   | <u>15,803</u>    | <u>10,611</u>    |
| Net cash provided by (used in) investing activities  | <u>2,761</u>     | <u>(5,068)</u>   |
| <b>Cash flows from financing activities:</b>   |                  |                  |
| Proceeds from stock issued   | 418              | 550              |
| Dividends to shareholders  | (5,900)          | (7,194)          |
| Change in restricted cash  | <u>4</u>         | <u>3</u>         |
| Net cash used in financing activities  | <u>(5,478)</u>   | <u>(6,641)</u>   |
| Effect of exchange rate changes on cash and cash equivalents                               | <u>(1,529)</u>   | <u>(1,937)</u>   |
| Net increase in cash and cash equivalents  | 17,697           | 14,824           |
| Cash and cash equivalents, beginning of period   | 81,932           | 56,843           |
| Cash and cash equivalents, end of period   | <u>\$ 99,629</u> | <u>\$ 71,667</u> |
| Supplemental disclosure of cash flow information:  |                  |                  |
| Cash paid:   |                  |                  |
| Income taxes   | \$ 5,582         | \$ 9,369         |
| Supplemental disclosure of noncash transactions:   |                  |                  |
| Common stock issued for shared distribution through accrued expenses and other liabilities | \$ 1,679         | \$ 3,535         |

Source: Sun Hydraulics Corporation