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Dürr AG

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of Dürr Aktiengesellschaft

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Subject to change—please check against delivery.

Chart 1: Welcome

My dear shareholders, shareholder representatives, journalists, and guests on screens. Together with my colleagues on the Board of Management, I would like to extend a warm welcome to you all. A special welcome goes to our principal shareholder, Heinz Dürr, and his wife Heide, who are taking part online in today's annual general meeting. My dear Heide, Mr. Dürr, greetings to you in Berlin!

Last year, we were hoping that the virtual annual general meeting we were holding back then would be a one-off. Unfortunately, it was not to be. Instead, it feels as though we are in an endless coronavirus loop and, rather than enjoying the 'we-will-get-through-this-together atmosphere' of spring 2020, many are disappointed with the government's approach to fighting the pandemic. I, too, am surprised about the deliberation and the to-ing and fro-ing of the federal and state governments. There is a lack of speed, reliability, and flexible approaches. We can only hope that, after the parliamentary elections, the country will be run more consistently again; because—be it digitalization, sustainable transformation or strengthening Europe in the global political arena—we have plenty of tasks ahead of us.

Chart 2: Disclaimer

Chart 3: Incoming orders

Let's take a look at the Dürr Group and its business performance. Given the serious upheaval caused by the coronavirus pandemic, our company demonstrated great resilience in 2020. That said, we experienced two contrasting six-month periods. While spring was marked by a collapse in investments and spare-part orders, the third and fourth quarters saw the business climate improve. Having had to suspend our annual forecast at the end of March, we replaced it with new targets as early as July, all of which we fully achieved or even exceeded.

Incoming orders decreased by 19.5% but reached the upper end of the target range of €3.1 to 3.4 billion. This is where we benefited from the strong business in China, particularly in the first half of the year, while in the second half we also received an increasing number of orders from other regions, primarily from Europe. One remarkable development was the recovery, from fall onward, of HOMAG's business with furniture and timber house producers. Our environmental technology business remained robust throughout 2020. In the automotive sector, we were able to take advantage of our strong position as a supplier of production technology for electric vehicles: In 2020, orders in this area rose by 67% to €650 million, reaching 40% of our automotive-related order intake. This success confirms once again that e-mobility is an opportunity for us. In the challenging environment of 2020, we used this opportunity to stand out from the competition. Dürr is one of the leading suppliers for the manufacture of electric vehicles, a goal we underlined in 2020!

Chart 4: Sales and EBIT

Due to the pandemic, sales declined by 15.2% and thus less strongly than incoming orders, since the high order backlog from the beginning of the year kept us going for much of the time. The fact that we achieved operating EBIT of €100 million despite the collapse of sales is thanks to our cost flexibility: Compared to our forecast for 2020, we were able to save costs of around €120 million, for example through reducing working time accounts and external staff as well as through short-time work, lower bonus payments, and cuts in administration and travel.

Chart 5: Structural measures

In 2020, aside from cost reductions in the course of the pandemic, we also reinforced our efforts to strengthen our competitiveness in the long term. Following the efficiency measures started at HOMAG in 2019, we have now also made some structural adjustments in the European automotive business and in non-core activities to future-proof our business. We have closed smaller sites and initiated the reduction of just over 600 jobs. This was necessary since the market for automotive production technology in Europe is largely saturated, given the extensive installed base, and hardly any new automotive plants are being built. In addition, our foreign subsidiaries are operating with growing autonomy and require less support from Germany, which has also prompted some adjustments.

The structural adjustments have required a high level of provisions. Despite these extraordinary expenses and the losses in sales, we achieved EBIT of €11 million, which proves our resilience. It is even more important to look ahead: Although the structural adjustments led to expenses in 2020, they will immediately pay off, along with the measures at HOMAG. From 2021 onward, we expect a €60 million reduction of costs per year. On this basis, we want to leave the effects of the coronavirus pandemic behind us and achieve profitable growth. We are keeping our eyes firmly on our target of reaching an EBIT margin of at least 8%!

Chart 6: Cash flow and balance sheet

At the beginning of the coronavirus pandemic, we made it clear that we would focus on financial stability and liquidity safeguarding. This was successful, as you can see from the figures: Through our consistent liquidity management, we collected due payments on schedule, while benefiting from the low amount of operating funds tied up in project business. We thus managed to more than double free cash flow and reduce net financial debt to just €49 million. At just over €1 billion, total liquidity, which includes term deposits, reached an all-time high. Although the level of equity decreased slightly, it will grow again as part of the forecast profitable growth, which means the equity ratio should again move toward the target of 30%.

Chart 7: Refinancing

Financing security is a prerequisite for stability, and this is another area in which we acted decisively. In March 2020, we secured a Schuldschein loan worth €115 million. At the beginning of May, and thus in the first coronavirus wave, this was followed by a loan of €100 million and an additional syndicated loan of €350 million, to be prepared for every eventuality. We were able to repay both loans as early as the fourth quarter, especially since we had successfully arranged two new long-term financing instruments: In a first step, in September, we issued a convertible bond worth €150 million, followed in December by another Schuldschein loan of € 200 million, both of which we received at the beginning of 2021. This means we secured a total of €350 million and were thus able to refinance the maturities of a bond and a Schuldschein loan early and at favorable terms, both of which we paid off in April of this year.

Chart 8: CSR rating

We generally add a sustainability component to new financing instruments – this was also the case for the convertible bond and the Schuldschein loan issued in 2020. In concrete terms, this means the financing costs are linked to our sustainability rating. If the rating improves, it gives us the opportunity to pay less interest; if the opposite is the case, we have to pay more interest or a compensation payment. This is one reason why it is good news that our 2021 EcoVadis sustainability rating increased further to 58 points thanks to improvements in the supply chain.

Chart 9: Sustainability

The rating improvement reflects the growing importance of sustainability within the Group. We deliberately chose the motto ‘Sustainable Transformation’ for the 2020 annual report. Sustainability is a key strategy component. We have expanded our CSR organization, created a Sustainability Council, and implemented numerous other measures, such as joining the UN Global Compact, installing an integrity hotline, creating a Corporate Security department, and producing a policy statement for the respect of human rights and fair working conditions. Moreover, the variable compensation for the Board of Management was in part linked to the achievement of sustainability goals, as Mr. Federer has just reported.

Our sustainability activities are currently focused on three overarching topics:

1. sustainability in the supply chain

2. the EU taxonomy for promoting sustainable investment, and
3. a Group-wide climate strategy with specific targets for reducing CO_2, which we will publish before the end of the year.

Talking of publishing: Our new sustainability report came out yesterday—it was the first one prepared in accordance with the standards of the Global Reporting Initiative. I can highly recommend this report to anyone who wants to know more about sustainability within the Dürr Group.

Chart 10: Stock

Let’s take a look at our stock: The outbreak of the coronavirus pandemic caused stock market prices to crash in March 2020. Dürr stock fell to €15.72 but subsequently more than doubled its value. At the end of the year, it was trading at €33.40, translating to an encouraging performance—including dividend—of 12.6% for 2020. Since the beginning of 2021, the upward trend has continued due to an improved business environment, even though the share price—like the DAX and MDAX—has dropped slightly in recent times. At around €35, it is currently within reach of our analysts’ average target price of €36.82. However, the target prices have recently been raised rather than lowered, standing at €52 at the top end of the scale.

Chart 11: Dividend

The decline in sales and the high extraordinary expenses in 2020 led to a consolidated loss after tax of €13.9 million. The fact that we are still proposing a dividend of 30 cent per share reflects our optimistic view for the coming years and shows that we attach great importance to dividend continuity. The proposal also takes into account that earnings without the high extraordinary expenses would have been in positive territory. Furthermore, the good cash flow and our high liquidity support a payout based on a sense of proportion.

Chart 12: Agenda item 9

We will put the dividend proposal to the vote later on. Mr. Federer will present most of the other agenda items shortly so I will merely mention one point regarding item 9. Having only had a profit and loss transfer agreement in place with Dürr IT Service GmbH, we are now aiming to sign an agreement that also includes the domination element. This is to standardize such agreements throughout the Group.

Chart 13: 125 years of Dürr

Ladies and gentlemen,

Dürr celebrates its 125th anniversary this year. This fills us with pride and joy, but there is one person for whom this anniversary means even more than for anyone else, and that is Mr. Dürr. The company was founded as a craftsman’s workshop by his grandfather Paul in 1896. In the early 1950s, Heinz Dürr worked alongside his father Otto to turn this small industrial business into a world leading mechanical and plant engineering firm. Together with some of those who joined him on his journey, Heinz Dürr wrote a chapter in the history of the German economic miracle: In the 1950s, they ventured into plant engineering and expanded abroad in the 1960s. Dürr became world market leader, entered the environmental technology market, went public, and built the first painting robots. Today, the Dürr, HOMAG, and Schenck brands stand for digitalization and sustainable production technology.

There is so much to tell about the company’s history, about innovation, achievements, but also the darker sides. Since this would go beyond our scope today, I would like to mention that there is an entertaining chronicle about our history being produced as we speak. Until the book’s publication in November you can delve into the company’s history on our website.

At this point, it is particularly regrettable that our meeting today is virtual, since I would have liked to shake Heide and Heinz Dürr’s hands to say thank you. My dear Heide and Heinz Dürr, without your drive, Dürr would not be a world market leader and your loyalty to the company cannot be rated highly enough. For this I would like to express my thanks.

Chart 14: Employees

A big thank you also goes to our employees for their dedication in the 2020 coronavirus year. The Group has so far emerged from the pandemic relatively unscathed. The supply chains are largely stable and, given the restrictions on our customers' sites, our teams have demonstrated that they can be relied on even in challenging circumstances. My colleagues and I would like to thank all employees for their commitment: those who are traveling to work and doing their jobs on site despite coronavirus, everyone in the plants turning up to work every day, and those working remotely while also being there for their families. Although the pandemic is presenting us with challenges, it is also strengthening our team spirit!

Coronavirus tests in companies are a big topic in Germany. Since early April, we have been handing out test kits to every employee coming into work—all delivered on a voluntary basis, and we started this before it even became a legal obligation. We also took care of infection control before it was legally required, be it through providing information and free masks, putting in place social distancing or a digital infrastructure for virtual meetings. This, in conjunction with the discipline of everyone involved in the Group, has helped to keep infection rates to a minimum.

Chart 15: Strategy

Coronavirus will pass and, as a company, we have to look ahead in order to prepare for new customer requirements and create gains for our shareholders. We are doing this through our mid-term strategy, the targets of which you can see here: ROCE of 25%, organic growth of sales of 2 to 3%—with acquisitions providing an additional boost for sales—and an EBIT margin of at least 8%.

This chart also shows which key strategic points are particularly important. They include the optimum utilization of our global presence, innovation, and attractive service offerings for the entire life cycle of our products. The fourth strategic field, 'Efficiency', is about efficient business processes and the use of synergies within the Group, based on the motto OneDürrGroup.

Chart 16: Two opportunity clusters

Today I want to focus on two strategic opportunity clusters, which offer us particular potential for growth and differentiation:

- the digitalization and automation of factories
- and the trend toward sustainability

I explained earlier that sustainability is a key motivator for us. But it is also becoming increasingly important in view of our business, since many customers are switching their portfolio to sustainable products and set great store by eco-friendly and resource-saving production—both present opportunities for us.

When considering investments, customers are guided not only by profitability but also increasingly by the production technology's contribution to resource efficiency and decarbonization. Our innovation management is guided by this: We are the right partner to reduce energy consumption during painting, minimize wood offcuts in furniture production, and lower emissions during balancing. There is growing awareness worldwide for sustainable production processes, just think of the EU's Green Deal or the reform of the US economy initiated by President Biden. Being an enabler for eco-efficiency in production, the Dürr Group is benefiting from this trend.

Chart 17: E-mobility

We are also a sought-after partner for the manufacture of sustainable products. Electric vehicles are the perfect example. Here we benefit from the demand from established automotive companies, whilst also enjoying a good reputation with new manufacturers of electric vehicles, especially from China and the United States. This is not least due to our technologies. With our 'paint shop of the future', we are offering a flexible system that is suitable for the mixed production of different car models and grows in line with increasing production. Our 'paint shop of the future' makes it easier than ever before to expand a factory during operation.

Chart 18: Battery cells

Our sales potential is higher in the production of electric cars than it is for cars with internal combustion engines because our technologies are used in more production stages. For battery production, for example, we have a unique technology for the double-sided coating of electrodes for lithium-ion batteries, which every battery-operated car requires. There are new battery cell factories emerging worldwide, including in Europe, which has a lot of catching up to do when it comes to building capacities for cell production. In the medium term, we are targeting sales of around €100 million in this sector; our cooperation with Japanese coating specialist Techno Smart will be a contributory factor in this.

Chart 19: Sustainable timber houses

The sustainability trend also offers new opportunities for HOMAG. More and more houses around the world are being built using wood, which is a renewable raw material. HOMAG supplies the production technology for this and is investing in expanding its portfolio. HOMAG has recently taken over the mechanical engineering firm System TM, which operates in the solid wood segment, and—most recently—Kallesoe from Denmark, thus coming closer to its goal of establishing itself as the leading systems provider for the manufacture of wooden construction elements. Experts predict that market volume in production technology for timber houses will grow by around 50% between 2020 and 2025.

Chart 20: Digitalization

Let’s move away from the opportunities offered by the sustainability trend and look at the second opportunity complex: digitalization and automation. Digital transformation is the most important trend in our industry, as it enables customers to lower costs and increase their system availability, for example through the use of artificial intelligence. We want to offer our customers the best digital solutions available on the market. Unlike pure-play software providers, we benefit from the fact that we can combine IT expertise with the know-how of customers’ production processes. This has been well received: Volkswagen has chosen us as a pioneering partner for its industrial cloud and recently started using a digital showcase paint shop by Dürr for its production in China. BMW uses our algorithms for optimizing painting processes, with excellent results.

MES applications are a central component of our digital portfolio. We have already installed over 500 of these factory control systems worldwide. The acquisition of the Canadian IT firm Cogiscan offers us additional marketing opportunities in this area, because Cogiscan provides connectivity solutions that enable us even better to connect our applications with our customers' machines. We are also developing a new cloud-ready manufacturing operation management system, which can do even more than the existing MES solutions.

Chart 21: Automation

In the field of automation, we have gained access to new growth markets through the majority stake acquired in Teamtechnik. Teamtechnik is a top player in the automation technology arena and complements our e-mobility offering around test systems for electric and hybrid drives. Teamtechnik has also gained an excellent reputation with its systems for the automated manufacture of medical products, such as infusion sets and single-use syringes. Every year, the medtech market shows growth rates in the high single digits and offers good opportunities for expansion. Under the Dürr umbrella, Teamtechnik has access to additional resources for growth. We want to use Teamtechnik as a platform for building a larger automation arm, with further acquisitions being a realistic option here. Teamtechnik is set to increase sales to around € 200 million by the end of 2024 and achieve an EBIT margin of around 9% in line with Group targets.

Chart 22: Market recovery

Enough about our strategy. As you can see, we are well positioned for profitable growth, since we benefit from the trends toward sustainability, electromobility, digitalization and automation. Added to that is a recovery in demand in our markets, underpinned by the prospect that the pandemic will subside as a result of the vaccination campaigns. China is believed to have conquered coronavirus, the economy in Asia is performing well, and in the United States the Biden Administration's support package is boosting the economy.

This recovery also had a positive effect on incoming orders in the first quarter, although I can't give you any specific information as the figures won't be published until May 11. All I can say is that the volume of orders was relatively high and considerably above sales. The latter were muted as expected, since the low level of incoming orders in the first half of 2020 had a delayed impact on revenue recognition in the first quarter of this year. Nevertheless, earnings were robust as a sign of our cost-cutting measures taking effect.

We were very pleased with HOMAG's business in the first quarter, where a new investment cycle started after two years of muted spending. Optimization at HOMAG is progressing; we have added new, modular machines to our portfolio; and we have strengthened our position in China through the acquisition of the HOMAG China Golden Field joint venture. We strongly believe that HOMAG will achieve the target EBIT margin of 9% by 2023, and we want to use the better market environment and efficiency gains to increase our market share to 40%. This drive is accompanied by the largest investment program in HOMAG's history to the tune of €100 million.

Chart 23: Outlook

This brings us to the outlook. Order intake is set to rise to up to €3.9 billion in 2021. Our order development in the first quarter supports this forecast, and we remain optimistic about the rest of the year. Sales will also increase, not least as a result of the acquisitions mentioned earlier. At €3.45 to 3.65 billion, sales should be below incoming orders, since revenue recognition in the first half of the year is still being impacted by the effects of last year's low level of orders. Profitability should improve substantially in 2021. The operating EBIT margin stands to rise to between 4.2 and 5.2%, partly because the savings of around €60 million from the future-proofing measures will take full effect for the first time.

According to experts, automotive production is set to grow by around 15% in 2021, which would have a positive effect on our service business. However, this is on the proviso that supply bottlenecks for semiconductors do not last too long. Until now, our own supply chains have hardly been affected by this and the effects on automotive production have still been manageable. If the semiconductor shortage hampers our customers' production for too long, this could have a stronger impact on our spare parts business.

We are highly optimistic about 2022. Incoming orders and sales are set to increase further, and we expect another jump in our EBIT margin. Free cash flow will be burdened by higher investments, a moderate increase in net working capital, and the outflow of funds for capacity adjustments. For 2022, we expect a substantial improvement and a cash flow that is firmly in positive territory.

Ladies and gentlemen,

So far, we have dealt with the coronavirus-related challenges robustly through cost adjustments and effective liquidity management. Now we are switching back to growth mode: Demand in our markets has picked up, the future-proofing measures are increasing efficiency and forming the basis for earnings improvements in the years to come and for an EBIT margin of at least 8%. Despite coronavirus, we have further developed the Group, continued our acquisition strategy, and invested in the future-oriented fields of digitalization, automation, sustainability, and electromobility. As a result, we are well positioned for profitable growth. Our focus on sustainability is offering us new business opportunities. It is guided by the interests of investors, who are taking ever-greater account of our sustainability performance and our role as an enabler for ecologically efficient production processes. In the anniversary year of 2021, we are looking to the future with confidence. We will leave the coronavirus crisis behind, and we have the right portfolio to support our customers in the digital and sustainability-oriented transformation.

Thank you for your attention.