Comments of the Chairman of the Executive Board of Continental Aktiengesellschaft, Dr. Elmar Degenhart, and the company’s Chief Financial Officer, Wolfgang Schäfer, on the occasion of the Continental Media Webcast: Fiscal 2018 on March 7, 2019

Check against delivery!

Please note that all statements are preliminary numbers that still need to be approved or determined by the Supervisory Board.
Wolfgang Schäfer, CFO:

Ladies and gentlemen,

2018 was a difficult year.

Overall market performance was a disappointment. We nonetheless achieved our adjusted annual targets. All in all, we finished fiscal 2018 successfully. We increased our sales by almost 1 percent to €44.4 billion and recorded organic growth of 3 percent. This means that we once again grew faster than the markets in which we operate. Our growth is testament to the confidence our existing and many new global customers have in our innovation capacity.

Free cash flow adjusted for acquisitions and funding of U.S. pension obligations was €1.9 billion last year. At €4 billion, our EBIT was 11.7 percent below the previous year's level. We thus achieved an EBIT margin of 9.1 percent. By way of comparison, in 2017 the figure was 10.4 percent.

Adjusted EBIT fell by 13.3 percent year-on-year to €4.1 billion. The adjusted EBIT margin amounted to 9.3 percent. The previous year's figure was 10.8 percent. This decline was due primarily to the weak market performance that I have already mentioned, but there were also some challenges of our own making. For the most part, these were negative effects resulting from warranty cases as well as start-up costs for new products and plants. Development costs in our Automotive Group were up slightly once again. This was due mainly to the high order intake in the last two to three years, which once again reached the record level of around €40 billion in 2018. Our task now is to handle the many orders as efficiently and profitably as we possibly can.

In response to weaker markets, we implemented additional measures in 2018 to optimize our production and process costs. We reviewed our planned investments and adjusted our expenses in line with the lower sales. We strategically realigned affected business areas, and we are already feeling the positive effects.

Against this backdrop, we generated net income of €2.9 billion, almost reaching the previous year's record. Given the challenges that I have referred to, that is a good result.

Overall, Continental has a rock-solid financial basis. Our balance sheet is strong. We have made good use of the upturn in recent years and systematically reduced our debt. We have further reduced net indebtedness by €386 million to roughly €1.7 billion. This puts net indebtedness in relation to equity (or the gearing ratio) at 9.1 percent. That enables us to easily handle acquisitions of up to €5 billion.

Equity increased to €18.3 billion. This is a new record and represents an equity ratio of 45.3 percent.

As I have already mentioned, our profit after taxes almost hit a new record, reaching €2.9 billion. We thereby produced earnings of €14.49 per share for our shareholders.
Based on this, the Continental Executive Board is proposing an increase in the dividend to €4.75 per share for the past fiscal year. That is 25 cents more per share than for the prior year. It corresponds to a payout of €950 million and a dividend payout ratio of 32.8 percent.

Now moving on to the outlook: The start to 2019 has confirmed our forecast for the year as a whole so far. As anticipated, market conditions are proving very challenging, especially in China and Europe. As far as the global production of passenger cars and light commercial vehicles is concerned, the declining market development seen in the second half of 2018 is likely to continue unchanged in the first half of 2019.

Factors that continue to have a negative impact are: firstly, the weaker economic performance in China; secondly, the trade conflicts between the U.S.A. and China and between the U.S.A. and Europe; and thirdly, the unclear situation with Brexit.

In the second half of the year, we then expect to see slight increases in production relative to the low baseline of the previous year. Consequently, for the year as a whole, we currently anticipate that the figures will remain more or less constant year-on-year at 94 million vehicles.

In such an environment, we expect consolidated sales in 2019 to be somewhere between €45 billion and €47 billion before exchange-rate effects. We anticipate a consolidated adjusted EBIT margin of about 8 to 9 percent.

For the Automotive Group, we are forecasting sales of roughly €27 billion to €28 billion. Here, we are still aiming to grow 3 to 5 percent more quickly than our markets. The adjusted EBIT margin of the Automotive Group is expected to be around 6 to 7 percent.

For the Rubber Group, we expect sales of around €18 billion to €19 billion and an adjusted EBIT margin of around 12 to 13 percent.

Ladies and gentlemen,

to sum it up: Continental is in excellent health. We continue to be geared toward rapid, profitable growth. That said, the market environment remains challenging for us and our industries.

And on that note, I will now hand over the floor to Elmar Degenhart.
Dr. Elmar Degenhart, CEO:

Ladies and gentlemen,

As you have just heard, the wind on the markets has shifted in 2018. At the same time, technological challenges are changing. Despite that, we are very well positioned in the race for the future of mobility in terms of technology, finance and our mentality. We are confidently helping to shape the extensive reorganization of our industries and technologies. What’s more, we are doing so from a position of strength.

Our order books are well filled, which means that we will continue to maintain a high level of investment in innovation, profitable growth, and thus the future of Continental. We are doing this to help millions of people and their goods to get from A to B safely, cleanly and intelligently. And so that this mobility continues to be affordable for them.

Last year, too, we systematically invested in sustainable mobility: more than €6.3 billion, which went toward areas such as research and development, upgrading our production facilities and expanding capacity.

There are roughly 49,000 engineers working on new trends and technologies at Continental. Around a third of them have a background in software. We want to increase the number of software and IT experts from the current level of 19,000 to 25,000 by the end of 2022.

What is it that brings us at Continental together and makes us such a force to be reckoned with? Our four corporate values. They are our dependable foundation. I am absolutely steadfast in my belief. By virtue of these values and thanks to the trust of our customers in our innovative capability, we will continue to achieve success and create value in the future.

Freedom To Act, Trust, For One Another, and Passion To Win. These four values have been the bedrock of our Continental values alliance for top value creation for eight years now. Our values are a dependable compass by which we safely navigate in an ever-changing world. When applied to our day-to-day activities, they make our decision-making processes shorter. They foster greater cooperation. And they ensure consistent practices among all involved.

We prepared for the transformation of our industries already early on. After all, our own transformation into Continental’s values alliance for top value creation already began years ago. By the beginning of 2020, we will have realigned our organization with this in mind. Our structures will be clearer, simpler, and more flexible as a result. Decision-making channels will be shorter and our processes faster.

We are reinforcing mutual trust. With the changes, we are encouraging greater entrepreneurial freedom. That is why we have been relying on a network culture for some time now. We now stand to benefit from this when it comes to our organizational realignment. Our employees are already mentally prepared for
the changes. Structure follows from our culture. As you can see, what others are only just beginning to work on is already everyday normality for us.

By the beginning of 2020, we will have pooled a significant part of our research and development activities in the future Automotive sector. Our goal is to respond to customer demands in a faster, more flexible, and more precise manner going forward. Software modules for similar systems will be developed centrally and used multiple times. Standardized development processes will also bring gains in efficiency. We are laying the necessary groundwork for this in 2019.

The potential partial IPO of our powertrain business is one key element of our realignment. Andreas Wolf took charge of this business last October. He is one of our most experienced and successful managers. Together with his team, he has already successfully passed one major milestone: the transformation of Powertrain into an independent group of legal entities. As announced, the carve-out took place at the start of the year – on schedule and without any problems. Another fantastic vote of confidence in Andreas Wolf and his team: an overwhelming majority of 99 percent of the employees who were eligible to switch to the new Powertrain organization agreed to do so. It is a great demonstration of their faith in the management team and its strategy!

Our powertrain business is not only under new management, but will have a new name in the future as well. That name is “Vitesco Technologies.” “Vitesco Technologies” combines two key elements of our Powertrain business, as “Vitesco” stands for speed and agility. The name highlights the energy and vigor with which we are making sustainable, valuable contributions to clean mobility.

Andreas Wolf and his team are now working on preparing for a potential partial IPO. The transformation into an independent group of legal entities will give our powertrain business more freedom. In this way, we are putting all our driving force on the road. And we are converting it into added value.

Ladies and gentlemen,

We are systematically unlocking the growth potential of electrification. Continental is one of the few system suppliers that offers full electrification of the powertrain from one source – from the electric drive system and the power electronics to the energy and thermal management systems. With our innovative technologies, we have established a strong foothold in the powertrain business in the past years. Our high order intake underscores that. This amounted to about €11 billion in 2018, of which around €2 billion was attributable to the electric mobility segment.

Continental technology is directing the future of mobility, and not just for electric mobility. After all, in more and more vehicles it is our technology that is taking over the controls. Since 1999, Continental has produced a total of about 82 million sensors for advanced driver assistance systems for its customers around the world, and the trend continues to rise. These sensors are the basis for the driverless future of mobility.
The order intake for solutions and systems that play a role in autonomous driving came to several billion euros again last year. We are already expecting to pass the €2 billion mark in sales this year. That will help us to consolidate our leading position in this sector. From this sound footing, we will be able to spur on the development of autonomous driving worldwide.

More than half of new vehicles around the world are connected. With more than 20 years of experience, over 33 million connected vehicles, and the acquisition of Kathrein Automotive, Continental now offers the entire chain of connectivity functions: from the antenna to the display. From the safety software to the electronic control unit.

Thanks to Continental’s fifth-generation mobile communications technology, the vehicles of tomorrow will have up to 10 gigabits of bandwidth, making it possible to transmit data thirty times faster than is possible today with LTE, the mobile communications standard of the fourth generation. The reaction time in the network – the latency – will also be improved substantially. With 5G, it will be a mere one millisecond in the end. In comparison with humans, the time between the eye and brain is about ten milliseconds. So with 5G, data exchange in real time will be possible. This short reaction time in the network is particularly helpful when vehicles want to warn each other or other road users of potentially hazardous situations. We have already received a volume order for a 5G connectivity solution like this.

There is no substitute for Continental when it comes to contact with the road. After all, tires are the vehicle’s only link with the road surface. Be it braking distances or reliable tracking, the right tire technology helps to determine whether it comes to a crash or not. Our tires are outstanding! This fact is well known, and has just been proven once again. In numerous national and international tire tests, we secured top rankings 40 times in the last year! Our customers are quite happy about that, as demonstrated by the fact that they bought another 155 million passenger car and truck tires from us last year – also a record figure. This was backed up by a new sales record in the winter tire business.

Grip is one of our traditional areas of expertise when it comes to the tire business. It is part of our corporate culture, and we transfer it even to our connectivity technology, offering dependable solutions to offer safe and secure contact, from the road to the cloud, all from a single source like no other company.

Autonomous driving, electric mobility and connectivity: We are the architects of an ecosystem of safe, clean and intelligent mobility. We are, after all, already supplying what others are still testing. Our solutions, components and systems are already providing better safety, efficiency and comfort in four out of five cars worldwide.

Ladies and gentlemen,

we can relate to it very well when we hear “When people say ‘the future of mobility,’ they mean Continental.”

That’s exactly what we think as well!