SIEMENS

SPEECH FOR PRESS CALL

Q1 2022

“VERY SUCCESSFUL START TO FISCAL 2022”

Dr. Roland Busch
President and CEO

Prof. Dr. Ralf P. Thomas
CFO

Munich, February 10, 2022

Check against delivery.

[Roland Busch]

Ladies and gentlemen,

Before we head off to today's Annual Shareholders' Meeting, I'd like to present to you our first-quarter results. Siemens got off to a very successful start in its new fiscal year, and I'm extremely pleased about that. We're delivering on our promise to create high-value growth and to sharpen and focus our portfolio.

We're seizing the opportunities arising from today's major trends – sustainability, automation and digitalization – across all our businesses and on all our markets.

How are our customers responding to the transformation of their markets? They're investing! For example, in new factories for automotive and battery technology or in semiconductors and related machinery.

We're also seeing continued strong demand for upgrading manufacturing, buildings, power grids and mobility infrastructure. Our customers want to automate their operations and systems even more, and – using smart solutions – make them more sustainable and more efficient.

We've seen an unprecedented boom in orders in the first quarter!

Yet the macroeconomic environment remains challenging: we're still facing the impact of the pandemic, increasing costs, supply-chain constraints and component shortages. A crucial area is electronic components, where the situation is very dynamic. Shortages of some components are likely to continue into fiscal 2023.

In some areas of our portfolio, we've got longer delivery times than usual. This development has led to an exceptional stream of preordering by our customers in the automation business and in our Electrical Products unit.

Consequently, a considerable backlog has built up, and it will take several quarters for this backlog to be processed.

For this reason, we're optimizing manufacturing at our IoT-enabled factories, leveraging our global footprint and our broad base of suppliers and partners. However, we're currently unable to meet our high standards for delivery times for all our products.

We’re working relentlessly – in close cooperation with our customers – to master these challenges. Despite this tense situation and the Omicron wave, which continues to rise, we’ve avoided major disruptions in our operations and maintained factory utilization at a high level – albeit not always with the product mix we’d like to have.

The current cost-inflation situation is definitely an opportunity for us to gain further market share. Why is that?

Customers are looking for leading partners who deliver the highest value to boost their productivity and are strong both operationally and financially.

For this reason, we’re very confident that – as a technology leader – we can also balance increasing costs with price adjustments.

All in all, these developments have led to an impressive performance across all our financial metrics. We’re well on our way to achieving our targets for fiscal 2022.

As indicated, our orders increased massively to €24 billion, up 42 percent organically. We set new records in all our businesses, while Siemens Healthineers was just shy of its previous record quarter.

Our book-to-bill ratio of 1.47 was also extraordinary. A record backlog of €93 billion reinforces our growth ambitions for fiscal 2022 and beyond.

Revenue grew 9 percent to €16.5 billion, led by Digital Industries, which was up 11 percent – with Smart Infrastructure, Mobility and Healthineers also achieving clear growth.

All major regions contributed to this revenue growth: Germany was up 18 percent, the U.S. 6 percent and China saw 5-percent growth despite delivering a strong performance in the prior-year quarter.

The profit margin of the Industrial Business came in at a strong 15.7 percent, improving net income and earnings per share before purchase price allocation, which were both up 20 percent.

The high quality of our portfolio was reflected again in free cash flow, which totaled a strong €1.1 billion, more than in Q1 2021.

As a focused technology company, we’re continuously sharpening our portfolio.

We’ve taken an important step at Mobility by announcing the divestment of Yunex, the leading provider of intelligent road traffic solutions. With Yunex, Mobility has impressively demonstrated that we can successfully shape a business and increase its value.

We’ve now found an owner – the Italian company Atlantia – that is the best fit and well positioned to develop the business further. We expect closing by September 2022 – depending on the applicable regulatory approvals. We’re anticipating a pre-tax gain of between €600 million and €800 million, which will be booked at the Mobility business.

We’ve also reached two further important milestones in our efforts to find the best strategic options for our Portfolio Companies.

After talks that were as swift as they were successful, we made a decision to sell Siemens Logistics’ post and parcel business to Körber AG for an attractive price of €1.15 billion. We’re expecting net income from this transaction of between €800 million and €1 billion. The post and parcel business is an excellent fit for Körber AG with advantages for all stakeholders.

Since the spin-off of Siemens Logistics into post and parcel logistics and airport logistics is – as reported – still underway, we’re expecting closing in calendar year 2022.

Yesterday, we also signed the agreement to sell our 50 percent stake in the joint venture Valeo Siemens eAutomotive to Valeo. Net income of around €300 million will be booked at our Portfolio Companies in the second quarter. We’re expecting closing and the cash effect in July.

Let’s take a look now at our stake in Siemens Energy. In short, it goes without saying that we’re not satisfied with the operational performance at Siemens Gamesa, which led to high share price volatility at Siemens Energy.

Appointing Jochen Eickholt the new CEO of the wind energy business is an important step in the right direction. Jochen is an experienced manager, who also very successfully developed Siemens Mobility and our Portfolio Companies.

We still clearly intend to reduce our stake in Siemens Energy. However, in the interest of our shareholders, we’ll make a prudent decision regarding the timing and depending on the market environment – as we’ve emphasized in the past.

Back to our customers: they have confidence in our innovative hardware and software technologies, in our digital services and in our profound domain knowhow.

We combine the real and digital worlds like no other company and so help our customers transform their businesses and make them more sustainable. No matter whether it’s smarter battery production, faster aircraft development, optimized energy consumption or greater capacity in public transport – we’ve got the right solutions at the right time.

As already reported, we’re taking a major strategic step at our Digital Industries Business toward Software-as-a-Service – primarily in our product lifecycle management business. We’ve made good progress in this regard. The numbers look promising.

Our annual recurring revenue (ARR) grew 11 percent to €3 billion compared to Q1 2021. This growth is fully in line with our target of growing 10 percent a year. The key indicator, the percentage of cloud business in total ARR, grew one percentage point to a total of 6 percent in the first quarter alone.

After the first quarter, in which we intensively marketed our cloud offering, customer feedback has been positive. Customers accept the transition: around 40 percent of renewed contracts are based on Software-as-a-Service. This is a solid figure, showing we’re right on track. We intend to accelerate this transformation over the next few quarters.

Around 500 customers are already backing this new business model. They see the added value – in particular, faster updates, more innovations and higher data security.

As I previously mentioned, the strong trend toward decarbonization is creating excellent opportunities for our business. However, we’re also making good progress internally with our DEGREE framework, which we presented at our Capital Market Day in June 2021.

For example, we’ve reduced our carbon footprint in scope 1 and scope 2 by 36 percent since base year 2019, and plan to be net zero by 2030.

And we’re gaining recognition for these achievements: Siemens is ranked No. 1 in the Dow Jones Sustainability Index among the 45 companies in our peer group.

Finally, I’d like to touch on a topic that has become increasingly important during the pandemic, and one that is very dear to my heart: it’s about finding a way to empower our colleagues worldwide in order to enable them to continue doing their jobs so successfully and with such commitment.

At the end of the day, this outstanding quarterly result is their collaborative effort. I’d like to extend my heartfelt thanks to all Siemens colleagues for this achievement.

Now, how can we support our people, so that they deliver this top performance again and again?

First, we're rigorously implementing a new mobile working model – a concept which has been very well received. And second, we're working hard to help all our employees handle complex challenges in their working lives and in their pandemic-impacted everyday lives more effectively. For example, we've launched a comprehensive mental health campaign for this purpose.

For Siemens' long-term success, it's crucial to strengthen our diverse teams with qualified colleagues. We offer everyone suitable training and opportunities for continuing education. We're a sought-after and attractive employer, and we don't want to let up in this regard.

Today at our Annual Shareholders' Meeting, I'll go into even greater detail about people at Siemens. For now, let me just say this: it's said that difficult times don't shape character, but rather reveal it. The character of Siemens – in other words, the character of our 300,000 colleagues, the character that the entire Managing Board has witnessed in these turbulent times – is one that I like very much!

Thank you!

[Ralf P. Thomas]

Ladies and gentlemen,

And good morning ladies and gentlemen from me as well. As always, please allow me to start by briefly referring you to our Earnings Release. There, you will find the results of all our businesses, including Siemens Healthineers.

Now, I'm very pleased to share further details on our highly successful first quarter. We will begin with the results for Digital Industries. As Roland Busch mentioned, our key markets continued to show strong growth momentum.

It's likely that a significant portion of the exceptionally high order growth in our short-cycle Factory Automation and Motion Control businesses stemmed from orders being submitted early due to extended delivery times and expected price increases. With an impressive book-to-bill ratio of 1.64, our order backlog at Digital Industries now exceeds €10 billion.All automation businesses posted massive order growth totaling 77 percent.

The Software business closed several large deals in the product lifecycle management, or PLM, segment and in software for electronic design automation, or EDA.

As a result, orders grew more than 30 percent compared to the weaker prior-year quarter. Some of these orders even came in earlier than originally expected.

We are very pleased with the rise in revenue at the automation businesses: despite capacity constraints and the limited component availability in some cases, we posted a 13 percent increase over the solid prior-year quarter.

We have to assume, however, that the supply-chain situation will not start easing before the second half of fiscal 2022.

Revenue in discrete automation was up 15 percent, driven largely by the Motion Control business. Process Automation continued its recovery and achieved 7 percent revenue growth.

Revenue from the Software business grew 7 percent compared to the strong prior-year quarter, clearly exceeding expectations. A negative volume impact from the launch of the transition to our Software-as-a-Service – or SaaS – business model was outweighed by substantial revenue recognition from larger deals in the U.S. In part, these deals closed earlier than originally anticipated.

While PLM was up 8 percent, the EDA business posted mid-single-digit growth versus a tough basis of comparison from the prior-year quarter. Mendix is continuing its growth path north of 30 percent.

All this means that Digital Industries reached an excellent 21.8 percent profit margin, including positive currency effects that had an impact of 50 basis points. This strong result also benefited from higher revenue in short-cycle businesses, combined with our measures to structurally improve our cost base.

Profitability in the software business remained strong due the high revenue from large contracts already mentioned. Ongoing investments in cloud technologies accounted for 130 basis points of negative impact on Digital Industries' margin in the first quarter. These investments will gradually increase throughout fiscal 2022.

Free cash flow developed in line with the seasonal pattern and came in at nearly €500 million. We are pleased that it again reached a high level.

This impressive amount was achieved despite material bonus payments for variable compensation components for fiscal 2021 and despite targeted and selective inventory build-up.

What are we expecting in our key vertical end markets in the next quarters? Thanks to sound investment sentiment in most of these markets, we continue to expect positive momentum. Longer-term fundamentals of investment demand are fully intact and will remain beneficial for Siemens.

However, despite our intensive efforts, supply-chain bottlenecks will continue to have a negative impact on our customers in many industries.

Now let me give you the regional perspective on the dynamic growth in orders and revenue in our automation business: In all regions, we posted hyper order growth, which is due to similar patterns in customer order behavior: orders were placed early due to extended delivery times.

Orders soared 78 percent in China, jumped 62 percent in Germany and skyrocketed 155 percent in Italy. Obviously, we expect that demand will normalize again in the foreseeable future and that the order backlog will then gradually be reduced.

Revenue growth in our automation businesses was broad based with strong increases across all major regions. The positive momentum in China led to a rise of 15 percent. Germany was up 14 percent, and Italy posted 30 percent revenue growth on an easy basis of comparison versus the prior-year quarter. In the U.S., the Discrete Automation business, in particular, saw double-digit growth.

From today’s point of view, our expectation for the second quarter of fiscal 2022 is that the Software business will, as previously announced, have material negative impact on Digital Industries’ business volume and margin.

The first reason for this impact is a higher volume of PLM contracts that are up for renewal. As previously announced, we aim to convert a sizable number of these contracts to our SaaS model. The second reason is that – compared to the very strong first quarter and the prior year – we expect softer quarterly performance in the EDA business.

Combined with strong backlog conversion in the automation business, which will again be limited by constraints in component availability, we expect a comparable revenue growth rate in the mid-single-digit range for the second quarter on a tougher basis of comparison versus the strong prior-year quarter. For the full fiscal year, we will reach the upper limit of our target range of 5 percent to 8 percent.

In addition, we expect the profit margin for the second quarter to be around 20 percent. This result will, of course, strongly depend on the speed of the transition to the SaaS model. Let's remind ourselves: we are just heading into the second quarter of this transformation, which is as important as it is dynamic. This dynamism makes it very difficult to forecast with precision.

Let's move on now to Smart Infrastructure, or SI for short. The SI team achieved excellent order and revenue growth in better end markets and delivered the next proof point for a clear margin expansion trajectory. In total, orders were up 26 percent. This result was driven most notably by growth of about 40 percent in the Electrical Products business, which benefited from strong demand from industrial customers and data-center operators.

In addition, the electrification business grew around 30 percent, with large order wins in the semiconductor vertical in the U.S. The buildings business was up double digits overall on strength in the products business and with accelerating solutions and services activity.

Revenue grew 6 percent overall, with the largest contribution coming from the Electrical Products business, which was up 15 percent.

The profit margin of 12.6 percent benefited from higher capacity utilization and from cost savings made possible by rigorous implementation of our competitiveness program, which you are already very familiar with.

The headwinds from higher commodities prices and from inflation in the cost of components and logistics were largely mitigated by pricing actions.

Free cash flow was off to a slower start. This was due, among other things, to higher inventories, which the team purposely accepted in order to secure production capabilities, and to seasonal effects, such as bonus payments.

Looking at the regional top-line development, we saw strong, broad-based order momentum. Led by the U.S., all major regions saw double-digit growth.

Revenue increased in all regions with the service business also delivering 6 percent growth in line with Smart Infrastructure's overall performance.

I would like to point out here that, like Digital Industries, Smart Infrastructure did an excellent job of mitigating major supply-chain constraints and keeping factories running at high-capacity utilization.

As far as market trends are concerned, we expect positive momentum in our short-cycle Electrical Products business to continue, driven by exceptional customer demand.

The late-cycle buildings market is picking up further. However, we are still observing some headwinds, especially in the U.S. We assume delays will arise in the implementation of the infrastructure package that has been signed into law there. As a result, we anticipate that part of the positive impact from this program will not kick in until sometime during 2023.

The electrification market, on the other hand, is on a solid growth trajectory due to accelerating integration of renewable energies, higher electricity consumption and additional demand due to high energy prices.

Based on these developments, we expect the comparable revenue growth rate for the second quarter to be in line with our guidance for the full fiscal year.

We anticipate that the second-quarter profit margin will improve compared to the prior-year quarter, and that it will come in at the lower fringe of the full-year guidance range of 12 percent to 13 percent.

Looking at our order backlog, we expect the highest negative impact from cost inflation vis-à-vis our own price increases to occur in the second quarter. We expect clear improvement in this area in the second half of fiscal 2022.

Let's turn now to the first-quarter results for Mobility. The team delivered like clockwork and achieved Mobility's highest-ever quarterly order intake, and thus also very clearly topped the competition.

Orders grew 94 percent, and this growth was driven by all businesses. This figure included a major €1.5 billion order for high-speed trains in Germany. The order backlog as of December 31 stood at a record high of €39 billion, with margins remaining steady at a healthy level. And our sales funnel continues to look very promising for the quarters ahead, too.

Revenue grew by a total of 7 percent, fully in line with our expectations, as announced. There was clear growth in the Rolling Stock and Rail Infrastructure businesses, while the Customer Services business was up 5 percent.

Mobility again achieved a profit margin that is clearly ahead of the competitors' level. The cash conversion rate of 0.48 was a good start to the fiscal year. We expect the development in cash conversion to be positive throughout fiscal 2022 – and clearly higher than in fiscal 2021.

Our assumption for revenue growth for the second quarter is toward the lower half of our full-year guidance range of 5 percent to 8 percent. We assume that the second-quarter profit margin will be on a similar level as in the first quarter, but that it will not yet fully reach the lower end of the new target margin range of 10 percent.

In these remarks, I only want to briefly discuss our results below our Industrial Businesses. All details are in the earnings bridge in the appendix, on page 22. At this point, I would just like to say this:

Siemens Financial Services delivered excellent performance in the first quarter and benefited from a currently favorable credit environment and from a strong result in its equity business.

The Portfolio Companies' solid performance at its fully consolidated units more than offset a small loss from our stake in the Valeo Siemens joint venture. The latter figure also included a positive one-off effect related to a payment received by our joint venture partner.

Our latest portfolio decisions on the sale of Siemens Logistics' post and parcel business and our departure from the Valeo Siemens eAutomotive joint venture are important steps as we continue to sharpen our company's focus.

At the same time, these moves are creating sustainable value and reducing volatility within the Portfolio Companies.

As Roland Busch already mentioned, a higher loss from our at-equity Siemens Energy Investment was an unexpected and extremely unsatisfactory development for us.

Let's turn now to a much more pleasant topic: free cash flow. Here, we are seeing a very solid start to fiscal 2022. To the greatest possible extent, we are aiming to achieve consistent and balanced free-cash-flow development throughout fiscal 2022.

We are very confident that we will succeed at doing this in the upcoming quarters, as well.

Our strong performance in the first quarter is reflected in two other particularly important parameters from our Siemens Financial Framework.

First, our return on capital employed, excluding Varian-related M&A effects, was – at 16.4 percent – already within our target corridor by an impressively clear amount.

Second, with an Industrial net debt over EBITDA ratio of 1.4x, we are continuing to lower our debt level, and are thus providing further proof points that substantiate our promise to deleverage.

And that brings us to our outlook. We will, of course, continue to relentlessly implement our strategic initiatives. These initiatives include our efforts to continue to optimize our portfolio, drive the transition to our SaaS business model and focus on high-value growth built on digitalization and sustainability.

After a very successful first quarter, we are confident that we will achieve our full-year targets for fiscal 2022. We see the potential to reach or even exceed the upper end of our EPS target corridor.

We will update our outlook with our Q2 disclosure. At that point, we will have a better overview of the time horizon and result of our portfolio topics, in particular.

Thank you!

* * *