



Investor and Analyst Call H1 2020

Dr. Konstantin Sauer, CFO
ZF Friedrichshafen AG

August 7, 2020 | Half-Year Report



Global Paradigm Shift



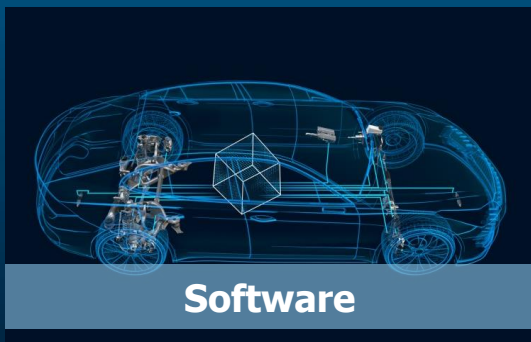
Shutdown



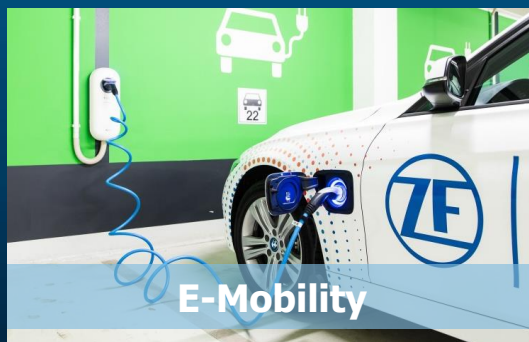
Economic Crash



Booming Internet Trade



Software



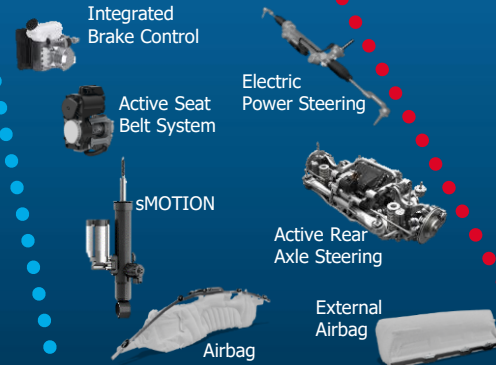
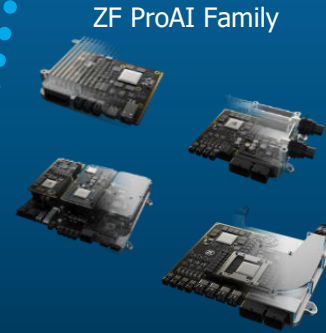
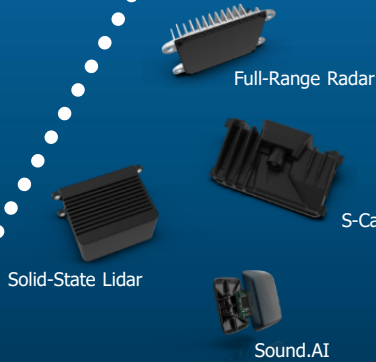
E-Mobility



Artificial Intelligence

COVID-19 accelerates transformation

Increasing Demand for Future Technologies



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110100
010011

Software Solutions



See.



Think.



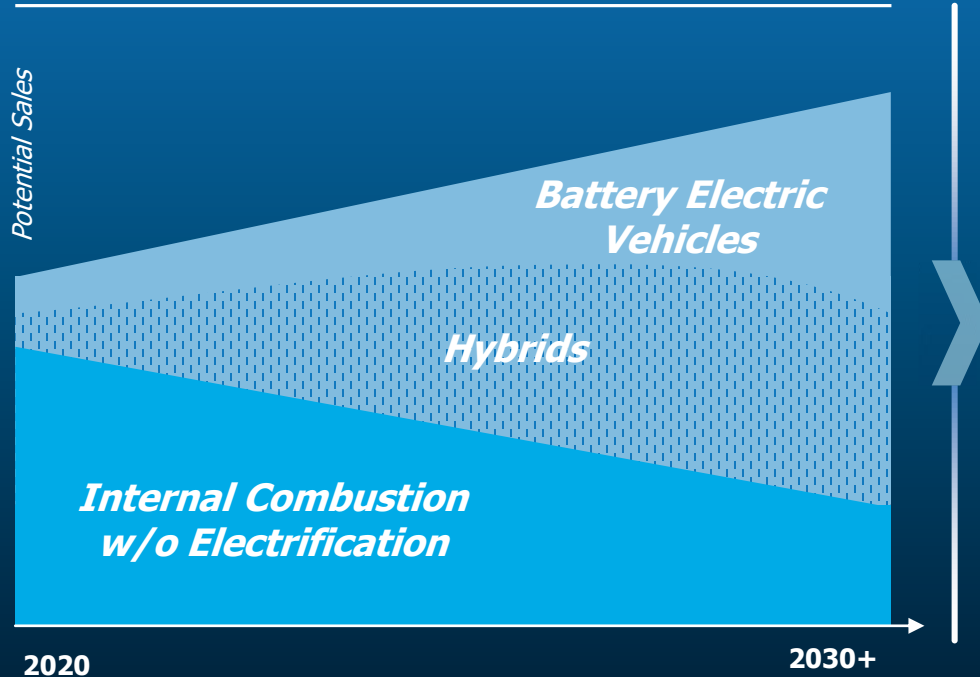
Act.



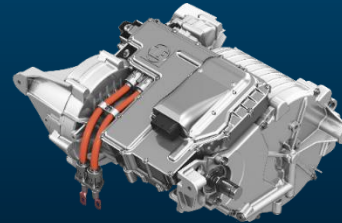
New Division Founded

The Future of Pass Car Powertrain is Electric

Increasing Powertrain Electrification



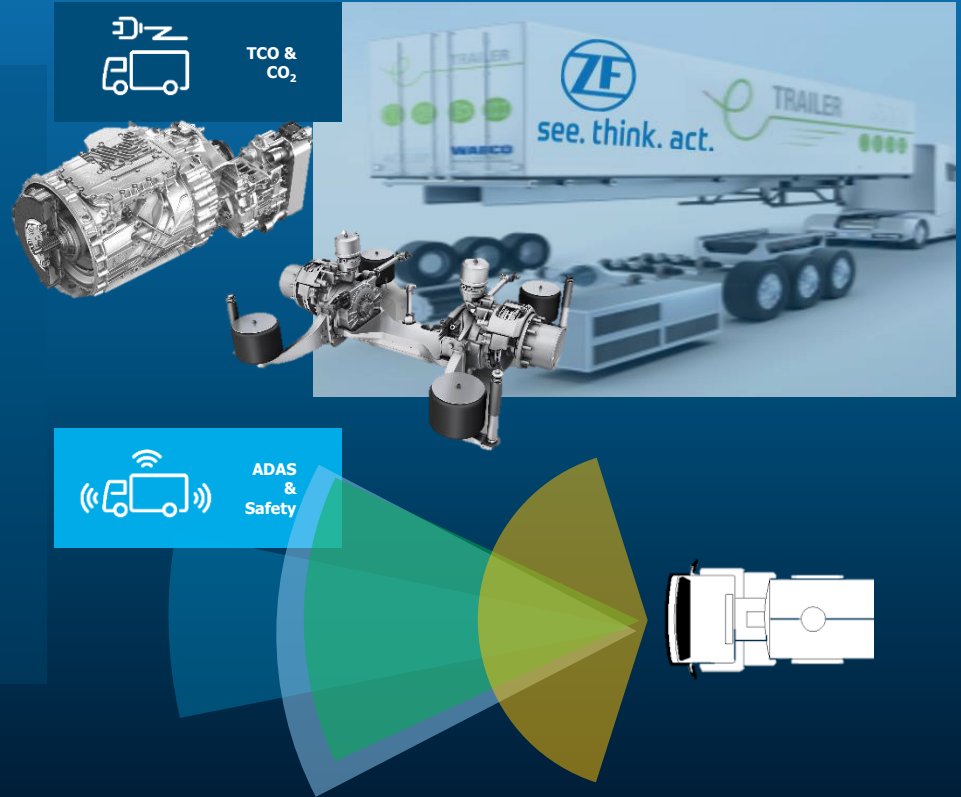
- Meet governmental CO₂ targets
- Car makers must lower fleet fuel consumption
- Tailor-made technology solutions



ZF & WABCO: The Perfect Match

First Projects Started

- New division Commercial Vehicle Control Systems
- Integration according to Plan
- Swift Integration in Future Fields of Business AD/ADAS/E-mobility
- Joint Quotes for Systems Submitted to Truck Manufacturers



Positioning ZF for Future Success



Adjust
Structure & Workforce



Stringent Cost Control of
Expenses & Investments



Become Resilient to Volatility
by Changing Mindset and
Culture

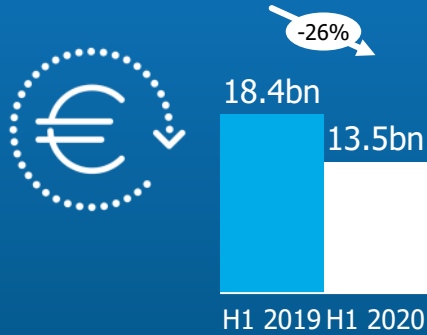
Accelerating Transformation

Financial Key Figures H1 2020

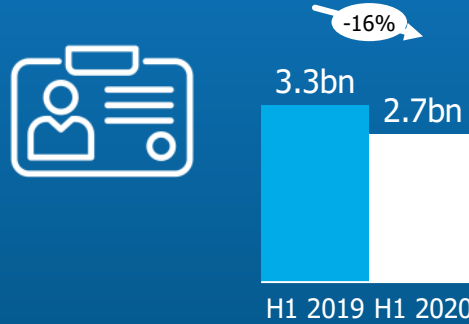


H1 2020 Key Figures (in €)

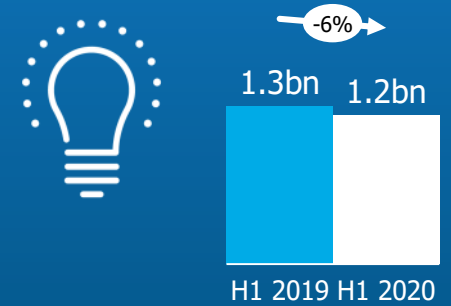
Sales



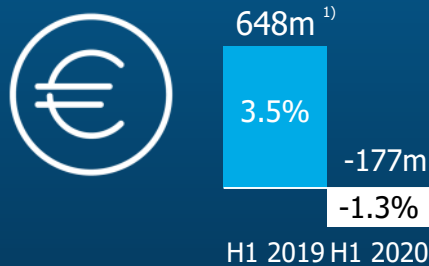
Personnel Expenses



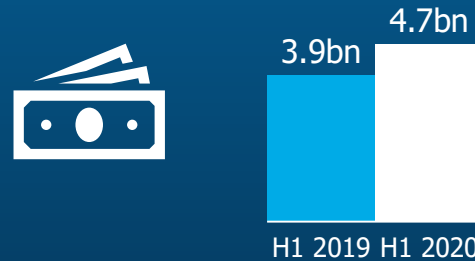
R&D



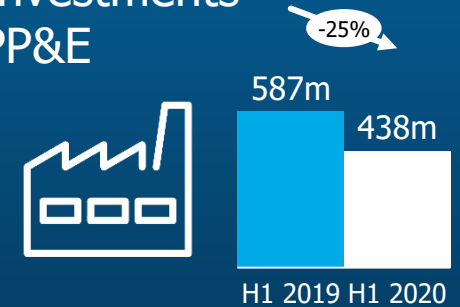
Adjusted EBIT



Liquidity Headroom



Investments PP&E

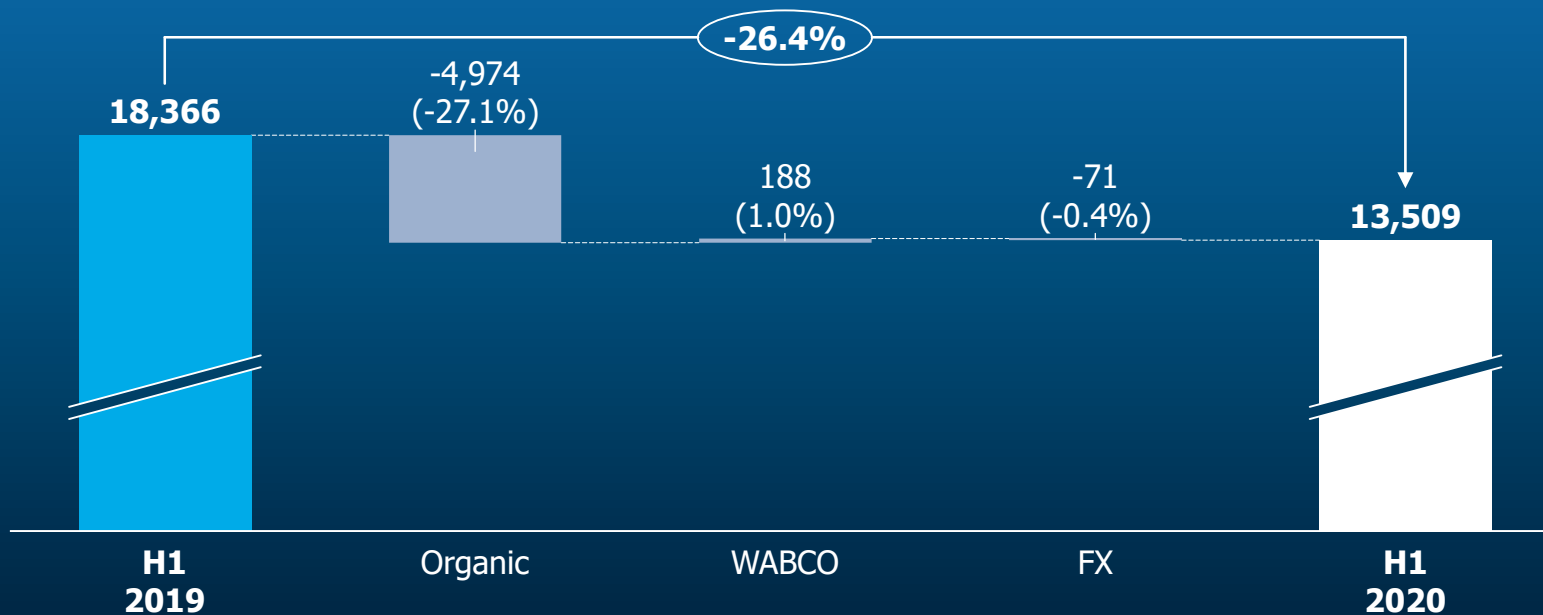


¹⁾ Amount adjusted due to change in accounting policies. For details please see our interim consolidated financial statements for the H1 2020.

Sales Development H1 2020

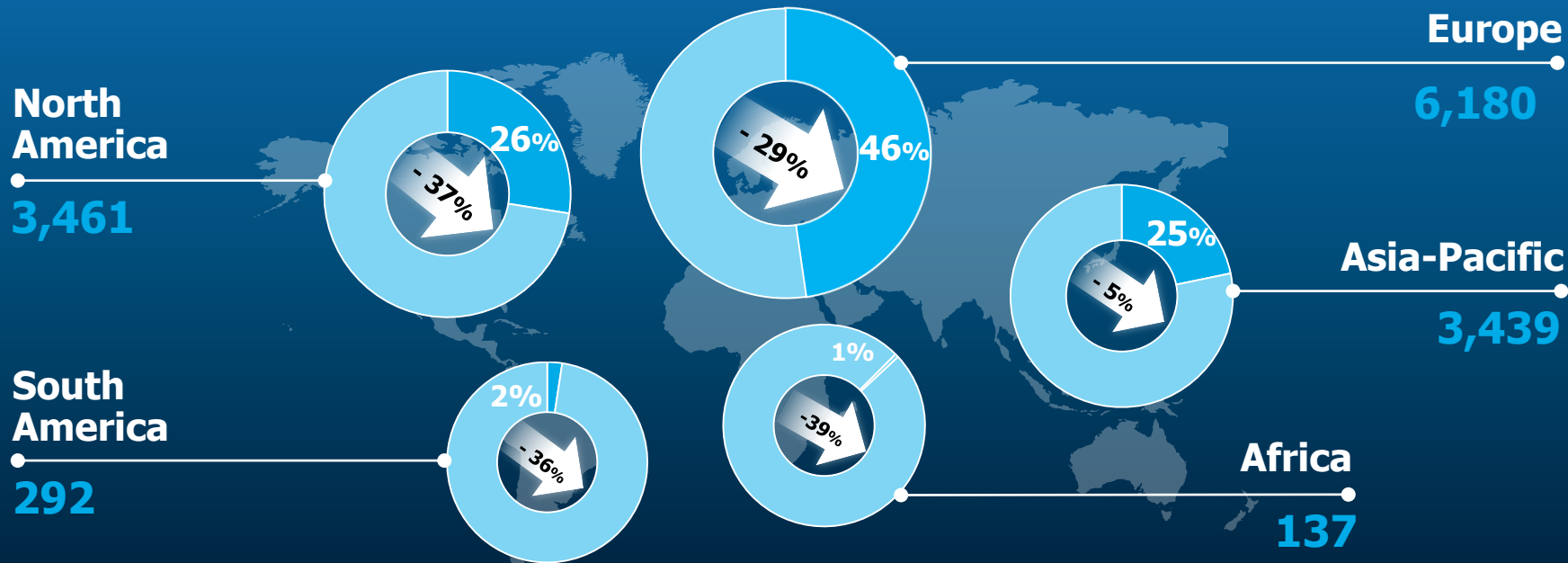
Sales

in € million



Sales by Regions

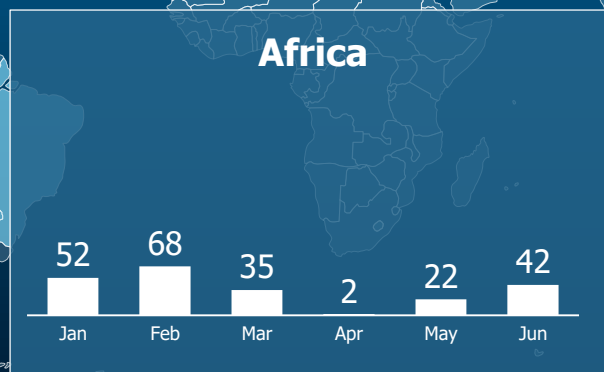
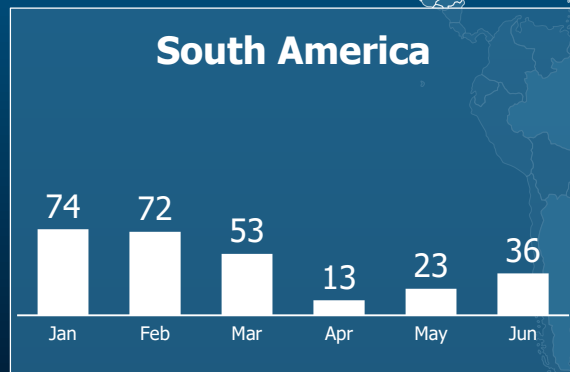
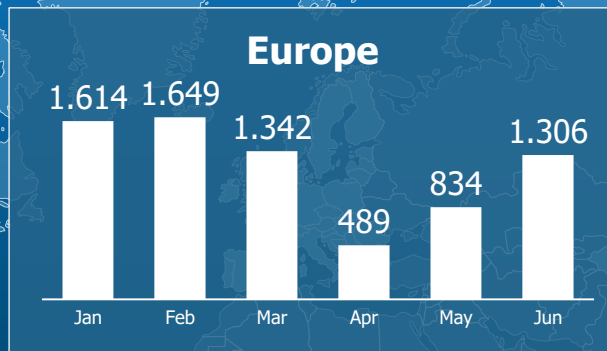
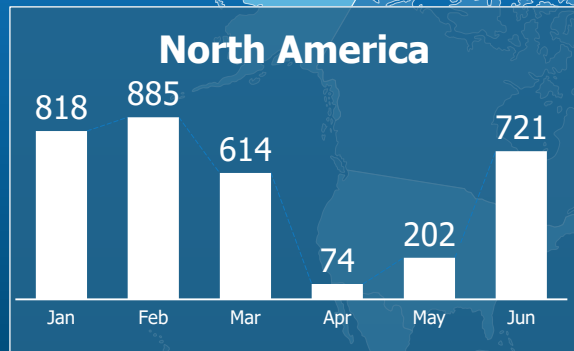
in € million and in % of total sales



↘ Organic decline in H1 2020 compared to previous year

Sales Ramp-up after Lock-Down in the Regions

in € million

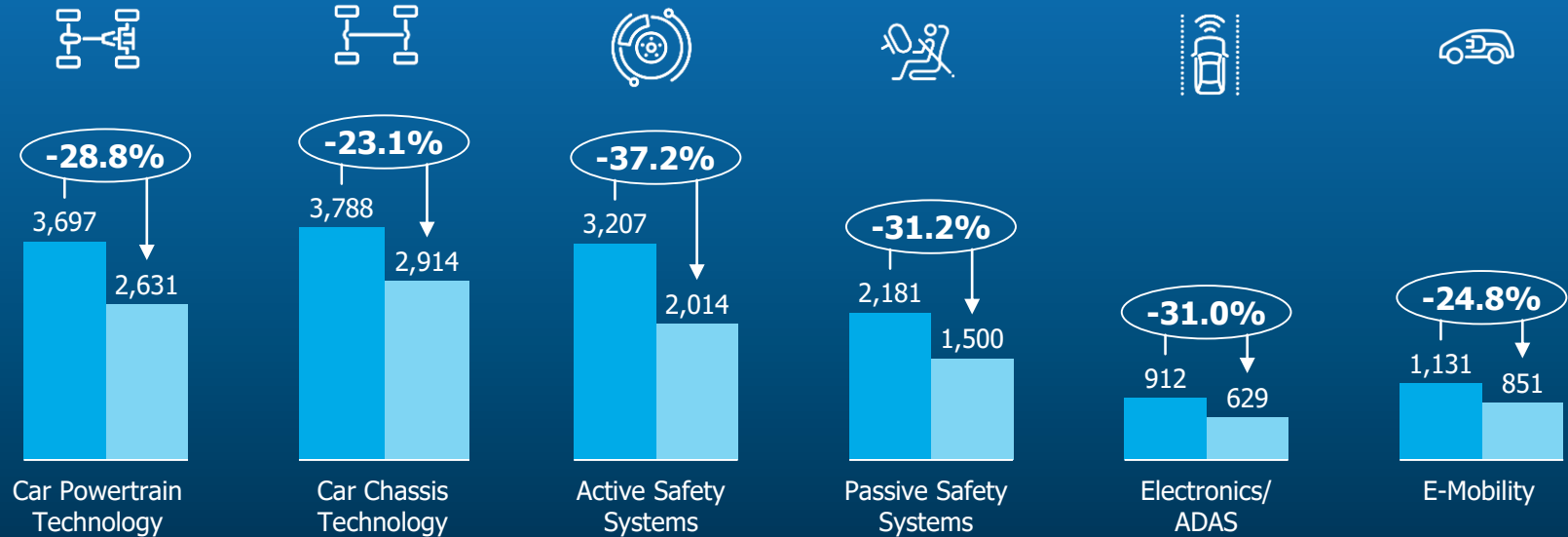


Note: Unconsolidated regional sales by production location



Sales by Divisions / Passenger Car

in € million

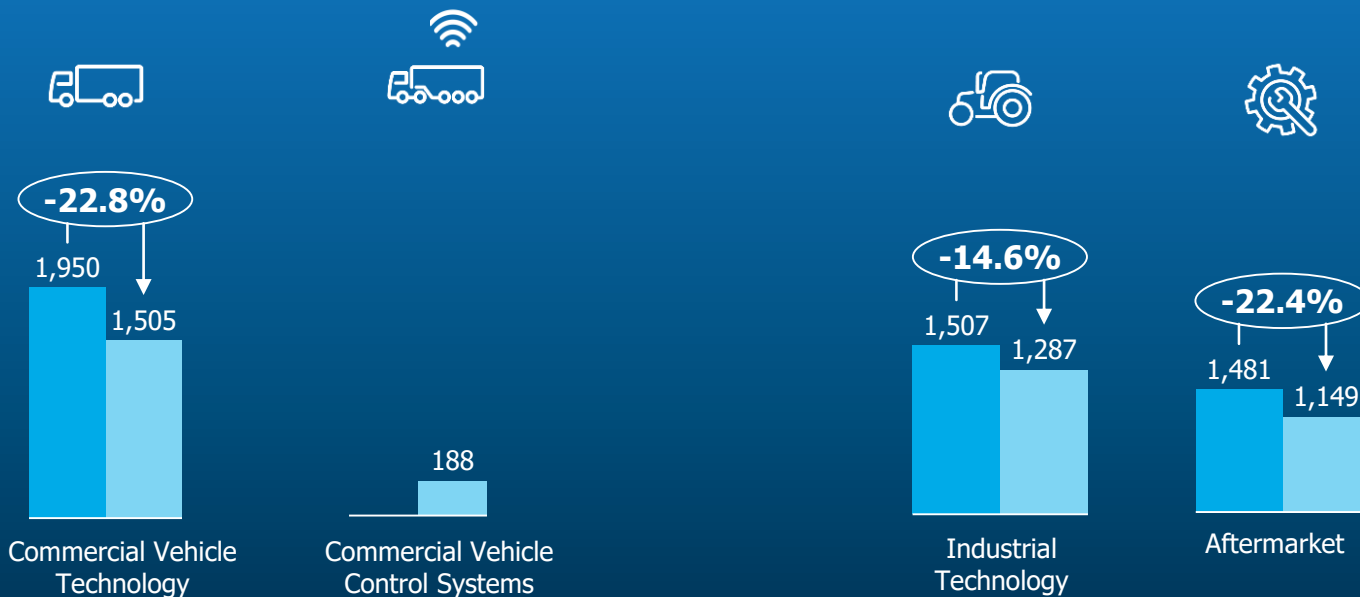


H1 2019
H1 2020

- Overall Passenger Car sales decreased by 29% comparing to global production decline of 33%
- Different development within the Passenger Car Divisions due to their diverse global footprint

Sales by Divisions

in € million

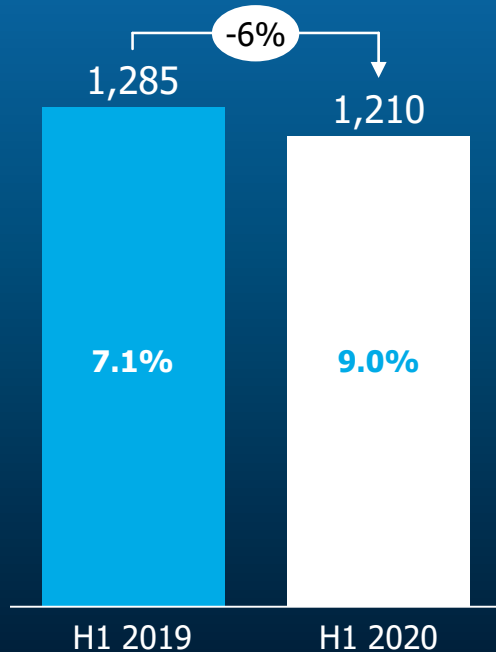


- Division Commercial Vehicle Technology declined by around 23%
- New division CVCS (former WABCO) included for one month
- Wind business above prior year, partially compensating for the decline in other Industrial Technology business units

R&D Expenditure and Investments in Property, Plant and Equipment

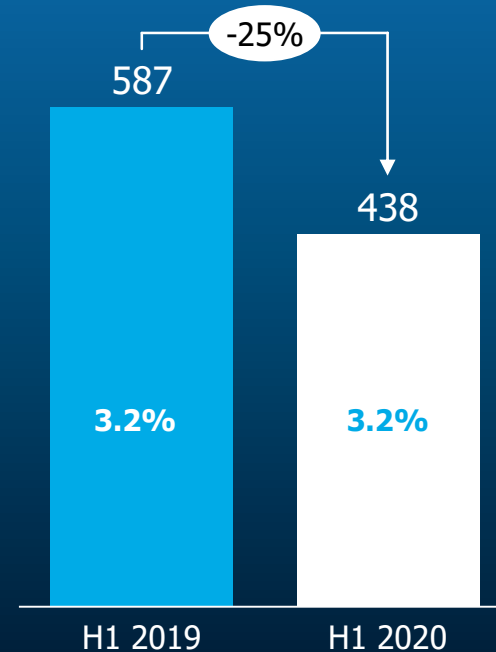
R&D Expenditure*

in € million and in % of sales



Investments in PP&E

in € million and in % of sales

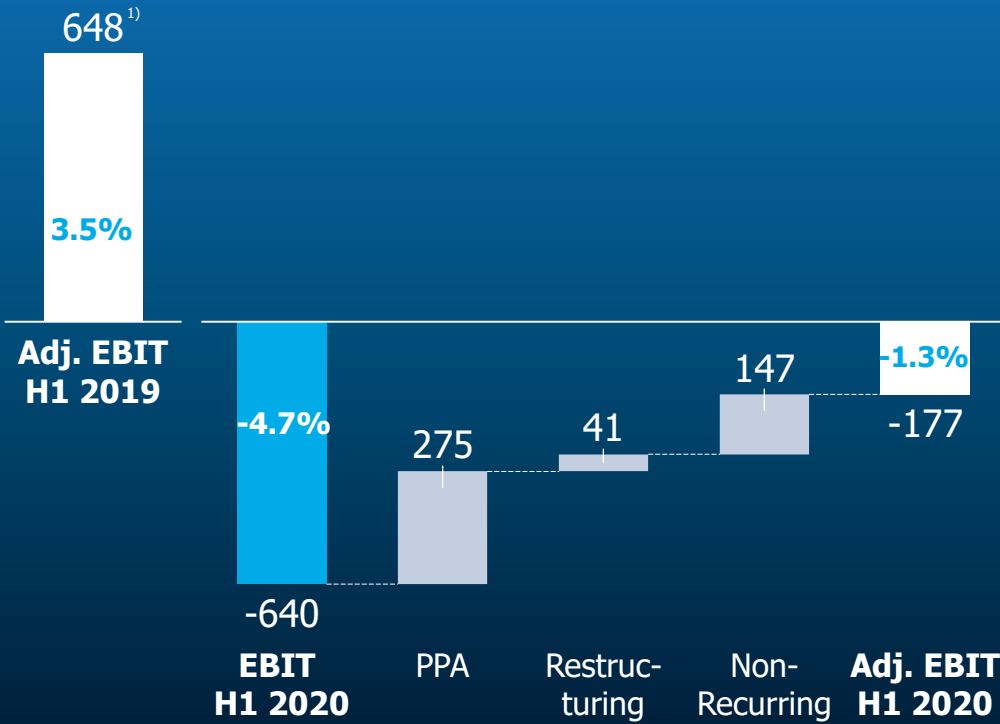


*R&D expenses w/o capitalization

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Adjusted EBIT Margin

in € million



Developments

- Margin impacted by sharp drop in sales volumes
- Flexing of fixed costs by using different instruments
- Margin decline mitigated by timely countermeasures
- Restructuring and efficiency programs initiated to sustainably improve margin quality and adjust cost structures to new normal

Coronavirus: Manage the Challenge

General Measures



Task Forces established



Health protection of employees



Securing supply chains



Market and risk management

Securing our Business



Highly flexible production capacities



Reduction of overhead costs



Strict reduction of investments



Stringent liquidity management

>€1 billion cost reduction

COVID-19: Countermeasures Defined at an Early Stage



Capacity Adjustments

Flexing personnel capacity by using following instruments:

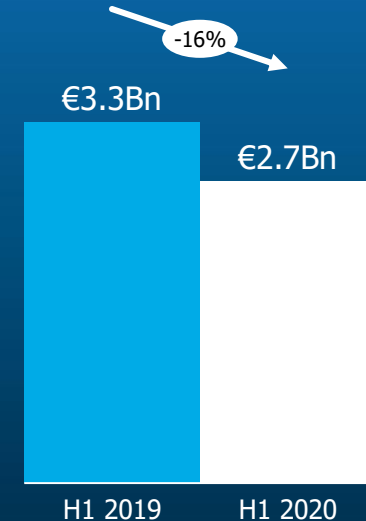
- Reduction/Cancelation of 40h Contract
- Short-Term Work,
- Vacation, Furlough, Time Bank reduction

Reduction of workforce also through layoffs

Termination of agency workforce

Management contribution

Personnel expenses



Adjustment of capacity to new market development

COVID-19: Countermeasures Defined at an Early Stage



Cost Adjustments



Travel and Marketing cost reduced to the minimum



Optimization of freight and energy costs



Reduction of Service- and Consulting Costs



Strict spending control throughout all areas

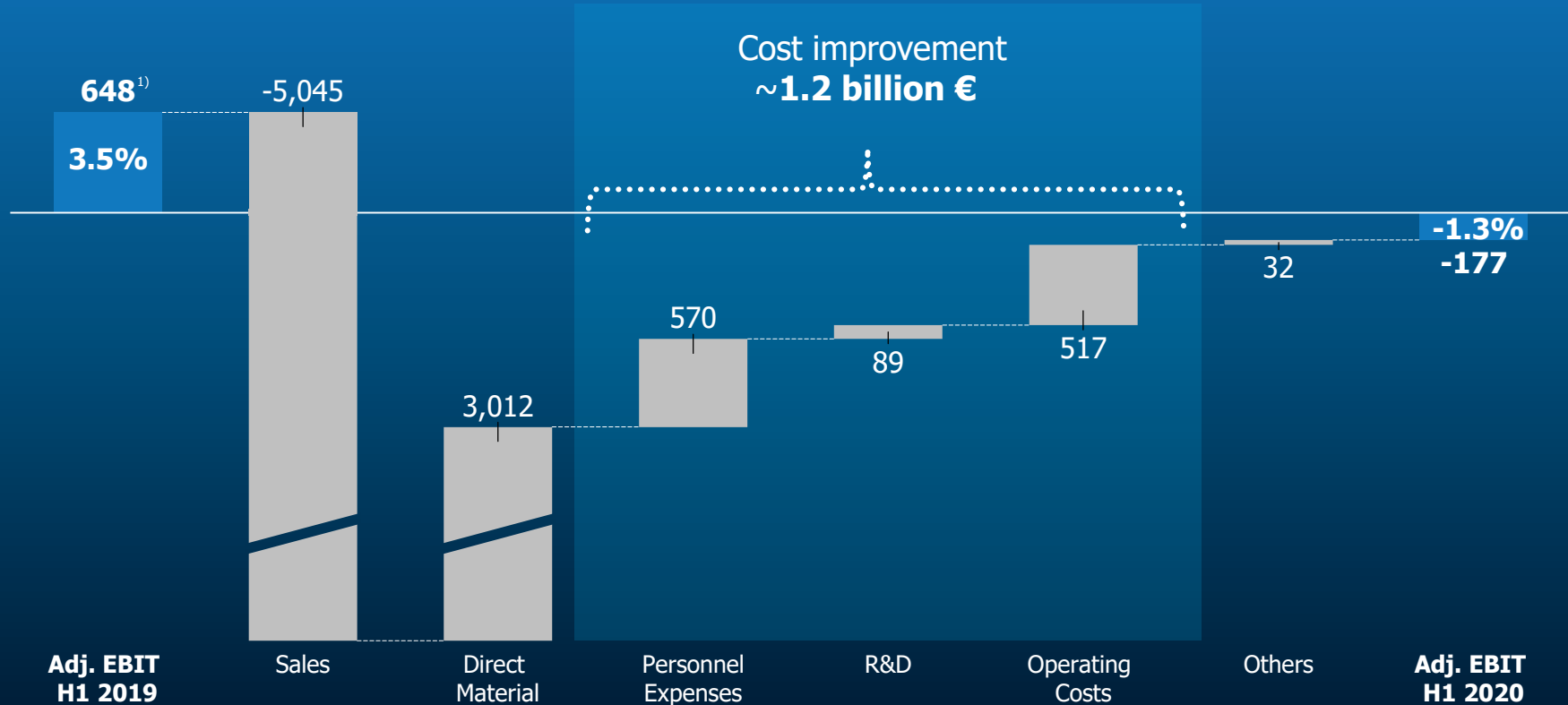


Review and Adjustment of R&D projects based on the approach “Invest where it matters”

Adapt Cost Structures to new market development

EBIT Improved Through Flexing of Costs Across All Areas

in € million



¹⁾ Amount adjusted due to change in accounting policies. For details please see our interim consolidated financials statements for the H1 2020.

COVID-19: Countermeasures Defined at an Early Stage



Liquidity Management



NWC Management

- Adjust Inventories based on production capacity
- Close monitoring and actively manage Accounts Payables and Accounts Receivables



Significant reduction of capex based on the approach “Invest where it matters” (YTD ~ €150million)

Secured additional liquidity with a new Bridge Facility (size: €1.35 billion, max tenor 2 years)

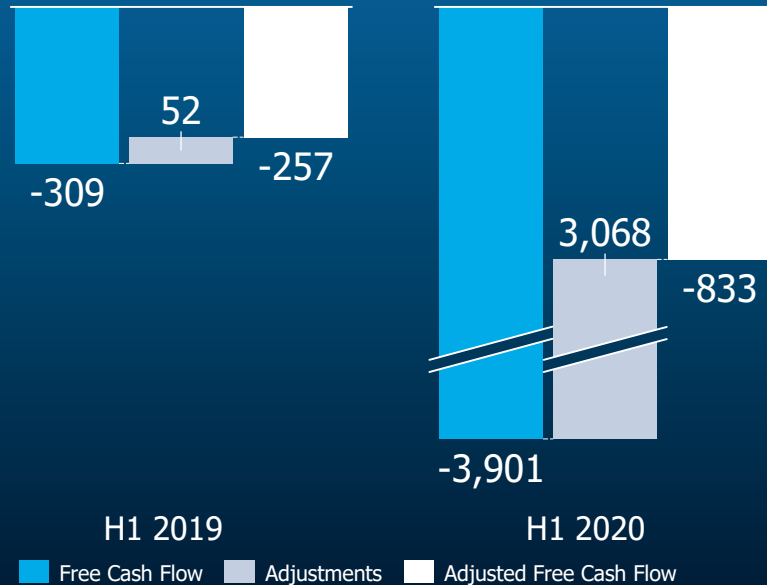


€3 billion undrawn committed revolving credit facility (RCF)

~€4.7 billion Liquidity Headroom

Adjusted Free Cash Flow

in € million

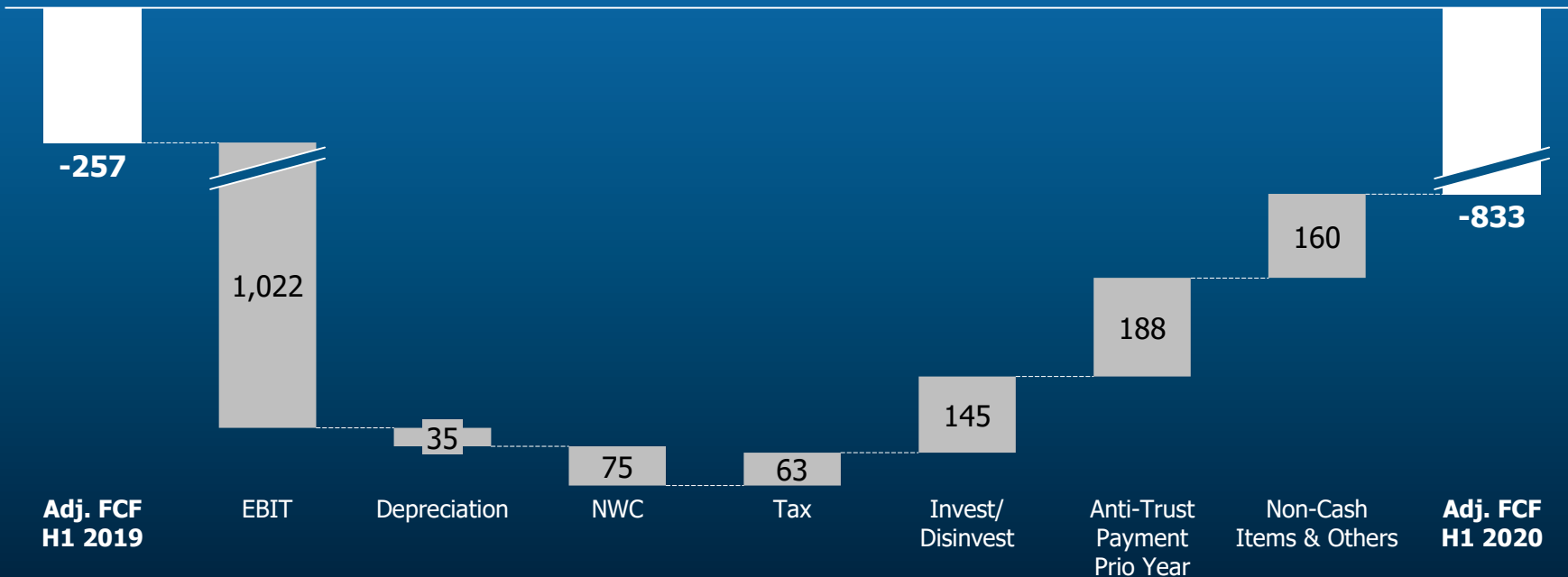


Developments

- Free Cash Flow is mainly affected by lower EBIT
- Seasonal effect of Working Capital reinforced by production ramp-up in May and June
- Focused Capex spending reduced further outflows
- Adjustments mainly driven by WABCO Acquisition

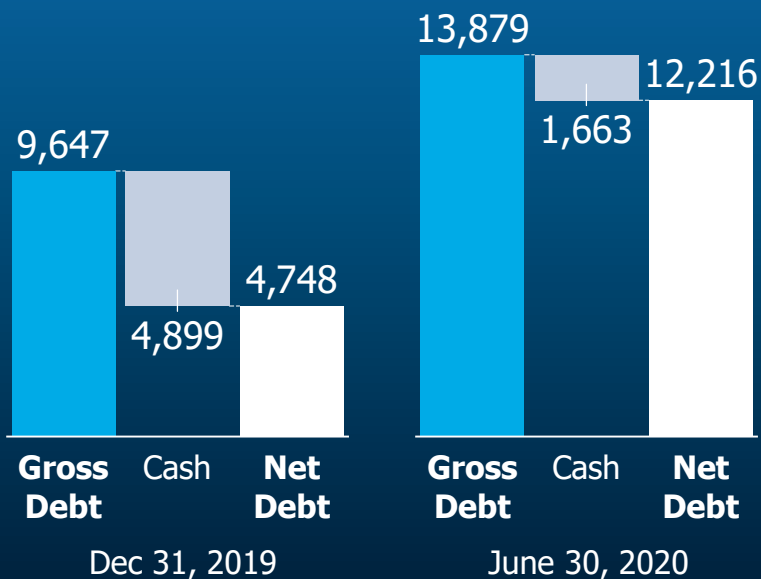
Adjusted Free Free Cash Flow – H1 2019 vs. H1 2020

Delta H1 2019 to H1 2020
in € million



Gross/Net Debt

in € million



Note: Gross debt = Financial liabilities ./. derivative financial instruments

Developments

- Gross and net debt increased mainly due to

- WABCO closing
- Negative Free Cash Flow

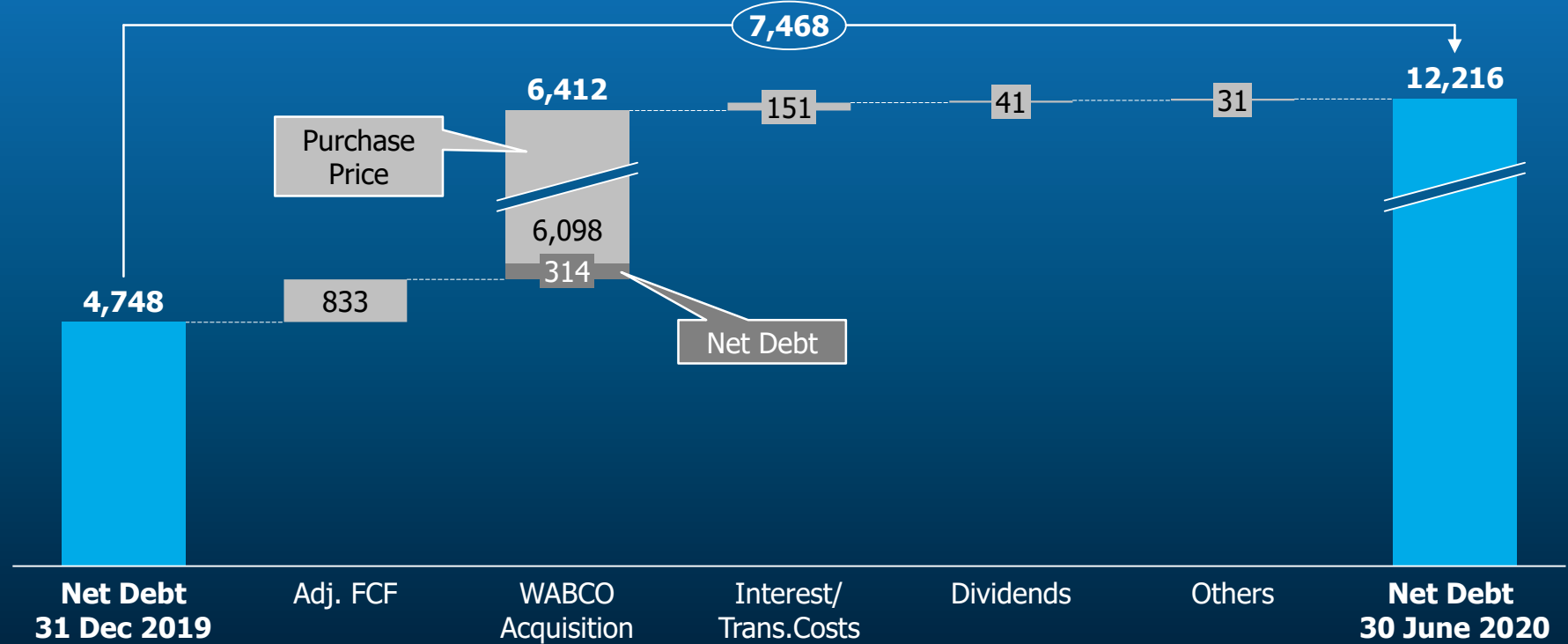
- Current Ratings

- S&P: BB+ (negative outlook)
- Moody's: Ba1 (negative outlook)

Impacted by
Corona
pandemic

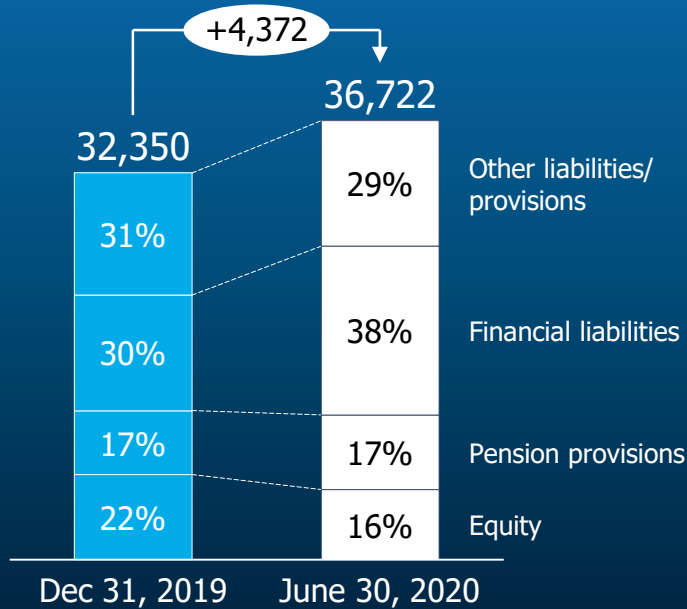
Net Debt Development

in € million



Liabilities and Equity

in € million and in % of balance sheet total



Developments

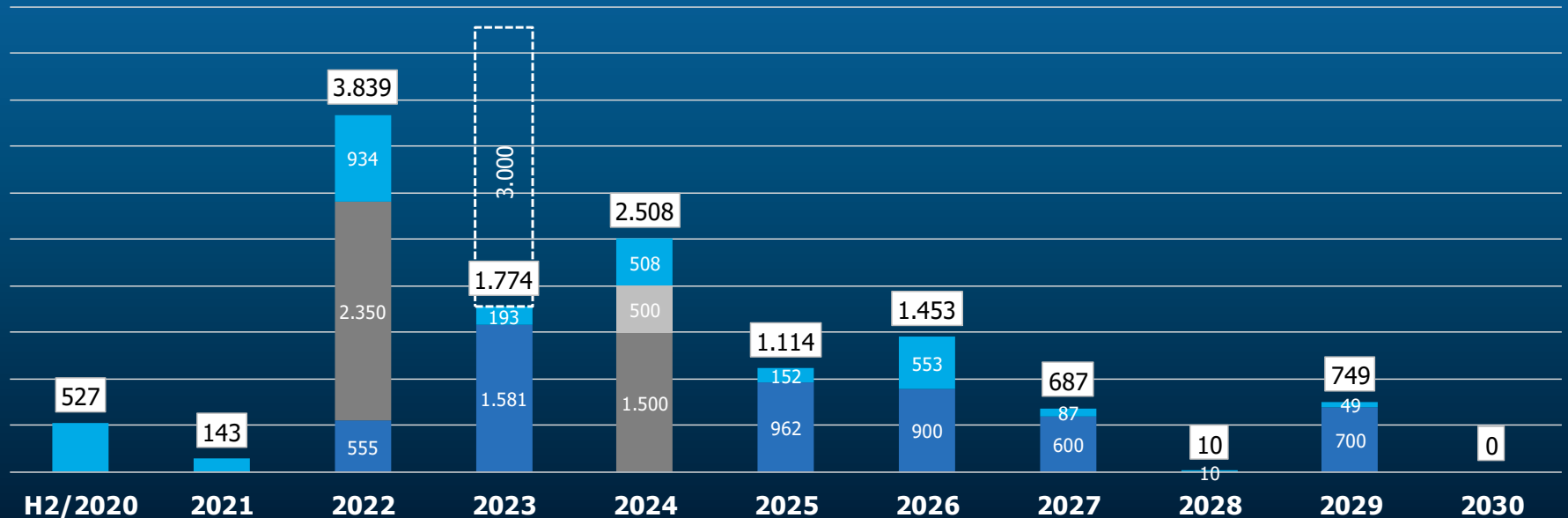
- Additional debt financing in H1 2020 for WABCO acquisition
- First-time consolidation of WABCO as of May 29th, 2020
- Reduction of accounts payables due to Corona lock-down
- Repayment of bonded loans and USD bonds of a total amount of approximately (~€0.9 billion)

Maturity Profile

Maturity of Main Group Financings as of June 30, 2020

Nominal amounts in € million

■ Bonds ■ Syndicated Loans ■ EIB Loan ■ Bonded Loans/Private Placement ■ RCF (undrawn)



Note:

- Excluding bilateral credit facilities & leasing
- Considering final status of acceptance rates of change-of-control offer relating to WABCO financing instruments

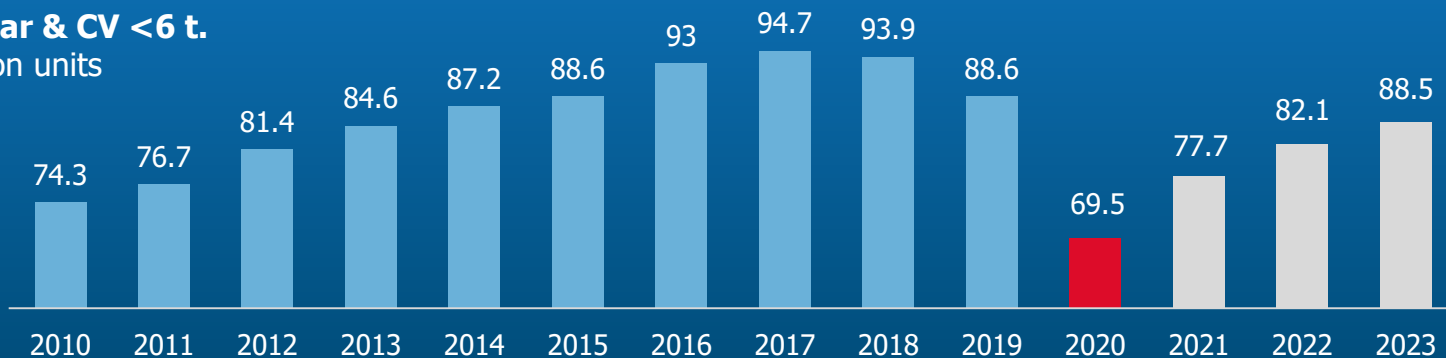


Outlook 2020

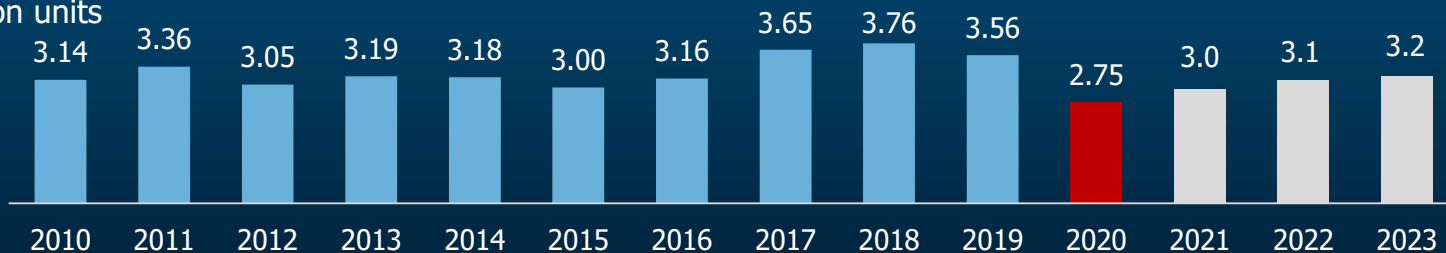


Global Vehicle Production

Pass Car & CV <6 t. in million units



CV >6 t. in million units





Sales: Below the prior-year level



Positive Adj. EBIT Margin



Positive Adj. Free Cash Flow

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