ZF 2019 financial results: New orders and high investments ready ZF to face a difficult market environment

- **Scheider: We reacted quickly and decisively to the corona issue and harmonized the interests of our employees with those of ZF**
- **In 2019, the company generated sales of €36.5 billion (2018: €36.9 billion)**
- **Adjusted EBIT at €1.5 (2018: €2.1) billion, adjusted EBIT margin at 4.1 (2018: 5.6) percent**
- **R&D expenditure increased to €2.7 (2018: €2.5) billion**
- **New orders for electric drives in the car and bus segment**
- **Strategic acquisition of Wabco solidly financed**

Friedrichshafen, Germany. In a challenging environment, ZF Friedrichshafen AG has achieved its targets for the full year which were revised in summer 2019. At €36.5 billion, Group sales – adjusted for currency and M&A effects – were slightly below the previous year's figure of €36.9 billion (organically minus 1.9 percent). Adjusted EBIT amounted to €1.5 billion (2018: €2.1 billion) and adjusted EBIT margin was 4.1 percent (2018: 5.6 percent). At the end of December, ZF had 147,797 employees worldwide (2018: 148,969). As well its immediate priorities to deal with the consequences of the coronavirus, ZF is following its long-term goals of its "Next Generation Mobility" strategy to shape mobility needs of the future.

"At present, we are witnessing how the markets are collapsing overnight," said ZF CEO Wolf-Henning Scheider on Thursday in Friedrichshafen. "At ZF, we have reacted quickly and decisively to the spread of the coronavirus and have prioritized the health and interests of our employees in line with those of the company in the best way possible. Our aim is to pursue our ZF way by securing employment and income wherever the appropriate tools are available. In doing so, we

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are acting in a socially responsible way and contributing to protecting the health of our employees. Furthermore, we can help to stabilize the economic situation which is volatile for all companies currently."

Scheider emphasized that ZF stays confident even in this serious situation and is preparing to ramp up the plants in Europe and the U.S. after customers resume production. In Asia, production has already been resumed. "We will continue to stand by our customers and suppliers as a reliable business partner – and support them when they need us," said Scheider.

2019 key figures characterized by higher spending and market weaknesses

The ZF Group's sales in 2019 were below the previous year's figure at €36.5 billion (2018: €36.9 billion). Adjusted for currency and M&A effects, organic sales declined by 1.9 percent. "The general economic climate and special challenges connected to the overall transformation of our industry had a tangible impact on our business last year," explained Scheider. "Nevertheless, we won several high-volume orders, for example for the next generation of our hybrid-enabled 8-speed automatic transmission and for electric drives for cars and buses."

Adjusted EBIT amounted to €1.5 billion (2018: €2.1 billion); the adjusted EBIT margin declined to 4.1 (2018: 5.6) percent. Earnings were affected by higher research and development (R&D) expenditure and setting up new sites for future technologies – such as production facilities for electric drives in Germany, Serbia and China. In addition, the economic downturn in the automotive industry is reflected in the result. Free cash flow adjusted for M&A amounted to €803 million (2018: €891 million).

ZF has reacted consistently to the weaker markets, reviewed and postponed investments, and agreed closing days at several locations – purely through operational flexibility instruments. "We were able to adjust our cost structure to the changed market situation," said ZF CFO Dr. Konstantin Sauer. "This allowed ZF's results to remain within the forecasted range that was revised mid-2019. However, these figures do not meet our long-term strategic goals. We therefore continue working on our cost structure in order to achieve further improvements." The increased digitalization of business processes should also contribute to this.

Investments in property, plant and equipment amounted to €1.9 billion (2018: €1.6 billion). At 5.2 percent, the investment ratio was significantly higher than in 2018 (4.3 percent).

As CFO Sauer further explained, financing the planned acquisition of the commercial vehicle brake manufacturer Wabco was a success. To this end, ZF placed bonds and bonded loans totalling €4.8 billion on the capital market last October. "Many more investors wanted to subscribe than we offered for this financing," said Sauer. "This shows that the financial market sees and supports the potential of this acquisition."

More money for research and development – new partnerships
Despite the challenging environment, ZF once again increased its R&D expenditure to €2.7 billion (2018: €2.5 billion). The R&D ratio rose from 6.7 to 7.3 percent. "When we overcome the current crisis, we want to continue to invest in future technologies in a focused manner," said ZF CEO Scheider. "This will enable us to further expand our competencies as a leading systems supplier."

In addition to ZF's own resources, participations and partnerships play a decisive role in the company's R&D – especially in automated driving. These include, for example, the acquisition of a 60-percent majority stake in the Dutch company 2getthere, an established supplier of autonomous electric passenger transport systems, and the recently agreed cooperation with Microsoft to improve development processes and significantly ramp up ZF's software capabilities. "This is important for our customers who require flexible cooperation and short delivery times for software updates," explained Scheider. "In addition, we will be able to develop software even if the hardware is not yet available. ZF

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will also offer software solutions as individual products in the automotive market."

Number of employees slightly below pre-year figure
At the end of 2019, ZF employed 147,797 staff worldwide (2018: 148,969). The 0.8 percent decline reflects the weaker economic climate – the original plan was to increase the workforce by several thousand employees. ZF adjusted its capacities in China (down 9.7 percent to 13,289 employees) and the U.S. (down 7.5 percent to 11,069 employees) due to market conditions. In Germany, the number of employees remained at the previous year's level of around 50,900. Additional jobs were created in the areas of electric mobility, autonomous driving, and software development. This means that there are now around 19,400 (2018: 17,100) employees worldwide working in research and development.

Climate neutrality targeted by 2040
As a provider of future-oriented mobility solutions, ZF is committed to the Paris Agreement – both by offering clean and efficient technologies and by reducing the CO_2 footprint of its locations. To this end, the company developed a climate protection strategy last year, which is based on the so-called Corporate Carbon Footprint (CCF). In this strategy, ZF has committed to reducing greenhouse gas emissions (especially CO_2) at its plants to a large extent. "Our goal is to be climate-neutral by 2040 in accordance with the specifications of the UN Climate Council," said Scheider. "To achieve this, we are expanding our existing energy efficiency programs and are focusing even more on green energy from our own sources." By producing sustainable energy with its wind power drives, ZF is also making a significant contribution to climate protection outside its plants.

2020 business outlook
The global economic situation has changed fundamentally since the spread of the coronavirus and the certification of the ZF annual financial statements. "When the world comes to a social and economic standstill, we face an unprecedented situation," emphasized Scheider. "Its effects

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are uncertain which is why we are currently not in the position to make a valid forecast for 2020. We will continue to do everything we can to protect our employees, stop the spread of the virus and ensure the stability of our company. With our 'Next Generation Mobility' strategy, we are well prepared for the long term to make the mobility of the future a reality." With new billion-euro orders for the hybrid-capable 8-speed automatic transmission and new business in the area of active safety technology (Integrated Braking System/IBC), the continued increase in demand for electric bus drives, and R&D orders for automated driving functions, ZF has solid, long-term perspectives.

Key figures at a glance

	2019	**2018**
ZF consolidated Group Sales	€36.5 billion (bn)	€36.9bn
Global workforce	147,797	148,969
EBIT (adjusted)	€1.5bn	€2.1bn
EBIT margin (adjusted)	4.1 %	5.6 %
R&D expenditure	€2.7bn	€2.5bn
Fixed asset investments	€1.9bn	€1.6bn
Equity ratio	22.0 %	26.2 %
Free cash flow (adj.)	€803 million	€891 million
Sales Europe	€16.7bn	€17.4bn
– thereof in Germany	€7.1bn	€7.4bn
Sales North America	€10.4bn	€10.3bn
– thereof in the U.S.	€8.8bn	€8.4bn
Sales South America	€1.1bn	€1.0bn
Sales Asia-Pacific	€7.8bn	€8.0bn
– thereof in China	€5.8bn	€6.2bn
Sales Africa	€469 million	€233 million

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ZF is a global technology company and supplies systems for passenger cars, commercial vehicles and industrial technology, enabling the next generation of mobility. With its comprehensive technology portfolio, the company offers integrated solutions for established vehicle manufacturers, mobility providers and start-up companies in the fields of transportation and mobility. ZF continually enhances its systems in the areas of digital connectivity and automation in order to allow vehicles to see, think and act.

In 2019, ZF achieved sales of €36.5 billion. The company has a global workforce of 148,000 with approximately 240 locations in 41 countries. ZF invested seven percent of its sales in research and development.

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