



ZF Accelerates Change and Benefits From new Technologies

- **Group consistently aligns itself to the mobility transformation**
- **Long-term major orders for future technologies secured**
- **Software solutions and central computers as new fields of business established; global wind power business expansion**
- **In 2020, ZF achieves sales of €32.6 billion (2019: €36.5 billion)**
- **Adjusted EBIT is €1.0 billion (2019: €1.5 billion), the adjusted EBIT margin is 3.2 percent (2019: 4.1 percent)**

In 2020, the technology company ZF continued to focus on the transformation of mobility. The founding of the Electrified Powertrain Technology Division, the integration of the commercial vehicle technology company Wabco, and the sale of independent software solutions as well as the start of a new software center were prime examples. In an economically challenging environment, ZF was able to secure substantial customer orders in new technology business sectors. They confirm ZF's "Next Generation Mobility" strategy and secure future growth. At the same time, the coronavirus pandemic had an impact on ZF's 2020 business figures. Group sales of €32.6 billion were 11 percent below the prior year's figure of €36.5 billion. Adjusted EBIT amounted to €1.0 billion (2019: €1.5 billion); the adjusted EBIT margin was 3.2 percent (2019: 4.1 percent). Net profit after tax amounted to minus €741 million.

"2020 was an ambivalent year. Nevertheless, we mastered the crisis together, further advanced the company's transformation and secured substantial new orders in strategically important fields of future technologies," said Chief Executive Officer Wolf-Henning Scheider on Thursday at ZF's 2021 annual press conference.

At the beginning of 2021, ZF established the new Electrified Powertrain Technology Division that bundles conventional, hybrid and purely electric drive technologies for passenger cars. With this approach, ZF has successfully pushed the transformation to e-mobility. Scheider: "We



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are in a good position to offer our customers the entire range of e-mobility from a single source in all mobility areas.”

The core of the product range is the inverter as a central component of the power electronics. “In this segment, we want to become the market leader in Europe and a top global supplier,” emphasized Scheider. By the end of 2020, ZF has won orders for electric driveline components with a sales volume of €14 billion over the next several years. This positive trend has continued in the first few months of 2021 with additional new orders. With the foundation of the division, ZF is also strengthening cross-functional cooperation and shortening coordination and decision-making.

New commercial vehicle technology division becomes leading systems supplier

ZF also aims at a unified, efficient, and cooperative organization in the commercial vehicle sector. The commercial vehicle technology company Wabco will be combined with the existing ZF Commercial Vehicle Technology Division by the end of this year. Wabco was acquired on May 29, 2020; its figures are included in the consolidated financial statements for the seven months following the acquisition.

Scheider sees great progress in the integration process: “Wabco turns out to be more of a perfect match every day. We have developed initial joint projects and turned them into customer orders. And: We can already see benefits from the cooperation in terms of products and new orders as well as financially.”

Software and central computers established as new fields of business

ZF’s long-term strategic alignment will now be further accelerated in the areas of electronics, software, and autonomous driving. For the first time, ZF also offers software products that customers can purchase independently of the hardware. For this purpose, ZF has founded a Global Software Center to accelerate the development of software solutions and to turn data-based products and services into profitable



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business models. This bears high potential because the software share in the vehicle will continue to increase, and more and more components are equipped with sensors that are potential data sources. The ZF Global Software Center functions according to most modern software development methods and recently presented an automotive middleware software stack for high-performance central computers in future vehicles.

In addition to software, hardware components – such as the modular ZF ProAI high-performance computer – are in high demand because powerful central computers will replace many small control units in next-generation cars. In its latest configuration, ZF ProAI will set new standards for the digitalization and networking of the automobile. ZF will supply several million ZF ProAI units to both global passenger car and commercial vehicle manufacturers. “Our goal is to secure and further expand our position in software and high-performance computing by means of a comprehensive digitalization campaign. ZF intends to be a leading provider of central control units and software products,” Scheider said.

Wind Power Technology developing positively

The Industrial Technology Division was also successful in 2020: The products of the Wind Power Technology business unit, for example, were in great demand. Sales in this unit have quadrupled since 2013, from around €230 million to for the first time €1 billion last year. The ZF gearbox design is based on a new platform approach, with standardized components offering wind turbine manufacturers maximum flexibility. This allows for fast adaptation to new turbine models and shortens the time required for market launch.

A trendsetter is a strategic partnership recently agreed between ZF and the Danish wind turbine manufacturer Vestas. Together they will develop gearboxes for the new, world’s largest class of 15-megawatt wind turbines for offshore applications. For the first time, one of these turbines can generate around 80 gigawatt-hours of green electricity per year. A single wind turbine is sufficient to cover the power supply of



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about 20,000 European households and to save more than 38,000 tons of CO₂. This highlights ZF's contributions to the expansion of renewable energies and the reduction of greenhouse gases.

Ambitious target: company to be climate-neutral by 2040

Principles of sustainable corporate management are firmly anchored in the ZF strategy. The focus of sustainability efforts is placed on the four areas of products, production, employees, and supply chain. "Our ambitious goal is to become climate-neutral by 2040 – ten years earlier than planned according to the Paris Agreement," said ZF CEO Scheider. "Among other things, we want to systematically cut our CO₂ emissions, throughout our supply chain." ZF has therefore introduced the sustainability criterion to raise awareness among business partners regarding its expectations in terms of sustainability and decarbonization. ZF has also joined the "Alliance of CEO Climate Leaders" of the World Economic Forum because environmental protection can only be managed successfully in a joint effort.

Key figures: strong recovery in the second half of 2020

At €32.6 billion (2019: €36.5 billion), ZF Group's sales in 2020 were 11 percent lower than in the prior year. "After the outbreak of the pandemic, we quickly put all expenses to the test," said ZF CFO Dr. Konstantin Sauer. "By strictly controlling our costs and capital expenditures as well as adjusting our structures, we managed to significantly improve our result and cash flow in the second half of the year. The recovery of the market has helped." ZF also benefited greatly from the recovery of the Chinese market, which is why sales in the Asia-Pacific region even slightly exceeded the prior-year figure.

Adjusted EBIT amounted to €1,047 million (2019: €1,503 million); the adjusted EBIT margin fell to 3.2 percent (2019: 4.1 percent). The free cash flow adjusted for M&A activities amounted to €994 million (2019: €803 million). Net profit after tax of minus €741 million is essentially due to provisions for restructuring and substantial upfront expenditures for future tasks, which ZF wants to pursue despite strict cost discipline.



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ZF is also holding on to its research and development activities: In the prior year, the R&D ratio increased from 7.3 to 7.7 percent compared to 2019. This corresponds to R&D expenses of €2.5 billion (2019: €2.7 billion). Investments in property, plant and equipment amounted to €1.4 billion (2019: €1.9 billion). The investment ratio was 4.4 percent (2019: 5.2 percent).

ZF secures additional liquidity

To improve the financial situation, ZF secured additional liquidity in the first half of 2020 through a syndicated credit facility. This credit facility was fully repaid in the second half of 2020. ZF also agreed with its banking consortium to adjust its financial covenants. For the first time, ZF has set up an EMTN program (Euro Medium Term Note) which allows for faster and more flexible placement of bonds. Under this program, ZF had already placed bonds with a total volume of €2 billion in fall 2020. "The capital market and our investors were appreciating all these measures," said Sauer. "This underlines their trust in ZF's financial stability even in difficult times."

Changing personnel structure in the Group

In the future, the focus on trendsetting technologies will also require updated skills and qualifications for ZF employees. To make employees acquainted with new technologies, ZF is currently organizing the largest training program in its history. The "E-Cademy", a training initiative about electric mobility, supports employees in coping with technological change. Comprehensive training modules are designed to enable employees to obtain specific qualifications for future job profiles.

At the same time, ZF is gradually adjusting its capacities to the lower production level of the global vehicle markets in the coming years. In Germany, for example, almost 2,000 employees accepted severance pay and retirement offers. In the previous year, ZF reduced the overall number of jobs worldwide by 6,450. Additional jobs were created in the areas of electromobility, autonomous driving and software development. As of December 31, 2020, ZF had a global workforce of 153,522 (2019: 147,797). The increase results from the approximately



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12,000 Wabco employees who were integrated into the company at the end of May.

Confident outlook for 2021

In view of the long-term strategic realignment, the expansion of future-oriented technology fields, as well as the newly concluded orders last year, ZF is looking ahead with confidence. Based on the expected further recovery of the global economy and the current estimates for the individual divisions, ZF expects to generate sales of between €37 billion and €39 billion this year. ZF expects an adjusted EBIT margin in the range of 4.5 to 5.5 percent; adjusted free cash flow is expected to be between €0.8 billion and €1.2 billion. Effects on the forecast due to uncertainties arising from the Covid-19 pandemic and the extent and duration of corresponding lockdowns cannot be ruled out. Current semiconductor supply shortages represent a challenge and affect the entire supply industry, including ZF. However, at this point, the impact on the full year 2021 cannot yet be assessed.

ZF 2020 key figures

	2020	2019
Sales	€32.6 billion	€36.5 billion
Employees worldwide	153,522	147,797
EBIT (adjusted)	€1,047 million	€1,503 million
EBIT margin (adjusted)	3.2%	4.1%
Net profit or loss after tax	€ -741 million	€400 million
R&D expenditure	€2.5 billion	€2.7 billion
Investments in property, plant and equipment	€1.4 billion	€1.9 billion
Equity ratio	12.1%	22.0%
Free cash flow (adjusted)	€994 million	€803 million
Sales Europe	€14.8 billion	€16.7 billion
– thereof in Germany	€6.4 billion	€7.1 billion



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Sales North America	€8.6 billion	€10.4 billion
– thereof in the US	€7.3 billion	€8.8 billion
Sales South America	€752 million	€1.1 billion
Sales Asia-Pacific and India	€8.1 billion	€7.8 billion
– thereof in China	€6.4 billion	€5.8 billion
Sales Africa	€315 million	€469 million

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About ZF

ZF is a global technology company supplying systems for passenger cars, commercial vehicles and industrial technology, enabling the next generation of mobility. ZF allows vehicles to see, think and act. In the four technology domains of Vehicle Motion Control, Integrated Safety, Automated Driving, and Electric Mobility, ZF offers comprehensive product and software solutions for established vehicle manufacturers and newly emerging transport and mobility service providers. ZF electrifies a wide range of vehicle types. With its products, the company contributes to reducing emissions, protecting the climate and enhancing safe mobility.

In fiscal year 2020 ZF reported sales of €32.6 billion. The company employs more than 150,000 associates at approximately 270 locations in 42 countries.

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