Continental Media Webcast: Fiscal 2021

Comments of the Chairman of the Executive Board of Continental Aktiengesellschaft, Nikolai Setzer, and the company’s Chief Financial Officer, Katja Dürrfeld, on the occasion of the Continental Media Webcast: Fiscal 2021 on March 9, 2022

Check against delivery!
Please note that all statements are preliminary numbers that still need to be approved or determined by the Supervisory Board.
Nikolai Setzer, CEO:

Ladies and gentlemen,

It is hard for me to find the right words for something that we and many others would never have thought possible: war again in Europe! Since the Second World War, we have lived in peace and stability over long periods. The attack on Ukraine has shaken us profoundly. Our thoughts are with those affected and their loved ones.

The combat operations must end as quickly as possible! As a company, we firmly believe that conflicts can only be resolved by diplomatic means. Military action produces only one thing: immense human suffering. To make a contribution toward easing this suffering, we have donated to the UN Refugee Agency.

One thing is clear to us: The safety and security of our colleagues is our highest priority. Although we do not have any locations in Ukraine, we do have Ukrainian employees, particularly in the neighboring countries. We are in close contact with them and are supporting them wherever possible.

For the time being, we are suspending production in our plant in Kaluga. We have made this decision as a result of the war and the related current upheavals. We will support our local staff who are affected by this. We are currently looking into how their basic needs can be met.

Katja Dürrfeld, CFO:

Ladies and gentlemen,

against all expectations, the market environment largely failed to get back on its feet in 2021 following an already historically weak previous year. The coronavirus pandemic, the semiconductor shortage and significant cost increases in the areas of procurement and logistics have had an especially marked impact on our sales and earnings. It this turbulent market environment, we have nevertheless performed well in operational terms. Following two successive years beset by losses, we have ended the fiscal year with a positive net income. However, it is clear that we are not satisfied with our current financial performance.

Our sales totaled €33.8 billion in 2021, an increase of 6 percent compared to the previous year. Please note that – unless indicated otherwise – the respective effects of Vitesco Technologies until the spin-off in September 2021 are not taken into account. After adjusting for exchange-rate effects and changes in the scope of consolidation, we posted organic sales growth of more than 7 percent. That means we outperformed the market, since the latest estimates indicate that global automotive production grew by only around 3 percent to around 77 million units worldwide in 2021.
In this persistently challenging market environment, we achieved an adjusted operating result of €1.9 billion. The adjusted EBIT margin was 5.6 percent. That represents an improvement compared to 2020.

Our Automotive group sector has been hit hard by the weak development on the automotive markets and the semiconductor shortage. In 2021, this sector still comprised the Autonomous Mobility & Safety and Vehicle Networking & Information business areas. At the turn of the year, we aligned these to a more market-oriented structure. The combined sales of the two units totaled €15.4 billion. In organic terms – that is, without the influence of exchange rates and changes in the scope of consolidation – this represented a slight 1.2 percent increase in sales compared to the previous year. We recorded increases in the sales volume of advanced driver assistance systems, airbag control units, connectivity technologies as well as electronics and mechatronics for commercial vehicles and the replacement market. Purely in operating terms and after adjusting for special effects, the performance of our automotive business resulted in an adjusted EBIT margin of minus 1.3 percent. Despite the many challenges, this is not a satisfactory result. This year, we will intensify our efforts to improve the earnings situation at Automotive on a lasting basis. We will also turn our attention to rigorously implementing the lessons learned from the strained supply situation with regard to semiconductors. The focus here is particularly on better early warning systems and on more comprehensive planning, communication and transparent presentation of our needs across the entire value chain. Furthermore, we will build up inventory reserves in a targeted manner in order to overcome any possible shortages over longer periods.

Developments at our Tires and ContiTech group sectors were more pleasing. In the past fiscal year, we consolidated these two business areas into the Rubber Technologies group sector. The reported sales of the Rubber Technologies group sector increased year on year by 12.6 percent to €17.6 billion. Organic sales growth came to 13.9 percent.

In the Tires sector, sales increased in particular in the car tires replacement business and in the entire commercial-vehicle tires business compared to the previous year. Moreover, we have grown the share of premium tires above 18 inches in terms of tire sales to currently 44 percent. This confirms the steady growth of the high-margin tire segment in our portfolio.

In our ContiTech group sector, business was brisk with products for off-highway applications, surface materials for industrial use and window and pool films for home and garden. The sales volume of drive belts for industrial purposes was up as well.

Overall, the Rubber sector increased its adjusted EBIT margin compared to the previous year, coming in at 12.4 percent compared with 11.3 percent in the previous year. The adjusted operating result totaled €2.2 billion. Given the adverse market conditions, particularly the sharp uptick in raw material prices, that is again a very good performance.

All in all, the company’s bottom line was a positive net income of €1.5 billion. Free cash flow before acquisitions, divestments and carve-out effects for continuing and discontinued operations amounted to €1.2 billion.
On this basis, the Executive Board proposes to the Annual Shareholders’ Meeting a dividend of €2.20 per share. After refraining from paying a dividend in the past fiscal year, the dividend proposed is now at the higher end of the envisaged distribution corridor of 15 to 30 percent of net income. The proposed distribution therefore amounts to €440 million.

All in all, our balance sheet remains solid. Our equity ratio is 35.3 percent. Our liquidity cushion continues to be comfortable. It totaled €7.1 billion at the end of 2021.

And now, let’s turn to our expectations for 2022. As expected, the new fiscal year has got off to a sluggish start due to ongoing supply shortages for semiconductors and cost increases in the areas of procurement and logistics. With regard to the supply of electronic components, we are expecting a slight improvement in the second half of the year.

Please note that, in the event the geopolitical situation, in particular in Eastern Europe, remains tense or even worsens, it can result in lasting consequences, especially for production, supply chains and demand. Depending on the severity of the disruption, this may result in lower sales and earnings in all group sectors as well as for the Continental Group compared to the prior year.

Not including the risks I just mentioned, we expect the production of passenger cars and light commercial vehicles to increase year on year by 6 to 9 percent. Over the entire year, however, we anticipate headwinds on the cost side, particularly in the areas of procurement and logistics. This is expected to weigh more heavily on earnings than during the previous year. All in all, we anticipate higher procurement and logistics costs of around €2.3 billion.

On the basis of our assumptions about the trends in our markets and industries for 2022, we anticipate consolidated sales of around €38 billion to €40 billion and an adjusted EBIT margin of around 5.5 to 6.5 percent.

For the Automotive group sector, Continental forecasts sales of around €18 billion to €19 billion with an adjusted EBIT margin of around 0 to 1.5 percent.

Sales in the Tires group sector are expected to amount to between around €13.3 billion and €13.8 billion with an adjusted EBIT margin ranging between 13.5 and 14.5 percent.

For the ContiTech group sector, we expect sales of between around €6.0 billion and €6.3 billion with an adjusted EBIT margin ranging between 7.0 and 8.0 percent.

As you can see, the situation remains tense overall. The market trend, however, gives us reason for cautious optimism as we look ahead to further business development in 2022.
Nikolai Setzer, CEO:

Ladies and gentlemen,

the past fiscal year was again a very trying one for us. With that in mind, my thanks go out in particular to our more than 190,000 employees worldwide. They have pulled together as a team to overcome the various restrictions and obstacles confronting them.

Numerous events have put us to the test and demanded the utmost from us. The semiconductor shortage has been at the forefront of all of our minds. The strong headwinds on the cost side have also been very demanding and will remain a challenge. So while our positive net income is something to be happy about, it is not grounds for satisfaction. Improving our earnings is of course our top priority!

We will be equally rigorous in investigating the accusation of the use of illegal defeat devices in diesel engines. We appreciate your continuing understanding that we cannot comment in any detail on this matter while investigations by the public prosecutor’s office are ongoing. You may however rest assured that we are making every effort to ascertain the full facts and are cooperating unreservedly with the public prosecutor’s office. After all, integrity is a key part of our corporate culture. Moreover, it is firmly anchored in our Code of Conduct, which applies to all Continental companies worldwide.

Aside from the many challenges, we focused closely on our future during our anniversary year. Together, we strategically set the course for the next successful chapter in our company’s history. With our new structure, we can act in a more agile and more transparent manner. We make decisions even faster. Our positioning with respect to the transformation of the mobility industry is future-oriented and in line with market conditions.

Since the beginning of the year, Continental has been supported by three strong group sectors: Automotive, Tires and ContiTech. Under a single roof, we are jointly gathering momentum for our strategic realignment and increasing our profitability. We therefore stand firmly by our medium-term targets despite the disappointing market trend.

Our technological strength is the basis for our success. We are well positioned thanks to our focused portfolio, our decades of hardware competency and our comprehensive software and digitalization expertise. To maintain this strong position, we are investing with a view to sustainability. Our expenditure on research and development in the past fiscal year, for instance, amounted to €2.6 billion.

We are also investing in the future of our employees. Consequently, we launched a comprehensive training initiative jointly with the employee representatives at an early stage. One element of the initiative is the company’s own Institute for Technology and Transformation, which was founded in 2019. By the end of 2021 3,500 participants in Germany were qualified to perform new tasks. A further training institute of this type will also be founded in France later this year. Other countries are set to follow. In addition, we are training all of our employees through our online learning platform. Worldwide, up to 130,000 courses
are completed by more than 50,000 employees every month. At the end of 2018, we rolled out the company’s software academy worldwide, specifically for our software and IT specialists. Around 23,000 staff members are currently furthering their training in the software academy. We already employ around 19,000 software and IT specialists today. A total of around 42,000 engineers are working on our future technologies worldwide. Motorists as well as numerous different industries benefit from their solutions worldwide.

We focus on safe, autonomous, connected and sustainable cutting-edge technologies. So no matter what, our technologies are key. Because the powertrain is becoming less important as a purchase criterion. What will count in the mobility of tomorrow is its degree of automation, connectivity, comfort and convenience. In the area of safe and autonomous driving, we already rank among today’s leading automotive suppliers. We produced more than 28 million cameras, radar and LiDAR sensors for assisted and automated driving functions in 2021.

Moreover, we have strengthened our market position through participations and cooperations. One example is our joint venture with Horizon Robotics. Through this initiative, we are accelerating the commercialization of automotive AI technologies. Another instance is our participation in Kopernikus Automotive. The focus here is on infrastructure-based automated parking in parking garages as well as autonomous maneuvering in automotive factories and logistics centers.

On the roads as well, our technologies monitor the vehicle surroundings. Some even look into the future! Take our Driving Planner for highly automated driving, for example. It calculates possible driving situations several seconds in advance. This enables it to react with lightning speed in critical situations. Sometimes, fractions of a second can be vital. Here, our brake systems are tried and tested. For example our MK C2. It builds up brake pressure in only 150 milliseconds. And our premium tires like the SportContact 7 ensure short braking distances thanks to their high road grip. Top scores in independent tire tests confirm the high technology standard of our tires on a regular basis. Motorists and automotive manufacturers alike place their trust in them. In Europe alone, nearly one in three new cars is equipped with Continental tires. An increasing number of purely electric vehicles on the road are equipped with tires from Continental: Seven of the world’s ten highest-volume manufacturers of electric vehicles already place their trust in our tire technology.

We are also at the forefront when it comes to vehicle connectivity. Thanks to our technologies, we have already connected 50 million vehicles permanently to other vehicles, the internet or the traffic infrastructure worldwide. Connectivity is a key yardstick for the future viability of personal mobility. Ever-faster processing power and integrated vehicle software are speeding up this development. They form the central nervous system of the mobility of the future. And this is precisely what we are developing. We are the first automotive supplier to have put a central high-performance computer into volume production. Since the fall of 2019, it has been the core component of the entire Volkswagen ID. series. We are therefore all the more delighted that a new ID. model is being presented to the world public today – with many of our technological features on board. The same applies to the BMW iX. With our high-
performance cockpit computer, we provide the necessary processing power to run the functions in the display, ensuring seamless interaction between driver and vehicle.

The order volume for high-performance computers currently totals around €5.5 billion. In 2021 and 2022 alone, more than 20 vehicle models worldwide were equipped with Continental high-performance computers. Just recently, we also received our first order for a computer of this type from China. This will be used in the electric vehicles of a major Chinese vehicle manufacturer from 2023 onward. We are developing this high-performance computer on the basis of our global platform, largely at our software development center in Chongqing in southwestern China, which we inaugurated in July 2021. In the mid to long-term, we will employ up to 500 software and IT experts there.

We make the helpful functionalities of our high-performance computers and other vehicle electronics visible to motorists on our display solutions. One example is our ShyTech display – a world first that we presented last year. And, as its name already indicates, this display technology is “shy” in the true sense of the word. Concealed behind a wood or leather surface, the display screen only appears when needed. A further innovation, our Switchable Privacy display, behaves in a similar manner. It is only visible to passengers as required. They can, for example, watch a move without distracting the driver from road traffic. The innovation is a hit not only with vehicle occupants, but also with our customers. New orders for display solutions amounting to more than €5.5 billion are clear evidence of this.

A further indication of our future viability is our comprehensive commitment to the area of sustainability. Our Conti GreenConcept celebrated its premiere at the IAA in Munich last year. This tire concept is characterized by its exceptional sustainability. The tires feature a resource-saving lightweight technology. In addition, we have increased their service life thanks to a renewable tread. Our GreenConcept tires also contain a particularly high proportion of traceable, renewable and recycled materials. The total proportion of renewable raw materials is 35 percent. Furthermore, 17 percent of the materials used are recycled. These include polyester from recycled PET bottles for the first time ever. The sustainability of our materials has long been an important concern to us. Since 2011, for instance, we have been working with partners on making natural rubber regionally from dandelions in order to reduce the amount of natural rubber that we import from tropical regions in the long term. We therefore count among the pioneers in sustainability within the tire industry. The jury of the German Future Prize agrees. Last year, it voted our project team through to the final round of the award.

The materials that we develop for vehicle interiors and buildings are also sustainable. Our AMBIENC3 vehicle demonstrates our expertise in the areas of sustainability, design and functionality. In the development of surfaces, we rely on natural and renewable raw materials as well as recycled and processed materials. These are above all low in emissions and pollutants. Lightweight surfaces also help reduce vehicle weight. This lowers energy consumption and consequently CO2 emissions, as well as increasing the range of electric vehicles.

With emission-free mobility and emission-free industries, we already generated sales of around €1 billion in the past fiscal year.
Ladies and gentlemen, in our company’s 150-year history we have consistently proven that change is part of our DNA. We therefore exploit transformation as an opportunity.

We are securely positioned for the future:

- With our materials expertise, we are setting standards in sustainably in numerous applications and industries.
- In the area of mobility, there is no way of getting around us: Safe, autonomous, connected and sustainable driving are the new horsepower for the mobility of the future. We are developing these and bringing them to the road by the millions – worldwide! That is precisely our strength!