Continental Media Webcast: Fiscal 2022

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 2022 on March 8, 2023

Check against delivery!

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

Ladies and gentlemen,

2022 was another turbulent year. Market trends – and therefore also Continental’s performance – were hindered by a wide range of adverse events, including: the repercussions of the war in Ukraine, the restrictions in China in the wake of the coronavirus pandemic, the ongoing semiconductor shortage, and additional costs of around €3.3 billion as a result of price increases for raw materials, semi-finished products, energy and logistics.

Considering these challenges, we performed well operationally. We met our sales and earnings forecast for the Continental Group. That is a respectable result. It goes without saying that we need to keep improving. We have our mid-term targets firmly in sight. And we’re continuing to work as hard as we can to achieve them.

Our sales totaled €39.4 billion in 2022, an increase of around 17 percent compared with the previous year. After adjusting for exchange-rate effects and changes in the scope of consolidation, we posted organic sales growth of 12.3 percent. This meant that we outgrew global automotive production, which according to the latest estimates increased by around 7 percent to around 82 million units worldwide in 2022. In this turbulent market environment, we achieved an adjusted operating result of €2 billion. The adjusted EBIT margin came to 5 percent, after 5.5 percent in the previous year.

Like in 2021, our Automotive group sector was especially hard hit by the continued weak performance of the automotive markets and the semiconductor shortage. Sales totaled €18.3 billion in 2022, up 19.3 percent on the previous year. In organic terms – that is, without the influence of exchange rates and changes in the scope of consolidation – this represents a 13.9 percent increase in sales compared with the previous year. We recorded sales gains for cameras and radar products, brake systems, airbag control units, connectivity technologies, vehicle electronics, display solutions and high-performance computers. Alongside strong operating growth, agreements reached with customers on price adjustments had a positive impact on sales performance. Purely in operating terms and after adjusting for special effects, the performance of our automotive business resulted in an adjusted EBIT margin of -0.2 percent, versus -1.4 percent in the previous year. We posted a significant increase in profitability in the second half of 2022 in particular, achieving a positive result in both the third and fourth quarters. That is proof that we are on the right track. A wide range of measures helped pave the way for this, including: a broader supplier base, focused cost management, and integrated management of our procurement and logistics chains for electronics. We will continue to pursue this path with conviction in 2023. Our priority is and remains to shore up our profitability.
The performance of our Tires and ContiTech group sectors in 2022 was mainly impacted by price rises for important raw materials and high energy and logistics costs. The prices for butadiene and input products based on crude oil were particularly affected. The cost headwinds for both group sectors amounted to €2.3 billion.

In this difficult environment, Tires recorded sales of €14 billion, an increase of 18.6 percent. This result was propped up worldwide by price adjustments as well as higher sales volumes of larger and high-margin tires. The adjusted operating result rose year-on-year by €112 million to more than €1.8 billion. The adjusted EBIT margin was 13.1 percent, slightly exceeding our forecast. Given the adverse market conditions, this was a very good performance.

In our ContiTech group sector, business with conveyor belts and air spring systems for commercial vehicles was brisk. Sales in ContiTech rose by 11.5 percent year-on-year to €6.6 billion. Price increases for automotive original equipment and in the industrial and replacement business were the main contributors to the uptick in sales. The adjusted operating result fell year-on-year by €121 million to €308 million. This corresponds to an adjusted EBIT margin of 4.7 percent, after 7.5 percent in the previous year. The result was lower than we had expected. The primary reasons for this were: higher production costs, the unfavorable sales development of products with lower profitability, and pandemic-related business restrictions in China. Looking ahead, our focus is on boosting ContiTech’s efficiency and competitiveness, which form the foundation for its future success.

Let’s now take a look at some other key financials for the Continental Group: All in all, the bottom line was a positive net income of €67 million. This was strongly influenced by negative, predominantly non-cash special effects amounting to around €1 billion that relate mainly to impairment losses in the Automotive group sector due to higher interest rates. Impairment losses were also recognized in connection with business operations in Russia. As already announced in January, we closed the past fiscal year with an adjusted free cash flow of approximately €200 million. Our adjusted forecast was around €600 million to €800 million. The main reasons for the difference are the lower-than-expected receipts as at the end of the reporting period coupled with the below-forecast earnings in the ContiTech group sector.

The Executive Board will propose to the Annual Shareholders’ Meeting a dividend of €1.50 per share. This amounts to a distribution of around €300 million. We took two factors into account in arriving at this figure: First, the negative and predominantly non-cash special effects on net income. And second, the downward share price trend last year.

All in all, our balance sheet remains solid. Our equity ratio is 36.2 percent. That represents a slight improvement compared with the previous year. Our liquidity cushion continues to be comfortable. It totaled around €7.6 billion at the end of 2022.
Now to our expectations for 2023: We expect a further recovery in the global production of passenger cars and light commercial vehicles. Year-on-year growth is likely to be around 2 to 4 percent. We forecast rising production figures in particular in our core markets of Europe and North America. However, we will likely have to contend with significantly higher costs in fiscal 2023 as well. We expect these additional expenses to amount to around €1.7 billion, encompassing higher costs for materials, wages and salaries, as well as energy and logistics. Based on our assumptions about the trends in our markets and industries, we anticipate consolidated sales of approximately €42 billion to €45 billion and an adjusted EBIT margin of around 5.5 to 6.5 percent.

The expectations for our three group sectors are as follows:

- For Automotive, we expect sales of around €20.5 billion to €21.5 billion and an adjusted EBIT margin in the range of around 2 to 3 percent.
- Sales in the Tires group sector are expected to amount to around €14.5 billion to €15.5 billion with an adjusted EBIT margin of around 12 to 13 percent.
- For ContiTech, we expect sales of around €6.8 billion to €7.2 billion and an adjusted EBIT margin of around 6 to 7 percent.

As you can see, we expect our results to improve due to the sustained market recovery. And therefore, despite all the challenges facing us, we are cautiously optimistic about our performance this year.
Nikolai Setzer, CEO:

Ladies and gentlemen,

As you’ve heard, 2022 was another year with strong headwinds. However: It was also a year that made us more resilient. There were two key reasons for this:

- Our around 200,000 employees worldwide.
- And our structure with the three group sectors Automotive, Tires and ContiTech.

We offer our customers tailored solutions to meet their industrial and mobility needs of tomorrow. No other supplier worldwide can offer such a comprehensive portfolio of hardware and software together with analog and digital future technologies from a single source.

This is paying off: Not only in Tires, which even managed to exceed expectations slightly despite the difficult conditions. But also in Automotive, where we can see that our earnings are moving in the right direction. It also inspires us with confidence that: Recently this group sector has been growing faster than global vehicle production. The value of our products in vehicles is rising all the time. It achieved its sales targets. Our strategic focus is improving the competitiveness of our solutions. Furthermore, we have launched a program to boost the efficiency of research and development in Automotive. More than 100 employees across all areas of the group sector are working hard to improve product development. And our order situation in the past year was very pleasing, increasing by around 26 percent year-on-year to more than €23 billion.

We will be realigning the strategy of our ContiTech group sector beginning in May. The aim is to enhance impact and efficiency and improve customer and market proximity. To this end, going forward ContiTech will be stepping up its focus on expanding its industrial business. We already began strengthening our market position last year by means of targeted acquisitions. ContiTech is also bundling its automotive business to create synergy effects. The goals we have set ourselves are quite ambitious: in our industries and markets, we are striving to carve out a technologically leading role for material-driven solutions.

This is testament to how hard we have worked in all areas and how we have accomplished more than just the achievement of our sales and earnings targets for the Continental Group. We have also made improvements at the strategic and structural level. This gives us the stability we need to contribute to a successful transformation with our own innovative solutions. With technologies that make mobility smarter, safer, more convenient and more sustainable.
In the past year alone, we equipped vehicles worldwide with more than 35 million cameras, radar and LiDAR sensors “made by Continental.” Over and above this, we are also committed to intelligently connected mobility of the future. Take, for example, the “smart intersection” we have developed, which in years to come will be a fixed component of every modern smart city and will help to avoid hundreds of thousands of accidents. Or our “digital guardian angel,” which provides real-time alerts about potential accidents between connected vehicles and more vulnerable road users such as cyclists or pedestrians. Our modern head-up displays are also a real boon for mobility – in trucks, passenger cars, and since the end of 2022 also in trams. These examples show that Continental technology is driving advancements in mobility not just in cars – even if most solutions were originally developed for that purpose. Like our Curved Ultrawide Display, which we debuted as a world first at the Consumer Electronics Show in Las Vegas at the beginning of January. The display is multi-functional, acting as a display for the driver, the central area of the cabin and the passenger all in one. Solutions such as these have earned industry accolades such as the renowned German Design Award. But above all they attract orders: The total value of incoming orders for display solutions with a production launch after 2022 currently stands at over €7 billion.

Last but not least, ladies and gentlemen, we are also leading the way in safety and sustainability. For example with our semi-dry brake system, where the front brakes operate like they have always done, hydraulically using brake fluid, but the brakes on the rear wheels are electromechanical. If dry braking becomes a global standard, the environment will be spared many millions of liters of hazardous waste in the form of old brake fluid. A major order received by the Automotive group sector totaling €2 billion is confirmation that innovative concepts like these are winning over our customers.

In ContiTech as well, ecology and the economy often go hand-in-hand: There, our researchers discovered a recycling product in 2022 that can be used like a raw material and furthermore is readily available in large quantities. Coffee grounds! Under the name “skai VyP Coffee,” we are now processing the material into upholstery fabric. In this way, not only are we removing greenhouse gases from the atmosphere – but the whole thing also looks really stylish.

In Tires, meanwhile: We became the first manufacturer worldwide to introduce recycled polyester yarn from old plastic bottles into production in 2022. With our Conti Urban, we have shown just how much potential there is in the area of sustainability. The production-ready concept tire is designed specifically for electric buses and delivery vehicles of the future. After retreading, more than 90 percent is made from renewable and recycled materials. Upon initial delivery and thus without retreading, this proportion is still an impressive 50 percent. An increasing number of purely electric vehicles on the road are equipped with tires from Continental: nine of the world’s 10 highest-volume manufacturers of electric vehicles already place their trust in our tire technology. Overall, our business with emission-free mobility and industry amounted to around €2.8 billion in fiscal 2022.
So you see, ladies and gentlemen, we are acting sustainably – even when times are tough. And 2022 was definitely one of those years. Last year, we felt as though we were being confronted by a new issue at every turn. There were major difficulties for global supply chains – with correspondingly high freight charges. Not to mention persistent supply bottlenecks for key technologies like semiconductors. Then the war in Ukraine drove up prices for goods, raw materials and energy. This is also the reason why we are working toward a controlled withdrawal from the Russian market. This includes selling our business operations in Russia – such as our plant in Kaluga. We are already at an advanced stage of the sale process here. The regulatory approvals required to ensure its successful conclusion have not been made yet. Semiconductor shortage, strained supply chains and the war: all that has been happening in a global economy still weakened by the coronavirus. The consequence: rising inflation. There have also been internal issues: deviations from the standards for testing processes for industrial hoses, the cyberattack, and the ongoing diesel investigations by the public prosecutor’s office.

In spite of this, we made the most of our room for maneuver and reacted quickly and decisively to the challenges we were faced with. For example, regarding integrity and law: we set up a separate function on the Executive Board – as an expression of cultural awareness for the core values we stand for at Continental, for integrity and the power of innovation. Since we know these are two sides of the same coin. Or let’s take the example of supply bottlenecks for semiconductors: We have set up more holistic management of our procurement and logistics chains for electronics. We have expanded our supplier base. And then there’s the topic of costs: Here, we have re-honed our focus and increased our cost discipline so we can keep improving our profitability. We also had to find an answer to inflation, which we did through constructive negotiations with our customers, resulting in new price agreements.

The bottom line, ladies and gentlemen, is that we have achieved a great deal with the help of these measures: Continental is now even more crisis-resilient than it was a year ago. Its cybersecurity is better, and its supplier base is broader. Our cost management is even more focused; we have new competent partners and a new Executive Board function for Integrity and Law.

All of that is the embodiment of dynamic change and of successful crisis management. Most of all, however, it embodies our improved resilience. We could not have done this without our around 200,000 employees. They dug deep and worked hard so that we could reach our sales and earnings targets for the Continental Group, despite the challenging situation we found ourselves in. That was and is an outstanding achievement – and one that gives us confidence for the future.

We are therefore looking to the months ahead with a due sense of respect, but also with a healthy dose of optimism. We are sure that Continental will emerge as a winner from the transformation. In 2022, we again proved that change is one of our core competencies. And with our advanced technologies, we provide exactly the right solutions for a connected, safe and sustainable future.