

# Continental Media Webcast: Capital Market Days 2020

Comments of the Chairman of the Executive Board  
of Continental Aktiengesellschaft,  
Nikolai Setzer,  
and the company's Chief Financial Officer,  
Wolfgang Schäfer,  
on the occasion of the  
Continental Media Webcast: Capital Market Days  
on December 16, 2020

## Nikolai Setzer, CEO:

Ladies and gentlemen,

the transformation in the mobility industry is currently presenting us with major challenges.

At Continental, we want to make use of this dynamic situation. Because the transformation, as challenging as it may be, does at the same time present us with many opportunities. Today I would like to explain what positive effects are to be expected from this. I will present our newly aligned strategy to you. We have set ourselves ambitious goals. But we consider them to be realistic.

Our strategy is based on three cornerstones:

The first: our future portfolio strategy. Our approach is deliberate and differentiated. We are differentiating systematically between products and product areas in a dynamic and innovative environment. And between products and sectors in saturated markets with stable market structures.

The second: our operational performance, which we will be strengthening continually.

And the third: our strategy based on connected and sustainable mobility. We see opportunities here that we will seize with greater strength and determination, and above all, more energy than before.

Back to the first cornerstone of our strategy: our product portfolio. Strategically, we will differentiate it between two separate focal points: One is "growth" and the other is "value." The goal of "growth" is, above all, the establishment of a strong position in fields featuring highly dynamic growth. In contrast, "value" areas operate in saturated markets with stable growth. And the concentration here when it comes to value creation is above all on improved profitability and cash generation.

We are focusing on above-average growth in the areas of connected, assisted and autonomous driving; new vehicle architectures; the Tires and ContiTech business in high-growth regions; and digital solutions and services.

In all cases, we are making the most of our extensive expertise as a software company. Because the future of mobility is characterized by its high degree of connectivity and safety as well as its convenience – completely regardless of the vehicle's drive system.

Hardware will clearly continue to be important. But software will make the difference in the future. Which is why, in the meantime, more than 20,000 software and IT specialists are programming for Continental. We are the first automotive supplier ever to supply a high-performance computer. Our customer is VW. These computers combine vehicle functions from the areas of safety, assistance, connectivity and entertainment. We have already received in total more than €4 billion worth of orders from several automotive manufacturers for these computers.

And now let's look at our product portfolio where the focus is on "value." These are profitable businesses where we have solid competitive positions. These include, for example, safety solutions, display and control systems, surface materials and the European passenger-car tire business. However, given a higher degree of maturity of their underlying markets, only limited outperformance above market is to be expected. That means that we must be selective when it comes to growth and focus closely on sustaining profitability and generating cash.

Strategically, we will be regularly reviewing these businesses to determine whether Continental is the best owner. We will also be reviewing how we can maximize value. Divestitures are also an option, but would be done only after thorough review and considering potential dissynergies. Incidentally, the planned spin-off of Vitesco Technologies is a part of this systematic review, which is on our agenda for next year. The internal processes for this will, according to plan, be rearranged by the end of year. The necessary organizational requirements will therefore be in place.

And now to the second cornerstone of our strategy: Here the focus is on strengthening our operational performance. In this way, we are ensuring our future viability and competitiveness. For this, we are adjusting our cost structure to global market conditions. We summarized these measures in our structural program and started implementing them in September 2019. And believe me: In the Executive Board, we discussed and weighed each measure that had a negative impact on the workforce very carefully. These decisions for also very painful for me.

In addition to adjusting our cost structure, we are also continuously improving our productivity. Best example: the increasing automation and digitalization in our production environment. Specifically: more than 2,000 collaborative robots are now already working hand in hand with human colleagues in our plants. This number also includes autonomous, driverless transportation systems, which we will produce ourselves in the future. This does not mean that we will be building cars in the future! We will, however, apply our extensive expertise in the areas of sensor technology, autonomous driving and electromechanics to our own factories. In doing so, we will gain additional knowledge for road traffic.

Finally, the third cornerstone of our strategy. Here we are turning the change to connected and sustainable mobility into an opportunity. We published our sustainability roadmap for this at the beginning of December. In this way, we are laying a solid foundation for sustainability like practically no other company in the supplier industry to date.

From 2022, we at Continental will make our global business for emission-free vehicles completely carbon-neutral. That is only one of our milestones. In the end, we will have

- 100 percent carbon neutrality,
- 100 percent emission-free mobility and industry,
- 100 percent circular economy and
- 100 percent responsible value chains.

We aim to implement these four sustainability targets by 2050 at the latest.

We are competing to win. So bring the future on. We are ready. And Continental will decisively shape the future of sustainable mobility.

## Wolfgang Schäfer, CFO:

Ladies and gentlemen,

I think that after Mr. Setzer's explanations our strategy has become clear. We have adjusted our strategic mid-term targets. The absolutely crucial thing is: in the future we want to continue growing faster than the markets and industries in which we are operating.

For the Continental Group as a whole, we are aiming for average annual organic growth of around 5 to 8 percent. We are also aiming for an adjusted EBIT margin for the Continental Group of between around 8 to 11 percent. Its return on capital employed is expected to be around 15 to 20 percent. In addition, with a targeted cash conversion ratio of more than 70 percent, we will further increase our financial strength in the future. We want to maintain our current dividend policy in the future as well. We are aiming to continue to distribute 15 to 30 percent of the annual net income to our shareholders. Furthermore, it is our stated objective to keep our credit profile in the investment-grade category.

Now, let's have a look at the plans in the individual areas. The strategy of the Automotive Technologies group sector focuses on growing global demand for even safer, more connected and more convenient mobility. We are developing and supplying the necessary technological basis for this, which primarily comprises integrated vehicle architecture and increasingly comprehensive computer programs for controlling mobility systems.

Overall, we expect our Automotive Technologies group sector to achieve average annual organic growth of around 7 to 11 percent. The forecast, average annual market growth is between around 5 and 7 percent. So in the medium term we will exceed this by around 2 to 4 percentage points. The adjusted EBIT margin is expected to be around 6 to 8 percent. The growth drivers include products and systems for assisted and autonomous driving, services for carmakers and end and fleet customers as well as architecture, connectivity and software solutions.

As Niko Setzer mentioned, our high-performance computers are a key factor here. We are also in a leading market position in terms of products and systems for assisted and automated driving, as well as in the area of displays and control systems.

Now we come to the Tires business area. This is consistently striving to further expand its position among the top tire manufacturers worldwide. With its premium portfolio, Continental of course stands for innovative tire technology. We want to increase market share in the growth markets of Asia and North America in particular. We want to continue to expand the electric mobility segment. We also see further growth for truck and bus tires as well as in the area of specialty tires.

Our tire business pursues ambitious targets in the area of sustainability. We intend to become the most progressive manufacturer in the tire industry by 2030. Its focus will be on the strategic topics of climate protection, low-emission mobility, a circular economy and sustainable supply chains and thus all stages of the value chain. One example: by 2050 we want all the materials in our tires to be 100 percent sustainable. In our tire segment, we are aiming in the mid-term for an adjusted EBIT margin of around 12 to 16 percent and a return on capital employed (ROCE) of more than 20 percent.

And now to ContiTech: this business area continues to resolutely pursue the path it has been forging since 2017 in the direction of “smart solutions beyond rubber.” Eight growth fields are part of the product portfolio with a focus on growth. In these fields, ContiTech is striving to grow about 3 percentage points faster than the market. The growth potential results primarily from the increasing demand for digital and intelligent solutions. In this regard, ContiTech draws on its long-standing and detailed knowledge of the industry and materials. We combine various materials with electronic components and individual services, thus opening up new business opportunities. Furthermore, ContiTech has strengthened its plastics expertise through acquisitions.

I would like to mention a specific example to conclude with. It shows how we think beyond just the product and take the slogan “smart solutions beyond rubber” literally. It’s about using drones to monitor kilometer-long conveyor belt systems. As soon as the flying camera has covered the inspected site, it transfers the collected data to the cloud. The image data is processed by an AI-based algorithm. Defects can thus be detected at an early stage. This reduces unscheduled and cost-intensive downtimes. The necessary service takes place at the right time and exactly according to needs.

Our portfolio with the focus on profit includes applications from ContiTech for cars and rail transport as well as the printing and mining industries. Here, we continue to be successful. In total, ContiTech is aiming for an adjusted EBIT margin of around 9 to 11 percent. Its return on capital employed is expected to exceed 20 percent.

Our strategic mid-term targets show that we have lots of plans and are looking to the future full of confidence.