SIEMENS

SPEECH FOR PRESS CALL

Q3 2021

"EXCELLENT RESULTS – GUIDANCE RAISED AGAIN"

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CFO

Munich, August 5, 2021

Check against delivery.

[Roland Busch]

Ladies and gentlemen,

I'm very proud that Siemens has delivered an outstanding performance in the third quarter, too. My thanks go to all the people at Siemens worldwide. Their commitment in supporting our customers has made this success possible – and they did this in an environment that is still very challenging.

We're seeing very significant growth because we have the right technologies at the right time. Because our customers trust that we can empower them to successfully master challenges such as the digital transformation and the transition to greater sustainability.

The extreme weather events we're currently seeing around the world are a very dramatic demonstration of how important sustainability and the fight against climate change are.

I've been watching with great concern – as I presume you have, too – the footage of the numerous flood disasters and wildfires. We're helping as a company where we can – for example, by supporting first responders in the fight against floods in Germany.

The events of the past weeks remind us of how important it is to fight climate change with determination.

Siemens has the technologies needed for this fight. Together with our customers, we're doing everything we can to implement these technologies as quickly as possible.

Now back to Siemens' development. We're rigorously pursuing our strategic priorities and are delivering on the promises we made at our Capital Market Day. We're accelerating high-value growth as a focused technology company. In the third quarter of fiscal 2021, the strong economic recovery continued across all regions.

China was – once again – a key growth engine, closely followed, however, by Europe and the U.S. – not least thanks to the huge progress in vaccinations. We expect this favorable macroeconomic environment to continue. Growth will be more moderate, especially in China.

However, the rapid spread of new virus variants shows us that the pandemic is still far from over.

We've also experienced the strong economic recovery in our key industrial verticals. These include, for example, the automotive industry, machine building and electronics, but also the infrastructure market, including areas such as power distribution, data centers and transportation.

Part of the current strong manufacturing demand is due to inventory and reserve build ups at our customers to mitigate ongoing risks in their global supply chains. These supply chain risks, by the way, are also a challenge for us – just as they are for our customers – when it comes to semiconductors, for example. We're also seeing the continuing higher cost of raw materials, components and freight services, a situation that is likely to prevail into fiscal 2022.

Our teams have handled these challenges very successfully so far and have limited their impact on our business. We're securing the availability of these resources by closely collaborating with our suppliers and leveraging our global network of supply-chain professionals.

At our factories, the health and safety of our colleagues continue to be our top priority. Yet we're still maintaining our high productivity level and can match strong customer demand. In the meantime, our factories are operating at full capacity in certain areas, which leads to extended customer delivery times and considerably higher order backlogs, mainly in our short-cycle automation products.

So far, headwinds from rising cost for materials have been partially mitigated through long-term contracts and additional hedging measures. Timely pricing measures have also enabled us to contain bottom-line impact.

We're seeing a slight increase in our travel costs because society and the economy are continuing to open up, and life is returning to normal. We're also making very selective investments in new applications, sales channels, and qualified people to grasp emerging growth opportunities.

Our top priority is to leverage our strong momentum – strategically and operationally. And we've again made great progress in these areas.

First, we've strengthened our portfolio with additional bolt-on acquisitions, mainly in our digital business.

Second, our offering is and will remain fiercely competitive. Our factors for success are leading technologies, reduced lifecycle costs and outstanding digital capabilities. We combine the real and digital worlds like no other company. This is demonstrated, for example, by large order wins at Mobility, where we're combining trains, new drive technologies and artificial intelligence. This is how we create unique impact for customers.

And third, our sustainability approach is an important business differentiator. With our new DEGREE framework, we've set ourselves clear, ambitious targets. We're now putting a lot of energy into achieving these targets and raising our profile further.

We'll continue to rigorously pursue this path in order to generate profitable growth.

The third quarter, too, has provided us with very impressive confirmation of our strength as a focused technology company. For this reason, we're again raising our guidance for fiscal 2021.

We expect our book-to-bill ratio to be above 1 – as it has been. And we now expect revenue growth of 11 percent to 12 percent on a comparable basis. We anticipate that net income will be in the range between €6.1 billion and €6.4 billion.

So that was the big picture. I'd now like to give you some more color on the topics I've already touched on.

First, I'd like to explain how we're strengthening our portfolio further with bolt-on acquisitions – with a particular focus on our software and digital solutions.

As you're aware, one important building block was the Supplyframe acquisition. This company operates a digital marketplace, where it brings supply and demand for electronics components together. More than 10 million users from manufacturers to suppliers and purchasers work together in this digital ecosystem and optimize how they design, source or market.

Supplyframe will be a key part of our digital marketplace strategy. We expect substantial synergies from our current product portfolio. We closed this acquisition just a few days ago.

In addition, Digital Industries was quite active in the third quarter and acquired another five innovative software companies. In particular, we've added deep expertise across all our businesses in digital simulation for our product lifecycle management software and in electronic design automation.

We've also added vertical application building capabilities to our Mendix low-code platform. The combined purchase price for these acquisitions was just north of €100 million.

We're also pleased with Siemens Healthineers' performance after its successful acquisition of Varian. Since the acquisition closed in April, both operations and integration have been fully on track.

We intend to further enhance our digital capabilities and drive value creation through resilient and innovative business models, which is important for all Siemens units and equally crucial for our customers.

At our Capital Market Day, we presented an example of such business models from Mobility – a Mobility-as-a-Service platform. On their smartphones, users can plan, book and pay for their trips. And they can see all travel options. Be it train, bus or ridesharing. From their front door to their destination, be it within one city or countrywide.

With the acquisition of Sqills, we're now decisively strengthening this business. Mobility will provide transportation operators worldwide with an even better offering that comprehensively covers all core processes, from ticket sales to operations.

Together with the solutions from HaCon, eos.uptrade, Bytemark and Padam, Sqills' S3 Passenger software will become part of our interconnected software portfolio. Sqills' scalable, cloud-based platform enables rail and bus operators to replace their legacy reservation systems with a digital booking system. This system covers managing trains and busses, making reservations, and issuing tickets.

Complete digitalization has many advantages for operators: they can increase utilization and ultimately boost profit because more people will travel by train or bus if the reservation process is convenient and seamless. It also offers tangible benefits for the environment.

Sqills' software is already in use across nine countries at 33 transport operators, such as SNCF – the French national state-owned railway company – Irish Rail, and the Canadian rail operator Via Rail.

This acquisition is a perfect match for our strategic imperatives and for the criteria we use to plan our capital allocation. We're expanding in fast-growing adjacent markets. The Software-as-a-Service (SaaS) business model delivers fast-growing, recurring revenue with highly attractive margins.

We see significant synergy potential that will enable us to benefit from Siemens' global presence and bring technologies and development resources together. With this move, we can create combined offerings for our customers and drive further growth.

The agreed purchase price is €550 million plus a variable earn-out portion. Sqills expects revenue of around €40 million for the 2022 calendar year with a very attractive EBITDA. We expect the acquisition to close in the first quarter of fiscal 2022. Sqills' valuation is comparable to prior high-quality SaaS acquisitions.

And there is more good news from Mobility:

The U.S. railway company Amtrak – a long-standing customer who trusts us and our products – awarded us contracts with a total volume of €2.8 billion. Our scope of delivery is for 73 trains to be built at our manufacturing hub in California and operated in eight U.S. states beginning in 2024. These trains will be equipped with modern, dual-powered drive systems – in other words, they'll be powered by both diesel and electricity – or they'll be equipped with hybrid drive systems with a battery.

By building these trains, we're supporting significant modernization of travel in the U.S. With our support, Amtrak aims to gain an additional 1.5 million riders per year. Our customer wants to offer higher capacity, shorter trip times and a more comfortable travel experience while boosting efficiency and sustainability.

Our trains and our overall concept convinced Amtrak because we can optimize costs throughout the fleet's entire lifecycle. Our rolling stock platform approach and real-time digital monitoring enable predictive maintenance and thus help prevent downtime.

This is a very good example of how we're combining the real and digital worlds and, as a result, are creating value-adding growth for ourselves and our customers.

I'm particularly pleased that Amtrak has even more ambitious plans. The company has the option of ordering up to 140 additional trains and related maintenance agreements, meaning there's great potential for future business!

At Capital Market Day, we introduced our holistic DEGREE framework.

We've set ourselves ambitious targets in six core action fields. We'll regularly report on our progress in these areas. Today, I'd like to briefly discuss some important developments from Q3:

Among other things, the Siemens Real Estate team has defined standards for targeting net carbon neutrality for all our new construction projects. This initiative is an additional important step toward reaching our main goal of achieving net-zero operations by 2030.

Ethical corporate governance is very important to us. For this reason, we're focusing on a joint approach and are supporting international initiatives in the fight against corruption.

To this end, we've now made up to US$20.5 million available to the Siemens Integrity Initiative. This means that – to date – we've made almost US$120 million in funding available to support international integrity organizations' initiatives in around 50 countries.

In addition, we've joined the Valuable 500 initiative. We're making a clear and unequivocal commitment to an inclusive culture. At Siemens, we empower everybody with equal opportunities to contribute according to their own abilities, experience and personal perspectives.

As you know, Siemens has been committed to achieving greater sustainability within the company for many years – and can point to a successful track record in this regard. But the biggest contribution we're making is helping our customers meet their sustainability targets.

Let's take the example of Amtrak. By using dual-powered and first-of-its-kind hybrid battery trains, Amtrak will be able to significantly reduce its emissions – by up to 70 percent compared to current emissions.

Another example is from the water supply industry: Swedish water supplier VA SYD in the city of Malmö operates around 2,000 kilometers of drinking water pipelines. Leaks in the many branches of water lines waste around 10 percent of the water every day.

Together with our customer, we're rolling out a detection system that uses AI to track down small leaks. This system helps reduce water waste and saves time and energy.

Sustainability is good business here, too: our customer is not only reducing its environmental impact but also increasing its productivity by – among other things – avoiding unplanned assignments for service crews. Now how do all these diverse developments translate into our financials? Here's a brief overview:

Orders totaled €20.5 billion, up 44 percent over Q3 2020. A strong result although Q3 2020 had been hit by the pandemic. All businesses have contributed to this increase. The book-to-bill ratio was 1.27 – a great figure.

Revenue was up 21 percent to €16.1 billion. All businesses contributed to this figure, too, but the biggest contributions came from Siemens Healthineers, Digital Industries and Smart Infrastructure. This growth was very strong and broad-based.

We recorded double-digit growth rates across all regions. Germany was up 30 percent, the U.S. grew 19 percent, and China was up 14 percent – even in comparison with an already stronger Q3 2020.

Adjusted EBITA for our four Industrial Businesses rose substantially to €2.3 billion. We're benefitting here from strong, topline-driven profit momentum. In addition, our structural improvements are continuing to pay off. As expected, discretionary spending for sales and project-related efforts have picked up again.

Altogether, this led to an excellent margin performance of 15.3 percent, up by 100 basis points. Earnings per share were at a strong €1.68, which also benefited from lower income-tax expenses.

Ralf and I are extremely satisfied that we've managed – once again – to keep Free cash flow consistently high throughout the year. Free cash flow of €2.3 billion in the third quarter – that's impressive. This figure was mainly driven by an excellent €2.4 billion in Free cash flow from our Industrial Businesses.

Our strong cash performance is also reflected in our industrial net debt. Despite cash outflows of €13.4 billion for Varian, industrial net debt is at 1.9 times.

As you can see, we keep our word. We presented ambitious goals at our Capital Market Day. And today's figures impressively reinforce the claim that we – as a focused technology company – are operating with great success. We have the right technologies at the right time.

And with that, I'd like to hand over to Ralf, who – as always – will give you a more detailed insight into our operational results and the numbers.

Thank you!

[Ralf P. Thomas]

Ladies and gentlemen,

And good morning ladies and gentlemen from me as well.

Before I share further details regarding our excellent results across all businesses in Q3 fiscal 2021, I would like – as always – to refer you to our Earnings Release. There, you will find the results of all our businesses, including the figures for Siemens Healthineers, which have already been published.

Please bear in mind here that all changes in volume that I will be expressing as a percentage have been adjusted for currency translation and portfolio effects.

Let’s turn now to our Industrial Businesses, starting with Digital Industries. Our key markets for Digital Industries, such as automotive and machine building, continued to recover at a strong pace, which was visible, in particular, in very dynamic order activity on the part of our customers.

The surge in demand was partially caused by customer concerns about shortages of electronic components leading to extended delivery times.

All automation businesses showed massive order growth with discrete automation sharply up and process automation being substantially up. The software business did not reach the extremely high level of the prior-year quarter in software for electronic design automation – or EDA for short – while the product lifecycle management – or PLM – business clearly recovered.

Our business in European countries contributed to automation growth with record growth rates, albeit on easy comps: In Italy, orders more than doubled. Germany was up by 65 percent.

China continued its strong momentum with further 56 percent order growth. Here, we expect to see an increasing normalization of growth going forward.

We are also very pleased that automation revenue rose 23 percent year-over-year in the third quarter and also achieved clear sequential growth over the second quarter.

Discrete automation was up in the mid-twenties with broad-based demand across all regions. Process Automation saw continuing recovery, achieved growth in the mid-teens and was also up sequentially. Revenue growth in automation was also broad based with double-digit increases across all major regions. Strong momentum in China continued, up by 27 percent year-over-year and with further sequential growth.

The software business was up modestly by 2 percent with a heterogenous picture in its individual segments. As indicated, the EDA business is somewhat lumpy depending on revenue recognition from large contracts, and it did not reach the very high level of the prior year. However, our PLM business saw a further improvement in investment attitude among its customers, and it is back on a clear growth trajectory.

Mendix continued its strong mid-double-digit growth.

Digital Industries reached an excellent 20.3 percent Adjusted EBITA margin performance in the third quarter. This is an operational improvement of 150 basis points over the prior-year quarter, which benefited from a considerable positive effect related to the revaluation of the stake in Bentley Systems in the magnitude of 570 basis points.

The margin improvement in Q3 fiscal 2021 benefited from clearly higher profit conversion on higher revenue in short-cycle businesses combined with prior measures to structurally improve the cost base.

As indicated previously, in Q3 2021, cloud and integration investments accounted for around 100 basis points of negative impact on the margin, similar to the prior quarter’s levels. We are literally thrilled that Digital Industries achieved more than €1.1 billion of Free cash flow in the third quarter, which is fantastic.

This truly exceptional performance with a cash conversion rate of 1.32 is based on consistent work on stringent working capital management across all businesses.

Now, let’s also briefly look at the most important end-market segments and geographies for Digital Industries. I already highlighted the key developments for orders and revenue in Q3 fiscal 2021 from a regional perspective.

Looking at our key vertical end-market expectations for the next quarters, we see a continuing recovery and broad-based improved sentiment in a wide range of industries. We assume that even demand from aerospace and defense customers is bottoming out now. As Roland said, our team is extremely dedicated and determined to mitigate risks from supply shortages in areas such as electronic components and raw materials.

And we also expect a negative impact on our business from higher commodity prices and have already taken them into consideration in our assumptions for the coming months.

Nevertheless, for the fourth quarter, we anticipate for Digital Industries – from today's point of view – high single-digit comparable revenue growth.

Given our well-managed discretionary spending and investments to leverage the strong growth opportunities, we expect the profit margin for the fourth quarter to be slightly below the strong third quarter.

Let's move on now to Smart Infrastructure. The SI team delivered very convincing topline growth in its successively improving end markets and provided further evidence for a clear margin expansion trajectory.

In total, orders were up 24 percent, driven most notably by a sharp increase, north of 40 percent, in our electrical products business, benefitting from very strong industrial demand.

The solutions and service business showed clear growth, benefitting from several large orders – for example, in Germany.

Revenue growth of 15 percent was fairly broad based across all major regions, with particular strength in Europe, excluding Germany, up by 20 percent and in the United States, up by 16 percent.

In China, revenue increased by 4 percent, as part of a kind of normalization beginning there.

Product businesses were up substantially by 29 percent, whereas systems showed a significant recovery from a low level in the prior year.

As expected, the late-cycle solutions and services business returned to mid-single digit growth, and we expect this business to continue to recover in the quarters ahead.

The margin performance of 12.1 percent benefited from higher capacity utilization related to increased revenue, as well as structural improvements in its cost position from its competitiveness programs.

On the other hand, there were some headwinds from commodities price inflation and currency effects.

We expect the momentum in our short-cycle electrical product business to continue in strong end markets. We also expect our solution business to pick up further in line with improving growth perspectives in the late-cycle market for commercial buildings.

The electrification market is on a solid growth trajectory with accelerating renewables integration and the trend toward electrification in areas such as transportation.

Hence, we expect the fourth quarter comparable revenue growth rate to be high single-digit.

As Roland already highlighted, Smart Infrastructure has done an excellent job of mitigating the impact of strained supply chains.

However, as indicated before, we see continued headwinds coming up from higher raw-material prices, which cannot fully be compensated by hedging and pricing actions.

Nevertheless, we expect the fourth quarter margin to be slightly above the level of the third quarter.

Let’s turn now to our third Industrial Business, Mobility. Roland already talked about the strategic progress being made at Mobility.

Looking at the numbers, it’s order-intake growth that particularly stands out, driven by the Amtrak order and several large contracts in Rolling Stock and Rail Infrastructure.

And our sales funnel also looks very promising for the quarters ahead. Revenue grew 5 percent, in line with expectations, driven by Rail Infrastructure, while Rolling Stock was somewhat softer due to project phasing. The service business is moderately up by 4 percent, still somewhat impacted by lower ridership for railway operators.

Mobility once again did an excellent job compared to the competition and has also delivered resilient revenue growth throughout the pandemic. The profit margin was again within the target range, based on stringent project execution and again benefiting from improved access to customer sites.

We expect revenue growth to remain in the mid-single digits in the fourth quarter of fiscal 2021. The fourth-quarter margin is seen sequentially somewhat higher compared to the third quarter, getting closer to double-digit performance.

As indicated, Free cash flow is expected to rebound and – due to down-payments for large projects – catch up materially in the fourth quarter.

At this point, let me also briefly highlight the excellent operational performance of the Siemens Healthineers team, who disclosed financials last Friday. Since then, their share price reached a new all-time high, now reflecting a market capitalization of around €65 billion.

As majority shareholder, we are also very pleased with the upgraded operational outlook in total – and, in particular, for Varian – as well as with the stringent and well-prepared integration approach for this highly important acquisition.

The previously announced negative impact of the Varian transaction on Siemens' net income came to €177 million in the third quarter and is expected to reach nearly €350 million for the full fiscal year.

Next, I want to touch upon a few important topics below our Industrial Businesses, including an updated assessment for full fiscal 2021, which includes all Varian effects.

Let's begin with Siemens Financial Services, or SFS, which delivered another impressive performance in the third quarter. SFS is well on track to achieve a significant improvement over fiscal 2020, however, it's not yet at pre-COVID-19 levels.

Our Portfolio Companies returned impressively into topline growth territory, and the fully owned businesses achieved margin improvement, too. As indicated before, we continue to expect for the full fiscal year that ongoing losses from our stake in the Valeo Siemens joint venture will overcompensate for the positive contribution from the fully consolidated businesses.

As you know, our Siemens Energy investment suffered a setback in the third quarter. For fiscal 2021, we now expect – in addition to PPA effects of around €200 million – a deteriorated net income contribution attributable to the Siemens AG stake to weigh on our results.

Siemens Real Estate will not see any further material disposal gains this year. Therefore, profit will be well below the prior year, at an amount in the high double-digit million euro range.

For fiscal 2021, we expect – from our current perspective – Corporate Items and Pensions to fall below the prior-year level and reach around €900 million due to numerous positive factors – including, most notably, cost savings from our Corporate 2020+ program.

The PPA item, which is used for scheduled purchase price allocations on intangible assets, now includes Varian effects in the area of €200 million and is expected to be around €800 million in total for the full fiscal year.

Elimination, Corporate Treasury and other items is seen slightly below the fiscal 2020 level, due to lower interest expenses on debt.

After we recorded lower income-tax expenses in the third quarter due mainly to the reversal of income tax provisions, we now expect the tax rate for fiscal 2021 to be around 25 percent.

In Discontinued Operations, we recorded a material positive impact from the reversal of income tax provisions as well.

For the fourth quarter, we still some small-scale remaining subsequent spin-off costs from Siemens Energy to come. Hence, as the overall result for discontinued operations for fiscal 2021, we expect an amount close to €1 billion, driven mainly by the Flender gain.

As mentioned, Free cash flow performance in the third quarter was – again – brilliant. Our continuing focus on working capital management is delivering impressive results for increasingly steady cash conversion. Free cash flow of more than €6 billion and a cash conversion rate of 0.92 for the Industrial Businesses after the first nine months of fiscal 2021 is truly remarkable, especially in light of double-digit topline growth.

The strong cash focus across the entire organization is also clearly visible in an excellent cash conversion rate of 1.54 for Free cash flow “all-in” in the third quarter.

Our financial strength was also recognized by the credit rating agency Moody’s, who upgraded the rating outlook by returning it to stable and affirmed our A1 rating last week.

Given the strong performance in the first nine months of fiscal 2021, we do not expect another “September miracle,” but rather assume continued steady performance, including the mentioned catch-up by Mobility.

Let's turn now to our updated outlook: Roland already highlighted our outlook – which we have raised again – for the Siemens Group with comparable revenue growth of 11 percent to 12 percent and net income of €6.1 to €6.4 billion, including effects in connection with the acquisition of Varian. I will now give you the updated framework for the individual businesses:

We assume that our businesses do not experience significant supply chain constraints during the remainder of the fiscal year.

Furthermore, we see for our fourth quarter a continuation of clearly easing negative currency translation effects on our topline.

Digital Industries now expects 10 percent to 12 percent comparable revenue growth.

The Adjusted EBITA margin expectation continues to be at 20 percent to 21 percent.

Smart Infrastructure now anticipates 8 percent to 9 percent comparable revenue growth and confirms its expectation for an Adjusted EBITA margin at 11 percent to 12 percent, whereby we assume that it will reach the upper half of this range.

Mobility continues to anticipate mid-single-digit comparable revenue growth with an Adjusted EBITA margin of 9.5 percent to 10.5 percent.

Thank you!

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