Investor and Analyst Call FY 2019
March 26, 2020
Dr. Konstantin Sauer, CFO
ZF Friedrichshafen AG
2019 – Challenging Year

**China slowdown ‘biggest in 30 years’**

The Times, February 18, 2020

**Climate policy needs negative carbon-dioxide emissions**

The Economist, December 5, 2019

**Johnson to impose full customs checks on goods from EU – report**

The Guardian, February 1, 2020

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**Real GDP growth**  
(annual percent change)

- **world all indicators**  
  Quelle: IMF, 2020

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**Real GDP growth**  
(annual percent change)

- **world all indicators**  
  Quelle: IMF, 2020

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**Challenging Year**

- **U.S./China Trade Wars, But Doesn’t End, Business Uncertainty**
  
  By Josh Mitchell  
  Jan 11, 2019 at 12:37 pm ET  
  
  The U.S.-China trade wars and宏观 risks and uncertainties to the global economy, leading to slower growth and uncertainty for China and the world’s largest economies.
ZF Milestones 2019

**Business wins** for the next generation of the 8-speed automatic transmission and for Integrated Brake Control (IBC)

High demand for **bus electric drives**

New **AD/ADAS** contracts (Level 2+, ZF ProAI)

**Participation/cooperation**
(e.g. 2getthere, Microsoft, Open Manufacturing Platform)

**Expanded capacities** for electric drives

**AI and cybersecurity center** established

Agreement to acquire **Wabco**, financing secured
Strong demand for Safety Technologies

Graph for illustrative purposes only

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ZF Electrifies Passenger Cars

New registrations of electric cars and plug-in hybrids

Electric drive

Hybrid drive

Electric vehicles (BEV)
Plug-in hybrids (PHEV)
The Climate Change Challenge
ZF is part of the solution

Climate neutrality along the entire value chain

Analysis of **all emission categories** of the Greenhouse Gas Protocol (Scope 1–3)

**Intervention areas:** Production, administrative and research facilities

**Continuous reduction** of Scope-3 emissions
focus on **major emission categories**

**50-percent reduction** of emissions **by 2030** compared to 2018

**Climate neutrality by 2040 latest**

Achieving **climate neutrality** through:
- Energy efficiency
- In-house power supply
- Green electricity purchasing

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ZF & Wabco: The Leading Systems Supplier
Financial Key Figures 2019
2019 Key Figures

- Sales: €36.5 billion
- Employees: 147,797
- Research & Development: €2.7 billion
- Adjusted EBIT: €1.5 billion
- Adjusted EBIT margin: 4.1%
- Investments in property, plant and equipment: €1.9 billion
Sales Development

Sales
in € million

2018

-696 (-1.9%)

-245 (-0.7%)

530 (1.4%)

36,929

Organic

M&A

FX

2019

36,518

-1.1%
Sales by Regions

Sales
in € million and in % of sales

Europe
16,698

North America
10,436

-3%
-2%
29%

South America
1,068

3%
+9%

Asia-Pacific
7,847

Africa
469

21%
+108%
1%
-3%

Organic growth in 2019

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Passenger car sales declined 2019 compared to previous year.

Despite overall trend in the passenger car market, growth of Electronics/ADAS and E-Mobility.

Stable sales development of heavy commercial vehicles.

Industrial business shows a strong sales growth mainly driven by Wind & Off-Highway Systems.
R&D Expenditure and Investments in Property, Plant & Equipment

R&D Expenditure $^{1)}$

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure in € million</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2,501</td>
<td>6.8%</td>
</tr>
<tr>
<td>2019</td>
<td>2,652</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

+6%

Investments in PP&E

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments in € million</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>(before IFRS 16) 2018</td>
<td>1,586</td>
<td>4.3%</td>
</tr>
<tr>
<td>2019</td>
<td>1,681^{2)}</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

+6%

1) R&D Cost recognized in the consolidated statement of profit and loss and the capitalized development cost as inventories and intangible assets and excluding the respective amortization of the capitalized development cost

2) Excluding leasing contracts
Adjusted EBIT Margin

in € million and margin in %

2018

2,074*  
5.6%

2019

1,503  
4.1%

Developments

▪ Gross margin negatively impacted by lower volumes due to weakened markets

▪ Ramp-ups of new plants in particular of E-Mobility

▪ Increased R&D expenditure by €150 million mainly in the area of E-Mobility, AD/ADAS and Vehicle Motion Control

*Prior year adjusted due to change of accounting method for jubilee obligation
Planned new hires not realized

- **Planned**
  - 2016: 136,820
  - 2017: 146,148
  - 2018: 148,969
  - 2019: 147,797

- **Actual**
  - 2019: 147,797

Economic slowdown
### Adjusted EBIT Margin

#### EBIT and Adjusted EBIT 2018
**in € million and margin in %**

<table>
<thead>
<tr>
<th>EBIT</th>
<th>Purchase price allocation</th>
<th>M&amp;A</th>
<th>Qualified Restructuring</th>
<th>Adjusted EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,537*</td>
<td></td>
<td>624</td>
<td>-87</td>
<td>2,074</td>
</tr>
</tbody>
</table>

- EBIT: 1,537 (4.1%)
- Purchase price allocation: 624
- M&A: -87
- Qualified Restructuring: 2,074

#### EBIT and Adjusted EBIT 2019
**in € million and margin in %**

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<tbody>
<tr>
<td>927</td>
<td></td>
<td>531</td>
<td>11</td>
<td>1,503</td>
</tr>
</tbody>
</table>

- EBIT: 927 (2.7%)
- Purchase price allocation: 531
- M&A: 11
- Qualified Restructuring: 1,503

*Prior year adjusted due to change of accounting method for jubilee obligation*

*Investor and Analyst Call FY 2019*
Net Profit After Tax

in € million

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>967</td>
<td>2.6%</td>
</tr>
<tr>
<td>2019</td>
<td>400</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Developments

- EBIT effect main driver for reduction of Net Profit after tax
- Tax rate 2019 at 25.9% (previous year 21%)

*Prior year adjusted due to change of accounting method for jubilee obligation
Free Cash Flow

in € million

2018
-656
891
1,547

2019
-1,744
2,547
803

Developments

- Adjustments M&A activities comprise:
  - 2018: Mainly Disposal of Body Control System
  - 2019: Mainly short-term investments in securities

- Adjusted Free Cash Flow is mainly effected by:
  - Lower EBIT
  - Payment to the European Commission for antitrust fine (€188 million)
  - Further increase of capex
  - Positive impact from working capital
**Developments**

- Increase of gross debt by around €4 billion mainly due to WABCO Financing (Bonded loans/EURO-Bond)

- Net debt on previous year level:
  - Reduction of Net debt of around €250 million
  - Offset by increase of lease liabilities as well as negative FX effects

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**Gross/Net Debt**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Debt</th>
<th>Cash</th>
<th>Invest in Securities</th>
<th>Net Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>5,681</td>
<td>922</td>
<td>4,759</td>
<td>2,302</td>
</tr>
<tr>
<td>2019</td>
<td>9,647</td>
<td>-4,899</td>
<td>2,597</td>
<td>4,748</td>
</tr>
</tbody>
</table>

Note: Gross debt = Financial liabilities / derivative financial instruments
Equity Ratio

Liabilities and Equity
in € million and in % of balance sheet total

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>27,720</td>
<td>32,350</td>
</tr>
<tr>
<td>58%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other liabilities/provisions</td>
<td>+4,630</td>
<td></td>
</tr>
<tr>
<td>61%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension provisions</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>22%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Developments

- Equity ratio reduced to 22% due to balance sheet extension by about €4.6 billion mainly due to:
  - Increase of pension provisions by €1 billion mainly as a result of decline of interest rate
  - Increase of financial liabilities for the WABCO Financing (Bonded loans €1.7 billion; Bonds €2.7 billion)

*Prior year adjusted due to change of accounting method for jubilee obligation and leasing contracts
Maturity Profile Driven by WABCO Financing

Maturity of Main Group Financings as of December 31, 2019
Nominal amounts in € million

- Bonds
- EIB Loan
- Bonded Loans (drawn)
- RCF (undrawn)
- Acquisition Bank Loans/Bonded Loans (undrawn)

Note: Excluding bilateral credit facilities & leasing
Outlook 2020
2020 – Reliable Forecast Currently not Possible
**Other regions**

- Temporary ramp-down of production facilities and office closures
- Short-term work where possible
- Temporary layoffs of workforce
- Preparing to resume production
- Work on critical customer projects and deliveries to customers continue

**China**

- Production resumed in all plants at an average 90-percent level
- Uploading supply chain
- Face mask production
Coronavirus: Manage the Challenge

**General Measures**
- Task Forces established
- Health protection of employees
- Securing supply chains
- Permanent exchange with customers and suppliers
- Market and risk management

**Securing our Business**
- Highly flexible production capacities
- Reduction of overhead costs
- Strict reduction of investments
- Working capital management
- Stringent liquidity management
Next Generation Mobility
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