SPEECH FOR PRESS CALL
Q2 2024

“SOLID SECOND-QUARTER PERFORMANCE – OUTLOOK CONFIRMED”

Dr. Roland Busch
President and CEO

Prof. Dr. Ralf P. Thomas
CFO

Munich, May 16, 2024

Check against delivery.

[Roland Busch]

Ladies and gentlemen,

Good morning, everyone. Thank you for taking time for us today.

We delivered solid performance in the second quarter. We're resilient in a time still impacted by a muted macroeconomic environment. We have robust topline momentum, which means that demand from our customers remains strong. They trust us to support them in their digital and sustainable transformations.

Our book-to-bill ratio was a strong 1.07, with all businesses – except Digital Industries – coming in above 1. Our order backlog grew further. It's now at an all-time high of €114 billion – an achievement that will support our future profitable growth. Orders totaled €20.5 billion, an organic decline of 12 percent compared to Q2 2023, which benefited from a major locomotive order in India.

Smart Infrastructure delivered record orders – a double-digit increase – and exceeded the €6 billion mark for the first time. Digital Industries was up sequentially, driven by a very strong software business. However, orders in the automation business were slightly lower than in Q1 2024 due to still muted demand.

Stock levels at customers and channel partners remained elevated, particularly in China.

We expect things to gradually improve in the quarters ahead, although more slowly than previously anticipated. A key reason is the muted development in China. Overcapacities in certain customer industries, such as solar and electric vehicles, are another reason. In addition, Europe's key export-driven markets, such as Germany, are recovering only very sluggishly.

We rigorously processed orders, leading to stable revenue development on a comparable basis of €19.2 billion. Clear growth contributions came from Mobility and Smart Infrastructure. Both increased 6 percent. Siemens Healthineers grew 3 percent. As previously indicated, Digital Industries recorded a revenue decline of 11 percent. This decline reflected the effects of a significant drop in Digital Industries' short-cycle product business, while Q2 2023 was at a record level. The decline was only partially offset by high double-digit growth in the software business. Semiconductor customers, in particular, showed strong demand for our software.

I’m again very proud of Smart Infrastructure’s electrification business. With excellent growth of 14 percent, it showed great competitive strength. Strong momentum continues at data centers and in the power distribution market.

Overall, we recorded Profit Industrial Business of €2.5 billion, close to the prior-year level. Increases at Smart Infrastructure and Healthineers, which nearly offset current softness in Digital Industries’ high-margin automation business, translated into a 14 percent profit margin.

After a strong start in the first quarter, we achieved a consistent free cash flow performance of €2.1 billion at our Industrial Business. As a result, our accumulated free cash flow as of the first half of the year was above the prior-year level.

After delivering a solid first half-year, we’ll continue to focus on profitably executing our record order backlog. Therefore, we confirm our Group outlook for fiscal 2024 on all metrics. However, we lower our expectations for Digital Industries at the midpoint for revenue growth by 7.5 percentage points and for profitability by 200 basis points.

On the positive side, after a strong first half-year, we’re narrowing the outlook for Smart Infrastructure and lifting the lower end by 100 basis points for revenue growth and profitability, respectively.

We’ve again delivered operationally. But we’re also making significant progress in executing our long-term strategic priorities, of which portfolio optimization is a key component. In this area, we’ve taken some large steps. The most important concerns Innomotics, which we’ve set up as a strong independent company. Innomotics will now shape its future with its new owner KPS Capital Partners. I’ll talk more about this later on.

In addition, we’ve announced a bolt-on acquisition of ebm-papst’s industrial drive technology business. This move will strengthen our Motion Control Business Unit to tap growth opportunities for battery-powered drive solutions.

Artificial intelligence, or AI, is a superpower for all our industries – and it’s also driving our organic growth in sustainable and digital technologies.

I’ll go into more detail later about industrial AI, especially at Hannover Messe, and our new EcoTech label as well as our expanding ecosystem.

Here are some more details on our numbers. Macroeconomic dynamics were also reflected in our regional revenue growth distribution. With 8 percent revenue growth, the Americas stood out, with strength in the U.S. Europe, the Middle East and Africa, or EMEA, was down 2 percent on weakness in Germany. The Asia and Australia region declined 5 percent, impacted by the situation in China.

Earnings per share before purchase price allocation accounting, or EPS pre PPA, came in at a healthy €2.73.

Now let's turn to our portfolio. We're optimizing it further and sharpening our profile as a technology company. We're consistently looking for the best owners for our Portfolio Companies. In KPS Capital Partners, we've now found an ideal buyer for Innomotics. The purchase price totals €3.5 billion.

Due to KPS' very attractive offer, we're discontinuing our preparations for a public listing.

KPS has an excellent track record in the acquisition of manufacturing and industrial enterprises. It boasts deep, cross-company knowhow of manufacturing processes and will support Innomotics in maintaining its industry leadership globally. This move will offer Innomotics and its 15,000 highly motivated people excellent opportunities to optimally serve their markets and realize their full growth potential. After closing, we expect a post-tax book gain of around €2 billion – excellent proof of how Siemens can successfully improve businesses and increase their value.

We expect the transaction to close in the first half of fiscal 2025.

The unbundling of the business activities of Siemens and Siemens Energy in India is making good progress, too. The supervisory board of Siemens Limited India has approved a demerger. As a result, the formal separation process is fully on track to achieve a listing of Siemens Energy India Limited in 2025.

And, of course, we continue to work on further portfolio optimization.

Let's turn now to our latest innovations. With the launch of our EcoTech label, we're setting new standards in sustainability transparency. Each product comes with a standardized product data sheet across the key environmental criteria. This data enables customers to make better decisions about their sustainability on the basis of objective criteria that cover a product's entire lifecycle.

Many Siemens products are already based on our eco-design approach. One outstanding example is the Sentron ECPD – an electronic, protective switching device that is up to 1,000 times faster and more precise than conventional switches, using modern semiconductor technology for the first time.

Sentron ECPD can replace more than ten conventional devices, reducing electronics by 80 percent and metal use by 90 percent, while taking up around ten times less space in a switch cabinet. It also has an intelligent algorithm. If many LEDs are switched on at the same time – in a tunnel or a car park, for example – conventional devices will switch off the circuit. But not our new switch: it recognizes the situation and manages the power intelligently. If our customers now want to use LED lighting on a large scale, it'll be much easier: installation requires less effort and, above all, they'll save kilometers of copper cable.

If you visited us at Hannover Messe, you'll have experienced for yourself the enthusiasm with which our people talk about our products, the breadth and depth of our domain knowhow and, above all, the intensity of our relationships with our customers and partners. And we demonstrated in many ways that AI is a superpower for our industries.

Together with Rev Lebaredian, the head of NVIDIA Omniverse, I showed how we're using generative AI to revolutionize product visualization. It's an important step toward the industrial metaverse, an exact representation of the real world in digital space – photorealistic, in real-time and physics-based.

We've connected Omniverse with Teamcenter X, our product lifecycle management, or PLM, software. We've impressively shown just how powerful this AI-supported technology is. It's enabling engineers at Korean shipbuilder HD Hyundai to visualize and thus interact with a digital twin of hydrogen-powered ships that have more than seven million parts. The technology saves time, cuts costs, avoids errors and simplifies work processes. The industrial metaverse provides very specific added value for our customers.

And building on our successful collaboration with Microsoft and our pilot customer Schaeffler, we're now bringing generative AI into factories on a large scale.

The Siemens Industrial Copilot is now connected to our Totally Integrated Automation, or TIA, Portal. Even without in-depth programming knowledge, customers can use the Copilot to generate complex automation code and thus accelerate their development processes enormously and boost their productivity. This is just the beginning – we're working on Copilot solutions for multiple industries and along the entire value chain.

At Hannover Messe, we also presented another building block for Siemens Xcelerator: Electrification X, a comprehensive application, or app, that can be used to manage energy networks in a variety of industries. Our Siemens Xcelerator portfolio now includes Building X, Grid Scale X, Railigent X and Industrial Operations X.

The unprecedented growth in AI has also driven a global boom in data centers and, as a result, a soaring rise in demand for electrification. For us, this market momentum is creating a wealth of opportunities with existing customers such as big IT and tech companies, so-called hyperscalers, and, increasingly, with global data center colocation operators.

This development shows again how we combine the real and the digital worlds and help build sustainable data centers.

We supply the entire electrification infrastructure for low and medium voltage as well as fire safety and building management.

We combine this operational infrastructure with digital applications from our Siemens Xcelerator portfolio, such as digital twins and AI-based cooling optimization. We're currently expanding our electrification capacities, a move that will further strengthen our market position in 2025.

We grew strongly in the first half of this year, with revenue up 25 percent and a stellar order intake, pointing to further growth in market share. We expect order growth in the 20 percent range for the full fiscal year 2024.

Regarding sustainability, I'd like to highlight three examples.

Together with Mercedes-Benz, we've created a digital energy twin. As part of our strategic partnership, we're bringing greater energy efficiency and sustainability to the design of new factories and the upgrade of existing production facilities. The digital twin was developed and tested in Factory 56 in Sindelfingen, Germany. It'll now help significantly reduce planning time.

I'm very pleased about our new partnership with Foxconn. We've agreed to drive digital transformation and sustainability and work together on the factory of the future. We'll build a scalable and seamless ecosystem that combines development and manufacturing with the highest level of automation.

Our long-standing partnership with Brightline is set for a new chapter. Brightline West has opted for Siemens Mobility. We're the preferred bidder for ten high-speed trainsets for America's first high-speed rail line. This next train generation will feature the latest digital technologies, such as Railigent X. And it'll be 30 percent more energy efficient than other high-speed trains.

Our digital business remains on a strong growth trajectory. After the first half of fiscal 2024, we've achieved revenue of €3.8 billion, an increase of 13 percent. Portfolio expansions for Siemens Xcelerator will support cloud-based growth across all our businesses.

Let's turn now to software-as-a-service, or SaaS, a key contributor to our digital business. As you know, we're transferring major parts of our software business to the cloud.

Growth in annual recurring revenue, or ARR, reached a very healthy 15 percent year-over-year. The cloud ARR portion already stands at €1.5 billion, which now corresponds to 37 percent of our total ARR.

Our 40 percent target is well within reach. All indicators point to strong momentum, and 14,700 customers have now opted for the SaaS business model. The majority of these customers are small and medium-sized enterprises.

Thank you!

[Ralf P. Thomas]

Ladies and gentlemen,

good morning, everyone. A warm welcome to our press call from me, too. Allow me to begin, as always, by briefly referring you to our Earnings Release. In that document, you will find the results for all our businesses, including Siemens Healthineers.

I am now pleased to share further details with you on our solid second quarter and on our expectations for our business performance for the rest of fiscal 2024.

Let's start with Digital Industries, or DI. At €4.3 billion in total, orders for DI were up compared to the first quarter, but they were 12 percent lower year-over-year; the book-to-bill ratio was at 0.94. Digital Industries' automation business saw a slight setback in orders compared to Q1 of fiscal 2024 but was still above the trough levels from Q4 of fiscal 2023.

As Roland mentioned, the market environment remained challenging due to the subdued economic activity and investment sentiment in key regions, such as China and Europe.

Slow destocking at customers and distributors, particularly in China, combined with strong local competition in lower- and mid-market segments, held back demand.

Order softness was most visible in the discrete automation businesses.

DI's software business, however, achieved a double-digit growth rate in orders and a book-to-bill ratio significantly above 1, driven by high demand for electronic design automation, or EDA, among our semiconductor customers.

Our order backlog at Digital Industries decreased further to €10.2 billion. The software business accounted for €5.4 billion of this amount. As a result, the backlog for the software business exceeded the backlog for the automation business for the first time.

The order backlog for the automation business was at €4.8 billion, which is around €600 million lower than in the first quarter, and it continues to develop in the direction of our pre-pandemic order-backlog levels.

Let's turn now to revenue for Digital Industries, which, as indicated, was down 11 percent.

In this connection, the automation businesses were down 20 percent compared to the prior-year quarter's record level.

This decrease involved a 23 percent decline in the discrete automation business and a 13 percent decline in the process automation business. Both declines were caused by lower contributions from short-cycle orders that are, so to speak, delivered and charged directly in connection with the order.

This decline was partially compensated for by DI's software business, which delivered excellent growth of 19 percent, driven by an outstanding EDA business, which was up more than 50 percent.

The product lifecycle management, or PLM, business increased 5 percent.

DI’s profit margin came in at 16.5 percent, which was a material decline. This development was primarily driven by lower capacity utilization because of lower revenue and by a less-favorable composition of the product mix in the automation businesses, with a lower share of higher-margin products.

Digital Industries recorded a slightly positive “economic equation” in the second quarter.

As already mentioned, effects from the measures implemented to boost productivity will not ramp up until toward the end of fiscal 2024. In line with our expectations, our investments of €64 million in cloud technologies in Q2 accounted for 140 basis points of negative impact on Digital Industry’s margin.

Digital Industries achieved a cash conversion rate of 0.76. This situation was mainly due to the shifts in the timing of payments for large software orders. These orders were not booked until late in the second quarter.

In absolute terms, DI’s cash generation was, of course, materially affected by declining profit.

Now, let me give you the regional perspective: As mentioned, the rebound of orders in the automation business has been slower than expected due to ongoing subdued economic industrial activity in DI’s key regions, and we reviewed our assessment regarding the speed of destocking.

Initial weak signals in the positive direction that are being seen in macroeconomic indicators have not yet translated into actual demand in our customer industries.

This situation continued to be most visible in China. From today’s perspective, destocking effects there are likely to continue until the end of calendar year 2024, even with end-customer demand seeming to pick up slowly.

In contrast, in the other key regions, Europe and the U.S., we expect stock levels to mostly return to normal by the end of fiscal 2024.

In line with the decline in short-cycle orders in the automation business and slowed normalization of the backlog, revenue in DI’s key regions has materially moderated from all-time-high levels.

Looking at our key vertical end-markets for the next quarters, publicly available sources like Oxford Economics still expect rather muted growth momentum for production output at our end customers – particularly in export-driven industries such as machine building and automotive.

Our DI teams continue to see this development as transitional. However, it is taking longer than initially anticipated to return to a balanced growth path, with secular demand trends and better investment sentiment beginning to prevail.

For the second half of fiscal 2024, Digital Industries assumes that demand in its automation businesses will pick up again compared to the first half of the fiscal year.

In DI’s software business, we have a rich funnel and strong customer activity for attractive, large contract wins for licenses. As a result, we expect strong growth momentum in the second half of fiscal 2024.

As you know, the closing of license contracts leads to immediate revenue recognition and thus to “chunky” revenue from a timing perspective. Allocating to quarters in the second half of this fiscal year is particularly challenging because material contributions to revenue are expected at the end of the third quarter.

As a result, we now expect DI’s comparable revenue for fiscal 2024 to come in minus 8 percent to minus 4 percent below the prior year. We now expect DI’s profit margin to be in the range of 18 percent to 21 percent.

Now let’s turn to Smart Infrastructure, or SI, which delivered outstanding performance again in the second quarter.In robust end markets, the SI team achieved strong growth in business volume and improved the operational profit margin year-over-year for the 14th quarter in a row.

In total, orders were up 10 percent on contributions from all SI businesses and thus reached another all-time high. This development led to an excellent book-to-bill ratio of 1.18. A major growth engine in this respect was SI’s electrical products business, up by a stunning 26 percent.

Together with the electrification business, the electrical products business scored numerous order wins from data center customers, particularly in the U.S. In total, orders were up 4 percent in both the electrification business and the buildings business. Smart Infrastructure’s order backlog increased to €18 billion, and thus to a record level.

SI's revenue growth reached 6 percent. The largest contribution here came from the electrification business, which was up a strong 14 percent. On top, we saw some projects in the solutions business slip into Q3. This delay led to slightly lower growth than expected, but it benefited the business mix and thus the margin quality.

Both the buildings business and the electrical products business continued their growth trajectory, with 2 percent in each case.

SI's operational profit margin reached a record level of 16.6 percent. It benefited from economies of scale resulting from higher revenue and increased capacity utilization.

Sustainable impact from pricing actions from prior periods as well as productivity increases enabled SI to more than compensate for headwinds from cost inflation, which were mainly due to higher wages and salaries.

We expect SI's economic equation to remain clearly positive in the second half of fiscal 2024, albeit with decreasing benefits from pricing effects. Both free cash flow and the cash conversion rate, which came in at 0.9, were again strong on a high level at SI.

As in previous years, we expect SI's cash generation to accelerate materially in the second half of fiscal 2024.

Looking at SI's regional development, the U.S. stood out with 38 percent order growth compared to a high basis of comparison from the prior-year quarter. This development was driven by large data-center wins, primarily from hyperscalers.

Europe, excluding Germany, showed strength with double-digit growth in the buildings business, supported by large orders. From a regional perspective, the key growth engine for SI's revenue was the U.S., which was up 12 percent on stringent backlog execution. Revenue in Europe was stable overall with pockets of growth, such as the buildings business in Germany or the business with power-distribution customers across Europe.

SI's service business showed broad-based revenue growth – primarily in Asia, which had a growth rate in the high teens, but also in Europe, which saw clear growth. Smart Infrastructure's business in China continued to show softness on muted demand, especially in the market for commercial real estate.

Across our main verticals, SI continues to see growth in real terms, as in the prior quarters.

Sustainability through energy efficiency and decarbonization, as well as optimized asset performance in grid infrastructure and in buildings, are secular business drivers in almost every market segment.

Artificial intelligence will be the supercharger for data center investment for the foreseeable future, which will also lead to higher demand for power. Therefore, accelerated electrification will require further grid expansion and even greater integration of renewables.

After a strong first half of the fiscal year, we are narrowing the target range for our full-year guidance for SI's comparable revenue growth by lifting 100 basis points at the lower end of the previous target corridor. As a result, we expect a figure between 8 percent and 10 percent. For SI's profit margin, we now expect an upgraded guidance range of 16 percent to 17 percent.

For the third quarter, we expect SI's comparable revenue growth rate to be between 9 percent and 11 percent. We anticipate that SI's third-quarter profit margin will be between 15.5 percent and 16.5 percent.

Let's turn now to Mobility. Mobility achieved solid top-line and profit performance in the second quarter and delivered a sharp free-cash-flow improvement.

Mobility's orders came in at €3.2 billion in Q2. Its book-to-bill ratio was a solid 1.12. Unlike the prior-year quarter, which included a much higher volume from prominent large orders, Q2 of fiscal 2024 was marked by Mobility winning a consistent flow of attractive projects that tended to be of medium size. These orders came from across Mobility's businesses.

Mobility's order backlog increased further and stands at €48 billion. In the second quarter, Mobility's revenue was up 6 percent on clear growth in all its businesses. The prior-year quarter had benefited from some trailing effects from the Russia wind-down. A clear highlight was the growth in the service business, which was up 9 percent.

In general, Mobility's revenue growth for full fiscal 2024 is being held back to a certain extent by slower progress of civil works on the customer side in some projects.

Therefore, we maintain our full-year guidance for comparable revenue growth of 8 percent to 11 percent, which, however, is rather trending toward the lower end of Mobility's range for this reason.

In Q2, higher revenue and strong project execution supported an improvement of Mobility's operational profit margin to 8.4 percent because, as I just mentioned, the prior-year quarter had benefited positive trailing effects related to Russia.

Mobility caught up materially in free cash flow performance, primarily due to a higher level of milestone payments in the second quarter, as expected.

For the second half of fiscal 2024, we expect Mobility to catch up further. However, due to the foreseeable timing of larger payments from customers, this catch-up is expected to be heavily skewed toward the fourth quarter.

Based on consistent conversion of its order backlog, we expect Mobility's comparable revenue growth for Q3 to be in the mid single digit range. Mobility's profit margin is expected to be in the range of 8 percent to 9 percent again in the third quarter.

Let me keep the perspective on activities below our Industrial Businesses crisp. As usual, a detailed profit reconciliation and an updated outlook are available in the appendix, on page 27 of the presentation.

Siemens Financial Services achieved a solid earnings contribution, with stable year-over-year results from debt business. We are also very pleased that the Portfolio Companies continued to deliver robust operational performance.

The divestment of Innomotics to KPS Capital Partners marks another major milestone in optimizing our portfolio. As a result, from the third quarter onward, Innomotics will be reported in Discontinued Operations.

Free cash flow performance in the first half of fiscal 2024 was up in the Industrial Business, although free cash flow in the second quarter was burdened by the profit decline at Digital Industries and by the growth-related buildup of net operating working capital at Siemens Healthineers.

Siemens' balance sheet continues to be rock-solid, which was confirmed again by the latest rating upgrade by Standard & Poor's to AA-.

In addition, we continued our path of shareholder-friendly capital allocation, with a dividend payment of €3.7 billion in February of this year. Furthermore, we started our new share-buyback program of up to €6 billion, which is to run for up to 5 years.

Let’s conclude now with our Group-level outlook: We confirm our guidance for the Siemens Group for fiscal 2024. For the Siemens Group, we continue to expect comparable revenue growth in the range of 4 percent to 8 percent and a book-to-bill ratio above 1.

For fiscal 2024, we continue to expect profitable growth of our Industrial Business overall to drive an increase in basic earnings per share from net income before purchase-price allocation accounting to a range of €10.40 to €11.00, excluding the Siemens Energy Investment.

As always, this outlook excludes burdens from legal and regulatory matters.

Ladies and gentlemen, despite the macroeconomic headwinds, our priorities are clear: we will continue to deliver further value creation by growing profitably and reliably generating high free cash flows.

I thank you for your attention and your interest in our company.

Thank you!

* * *