

Siemens delivers strong Q4, fiscal-year guidance fully achieved in all respects

Joe Kaeser, President and CEO Siemens AG
Ralf P. Thomas, CFO Siemens AG
Analyst Call, November 7, 2019

Notes and forward-looking statements



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Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Our agenda for today



Performance FY 2019



Status Project Powerhouse (Spin off)



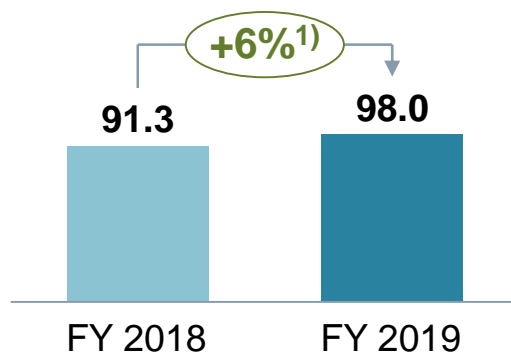
Status execution Vision 2020+



Outlook FY 2020

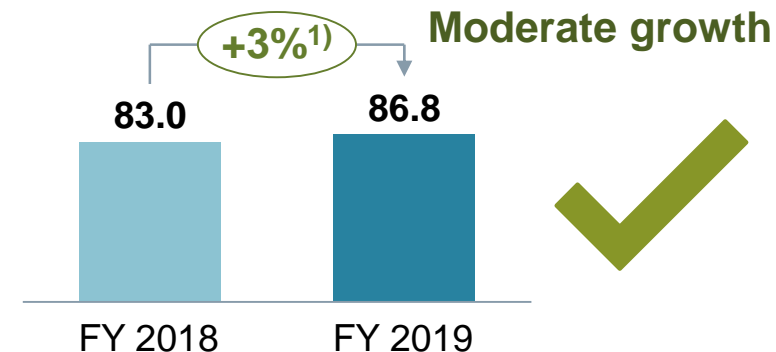
FY 2019 – Initial guidance achieved on all metrics

Orders (€bn)

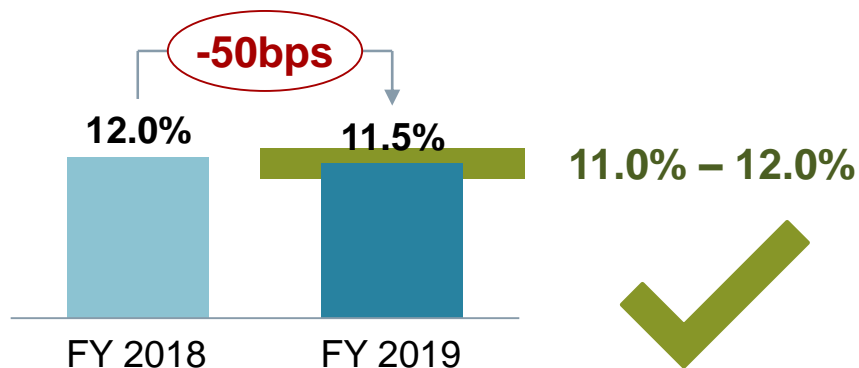


Book-to-bill
1.13

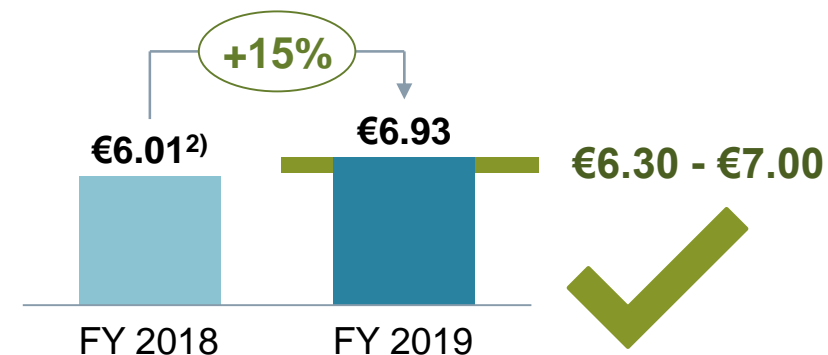
Revenue (€bn)



Adj. EBITA margin Industrial Business (ex. severance)



Basic Earnings per Share (ex. severance)



1) Comparable, i.e. adjusted for currency translation and portfolio effects

2) Excluding Atos + Osram portfolio gains of €1.87

Guidance – Keeping commitments



Q4 – Strong finish

Orders

+2%



Revenue

+6%



IB Adj. EBITA margin excl. severance

12.5%



EPS excl. severance

€1.90



Free Cash Flow

€5.3bn



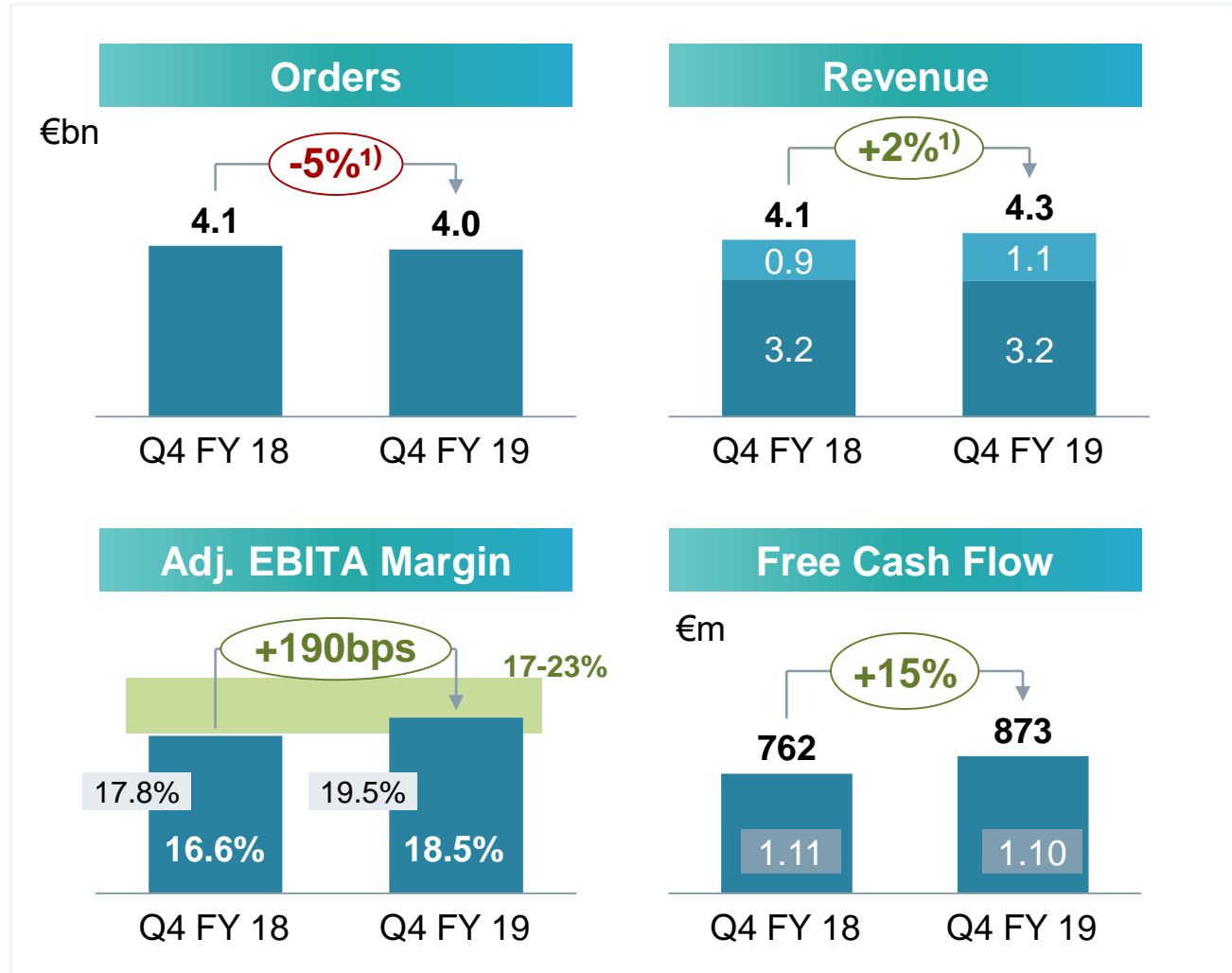
Indust. ND/EBITDA

0.6x



Digital Industries (DI)

Excellent Software business with clear market share gains



Software and Process Automation revenue strongly up – discrete automation with clearly weaker demand



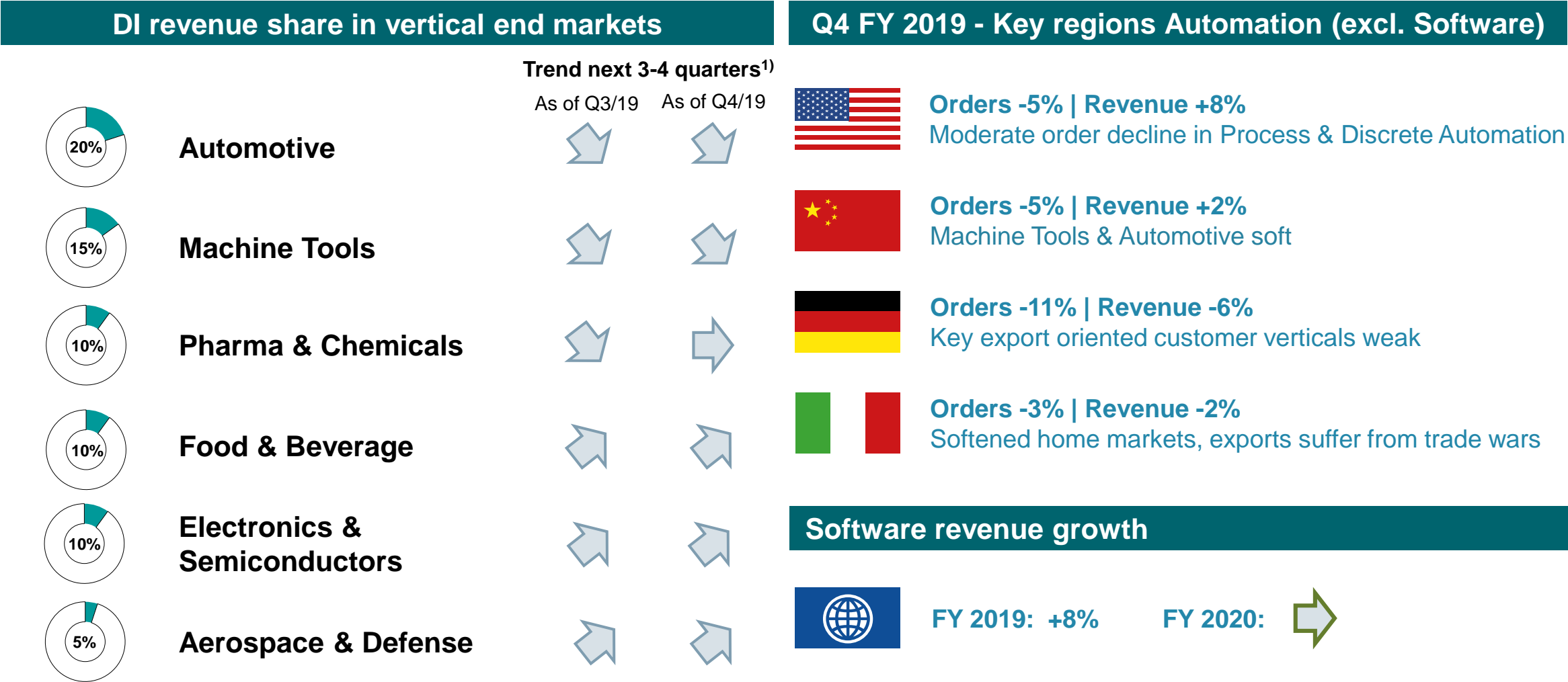
Key focus tight cost control



FCF up on stringent working capital management

¹) Comparable therein Software x.x% Adj. EBITA margin excl. severance x.x Cash Conversion Rate
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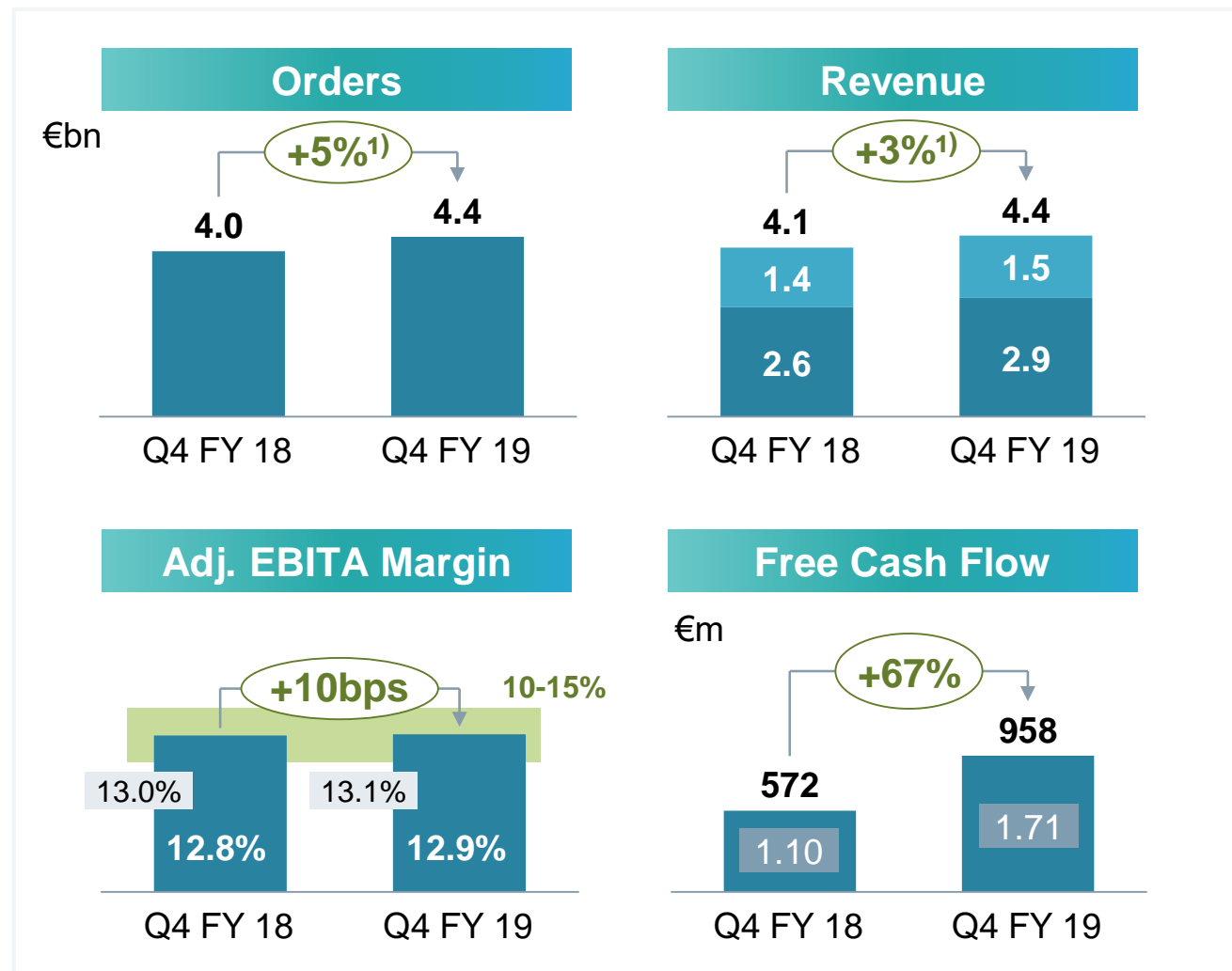
Ongoing weakness in discrete automation compensated by continued strength in Software and stable Process Automation



Smart Infrastructure (SI)

Strong finish across the board

SIEMENS
Ingenuity for life



Growth driven by solution and service – slowing product business



Strong profit conversion and opex control offset high grid edge invest

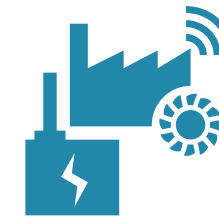
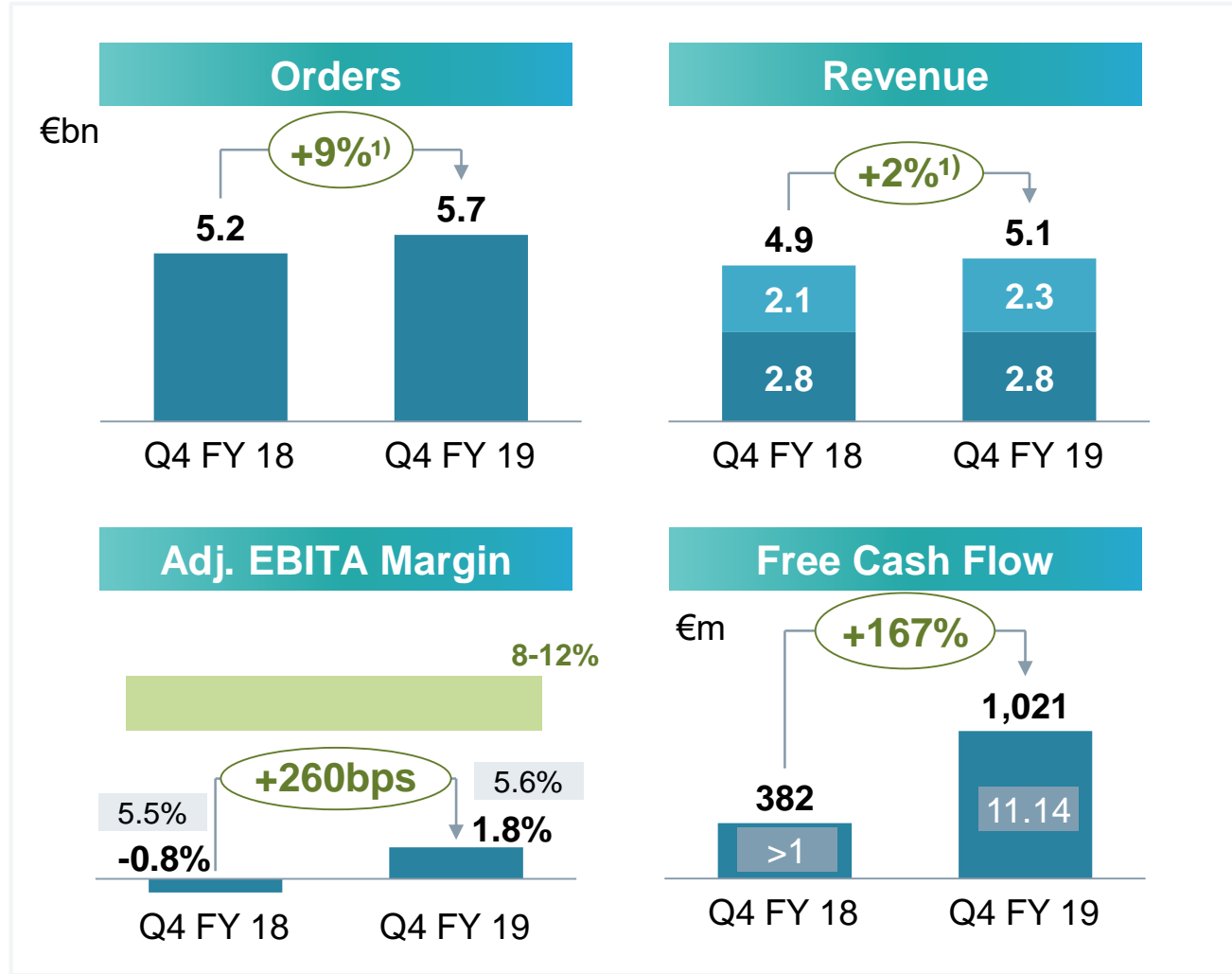


Extraordinarily strong receivables collection and inventory management

¹⁾ Comparable therein Products x.x% Adj. EBITA margin excl. severance x.x Cash Conversion Rate
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Gas and Power (GP)

Strong execution in a continued difficult business



Higher large orders in new-unit business



Strong service contribution for profitable growth

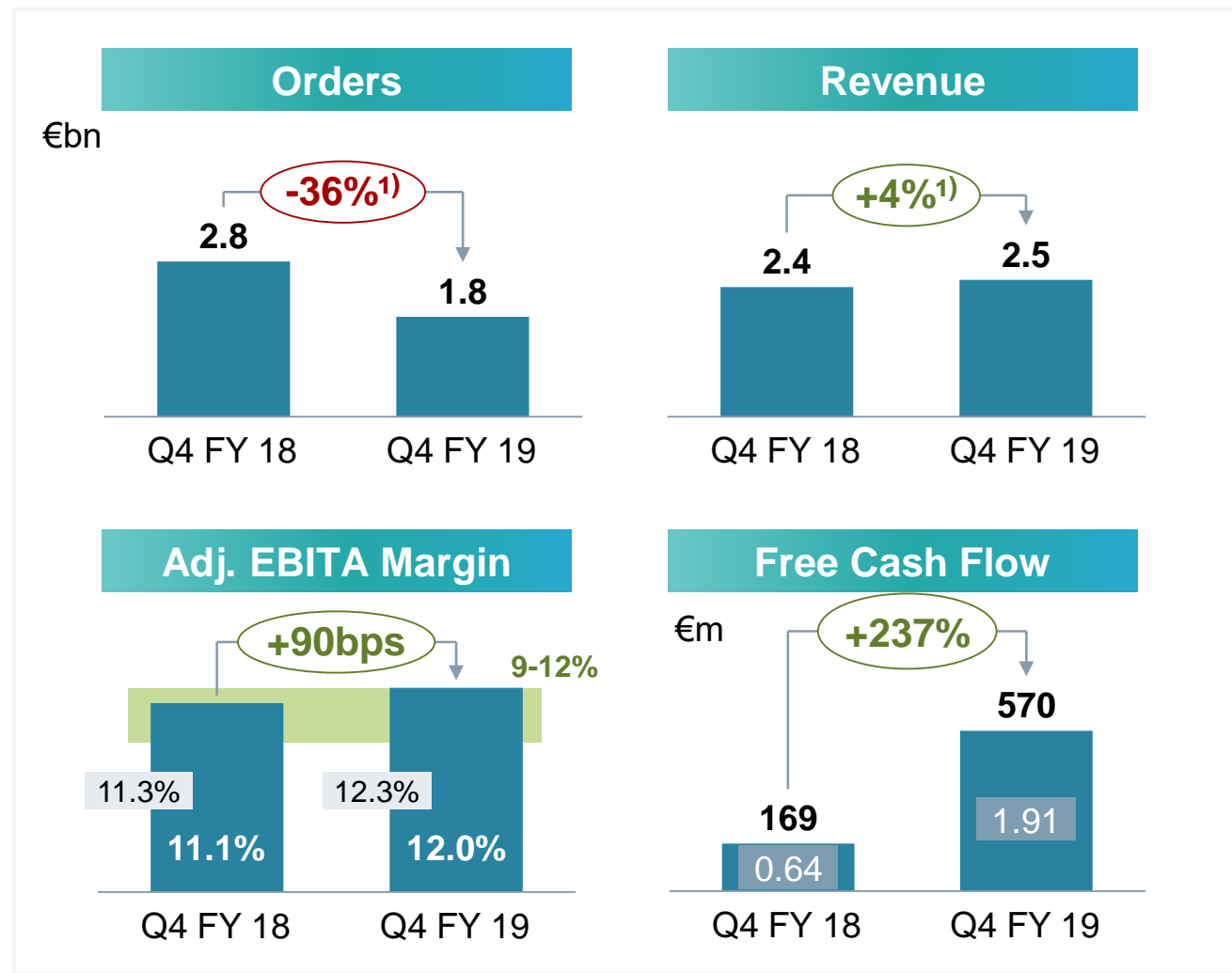


Excellent progress in working capital optimization

¹⁾ Comparable therein Service x.x% Adj. EBITA margin excl. severance x.x Cash Conversion Rate
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Mobility (MO)

Industry leading margins based on reliable execution



Revenue growth driven by
Rolling Stock and Service



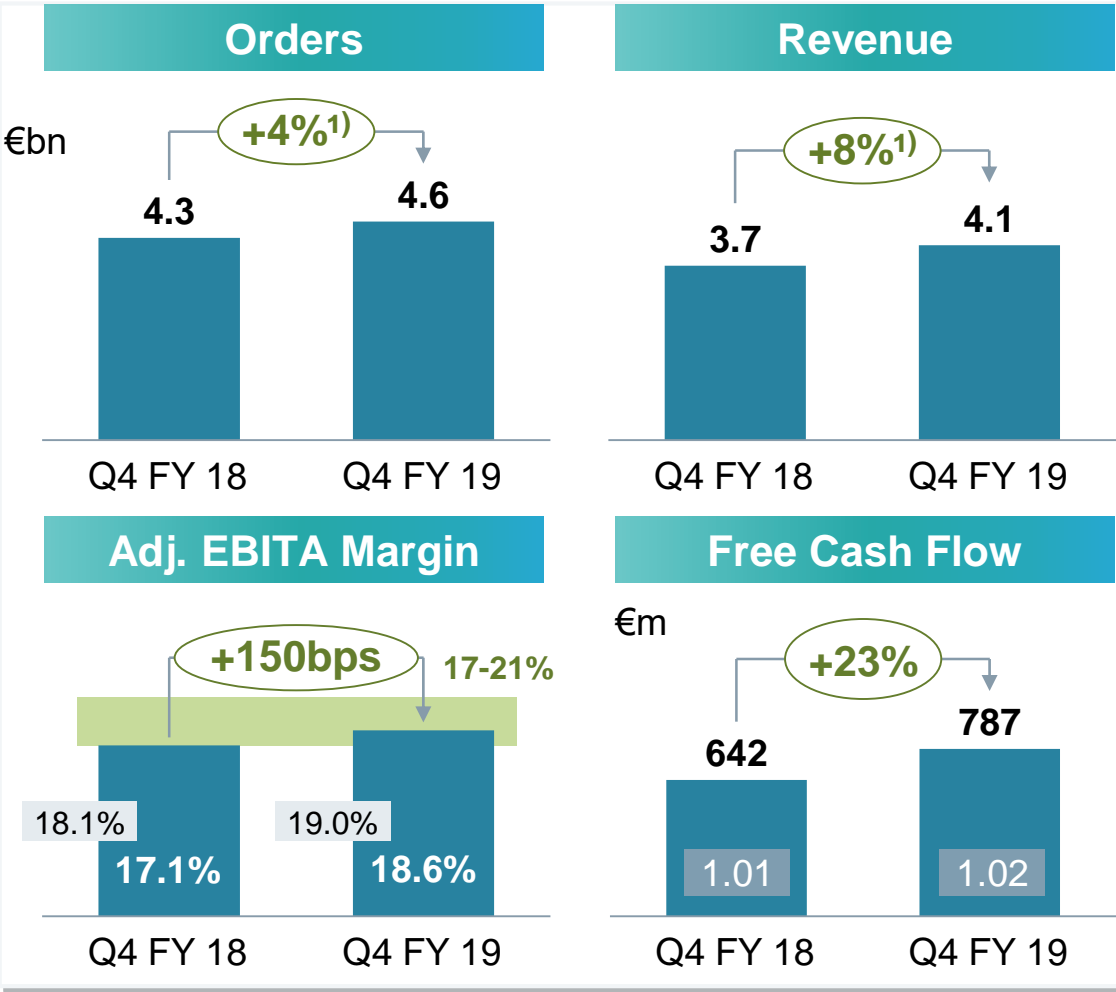
Sustainable margin
performance



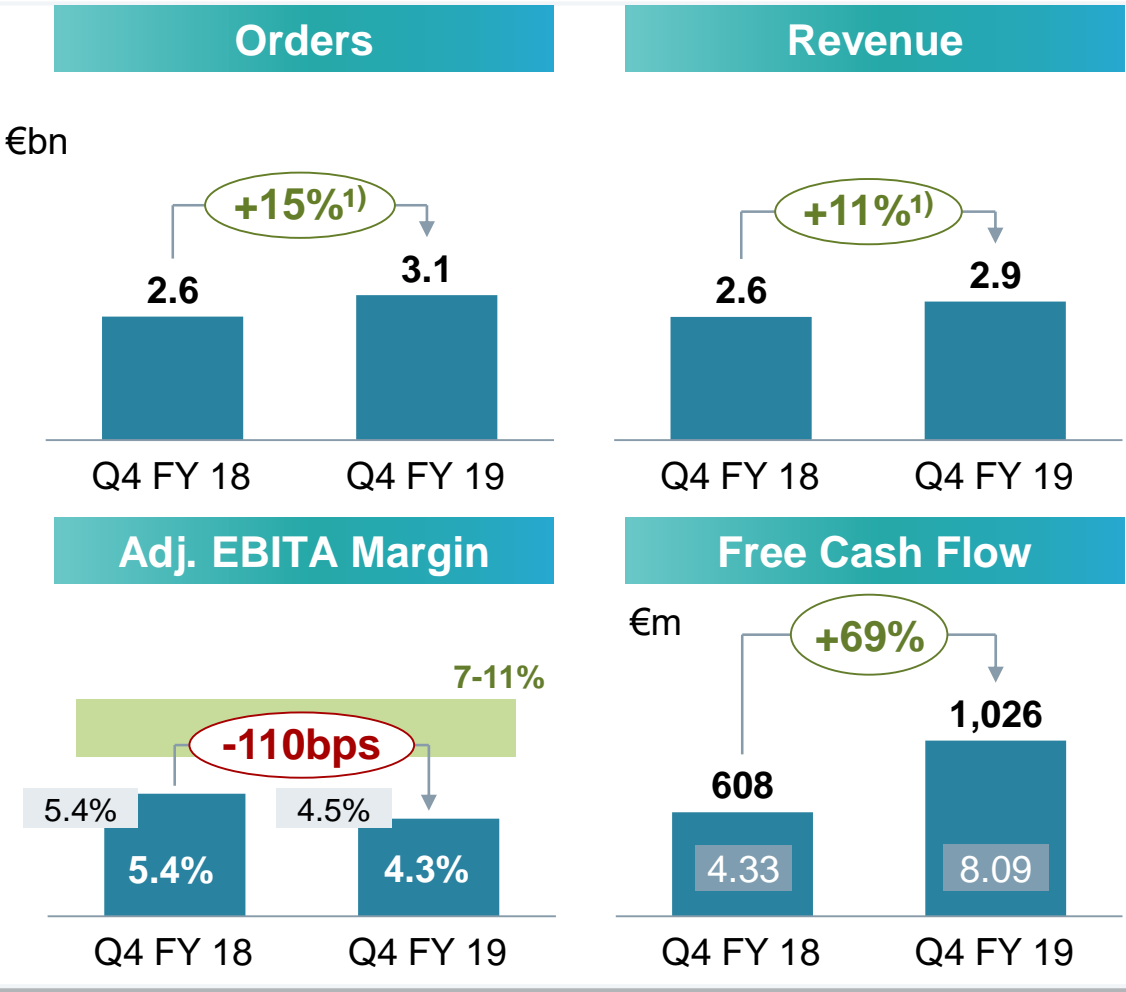
Significant free cash flow
swing back

¹⁾ Comparable x.x% Adj. EBITA margin excl. severance x.x Cash Conversion Rate

Performance of listed Strategic Companies



¹⁾ Comparable x.x% Adj. EBITA margin excl. severance x.x Cash Conversion Rate
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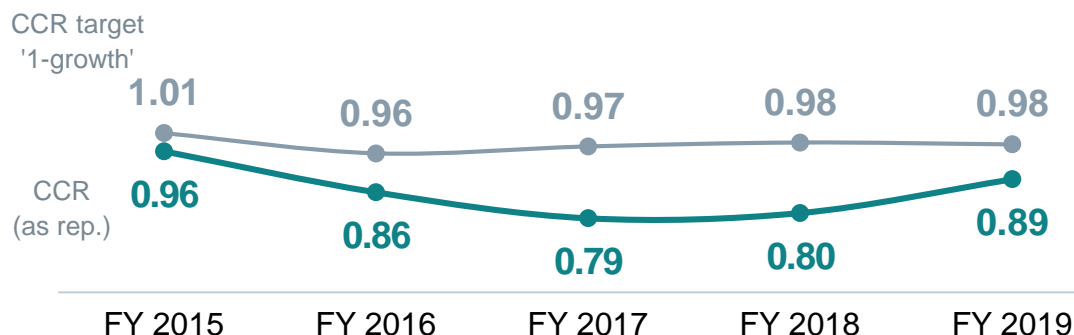


¹⁾ Comparable x.x% Adj. EBITA margin excl. severance x.x Cash Conversion Rate

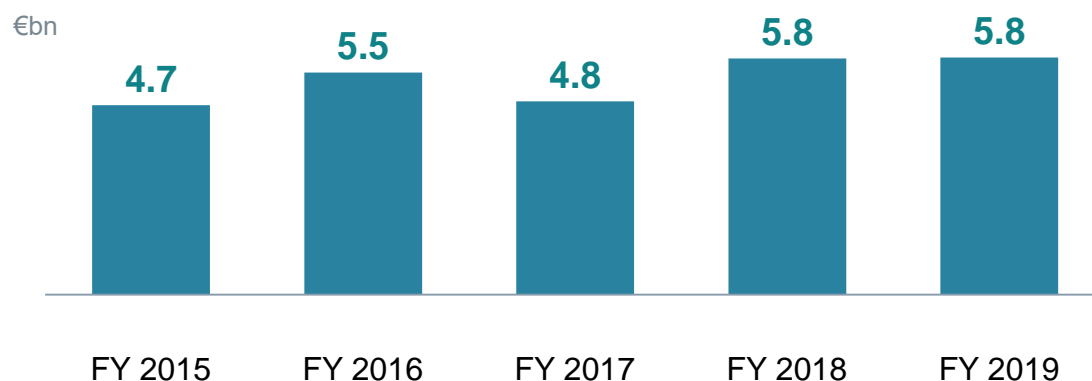
Free Cash Flow

A promise delivered – efforts continue

Cash conversion rate (Industrial Businesses)



Free cash flow “all-in”



Key factors

**Working capital improvement by €1.1bn
above CMD target of €1bn**

Capex ratio of 139% to improve footprint

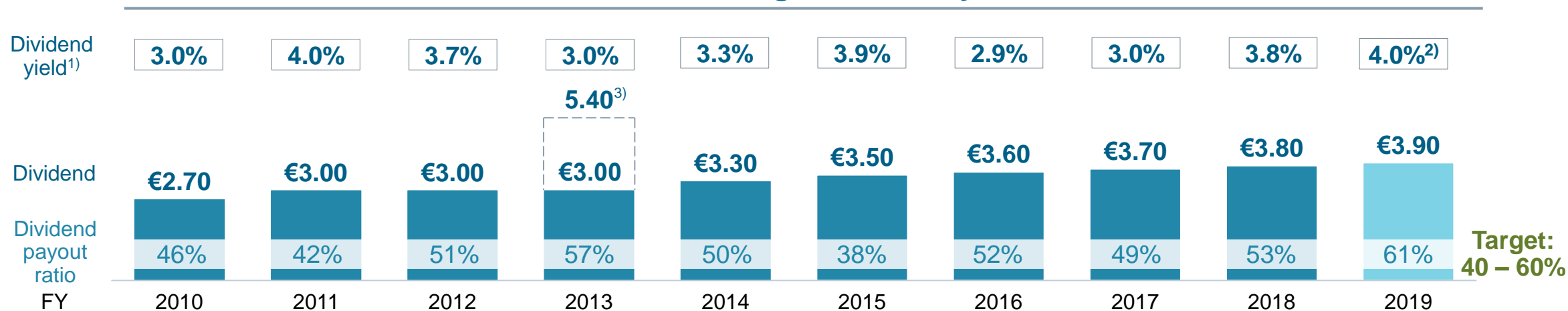
**Senior management bonus incentive:
1/3 of bonus relates to CCR-target**

Sustainable shareholder return

Attractive dividend policy and ongoing share buyback



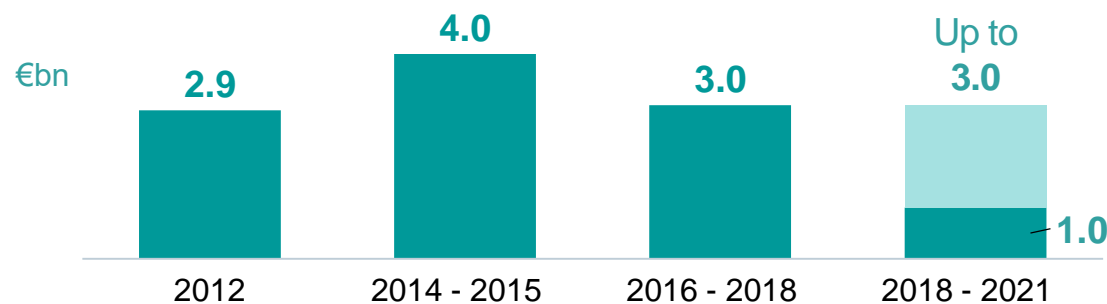
3.5% average dividend yield¹⁾



Target:
40 – 60%

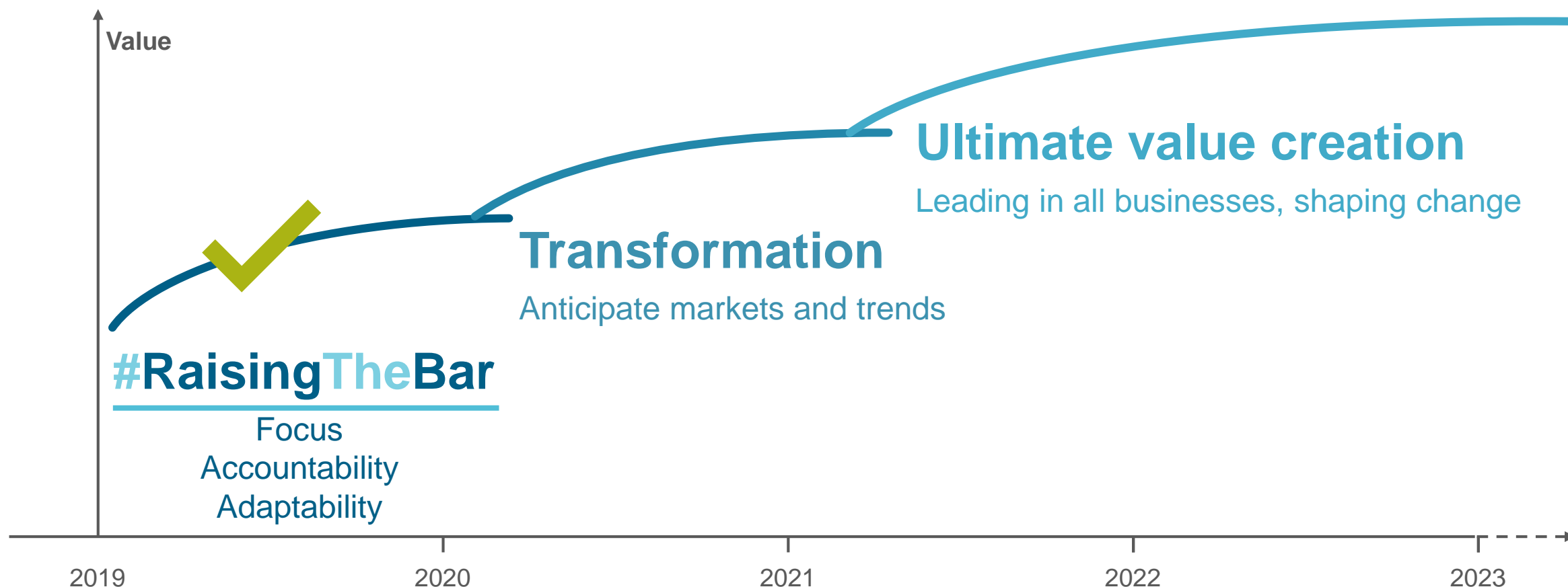
Dividend proposal
to AGM

Share buyback continued



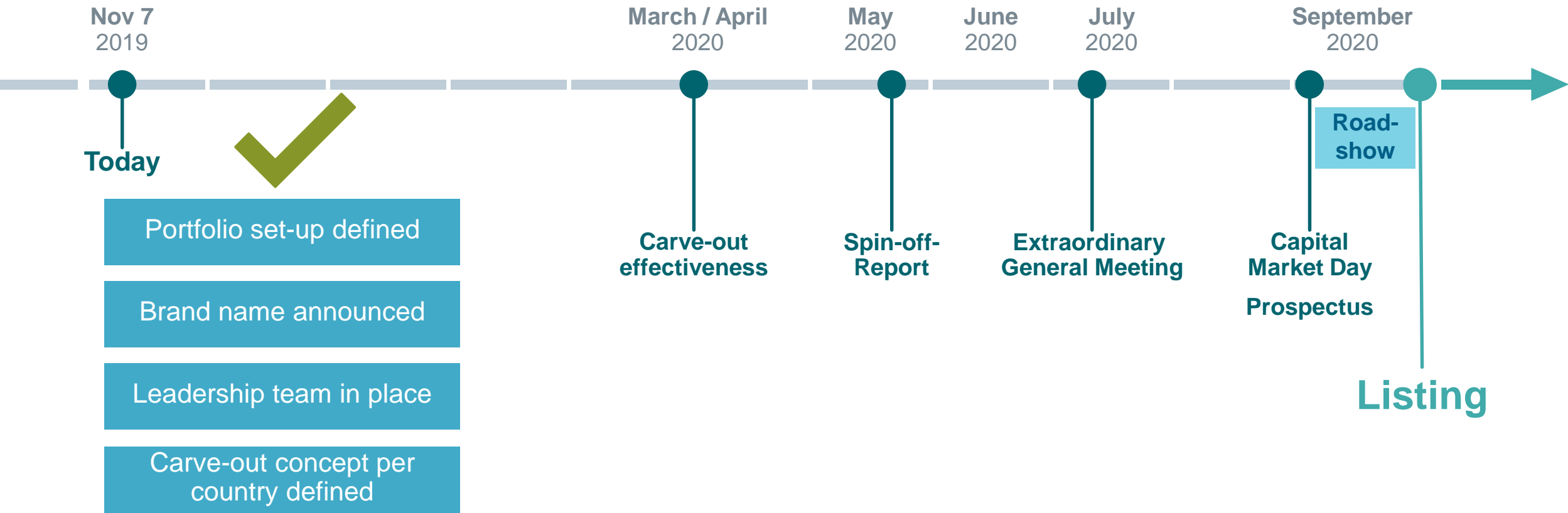
Vision 2020+ Execute on transformation

SIEMENS
Ingenuity for life

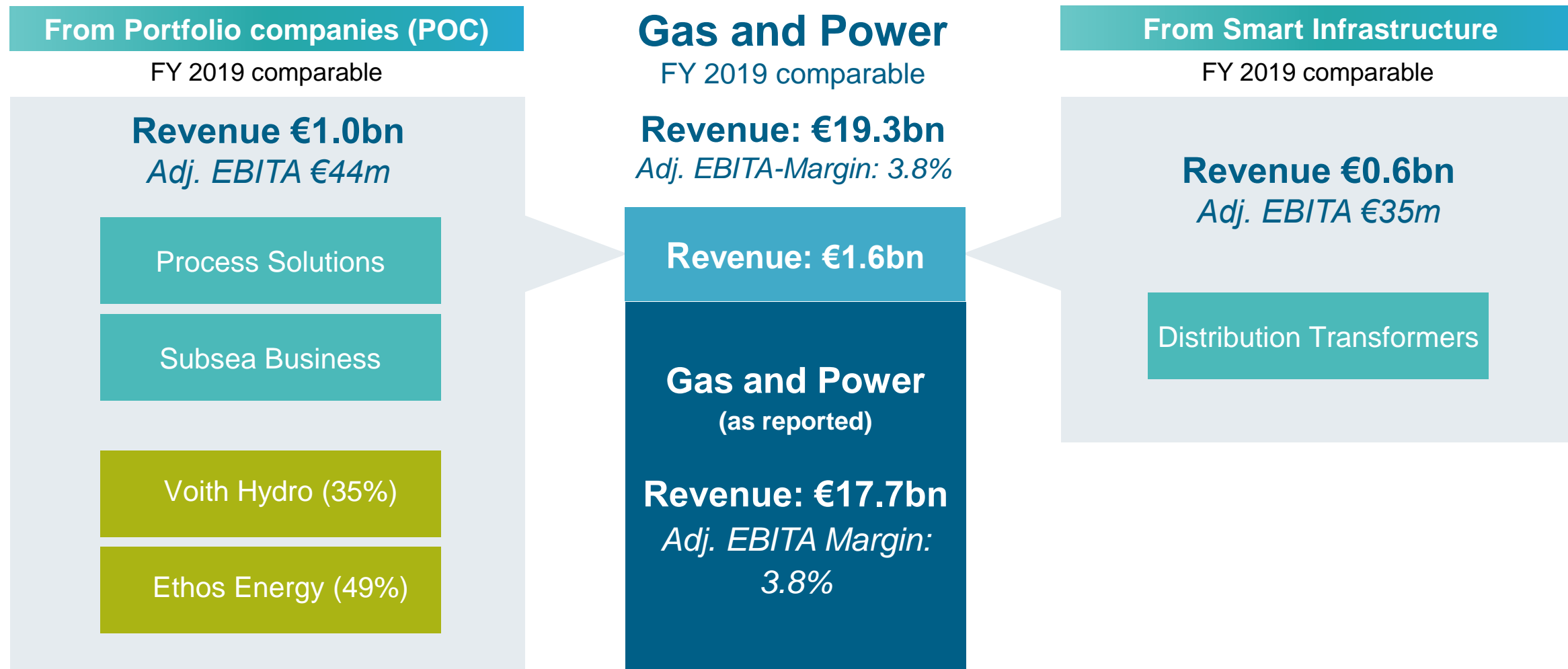


Key: Foster Ownership Culture and strengthen entrepreneurial focus

Siemens Energy spin off fully on track despite tight time table



Gas and Power portfolio strengthened



Digital Industries – Cost optimization program accelerated to sustain profitability in target margin range



Main levers

Integration synergies from Vision 2020+

€40m



- Two Divisions into one Operating Company
- Corporate functions shifted to Digital Industries
- BU SW Synergies from integration

DI Internal Process improvements

€130m



- Optimization of internal regional structure
- Optimization of order management, logistic and controlling processes
- Structural optimization cross Digital Industry

Internal digitalization

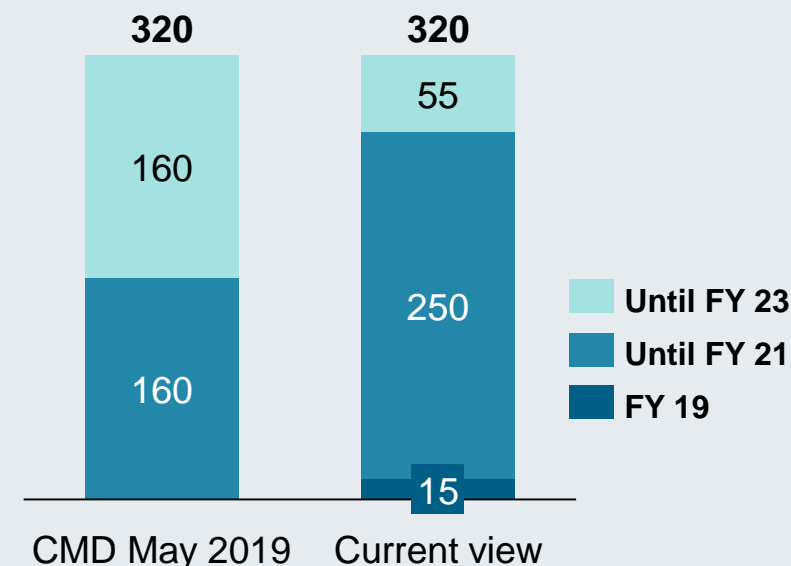
€150m



- Leveraging industrial software and automation methodologies to drive additional efficiency by utilizing digital enterprise suite
- Increased and optimized degree of automation in factories
- Comprehensively digitalized end to end PLM processes
- Comprehensive and optimized use of MindSphere

Impact cost optimization

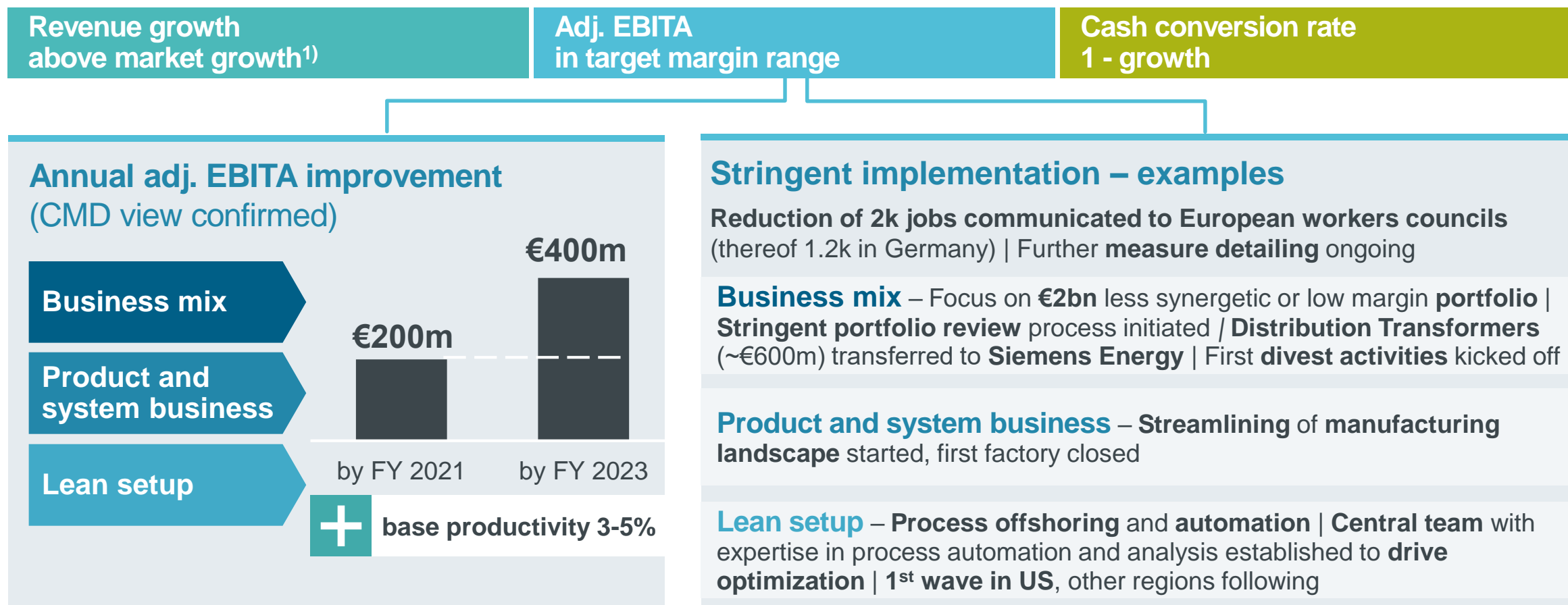
in €m



Base productivity 3 – 5% p. a.

Smart Infrastructure – Commitment to stay in target margin range in FY 2020

FY 2020 Framework



¹ based on market growth of ~3% CAGR18-24

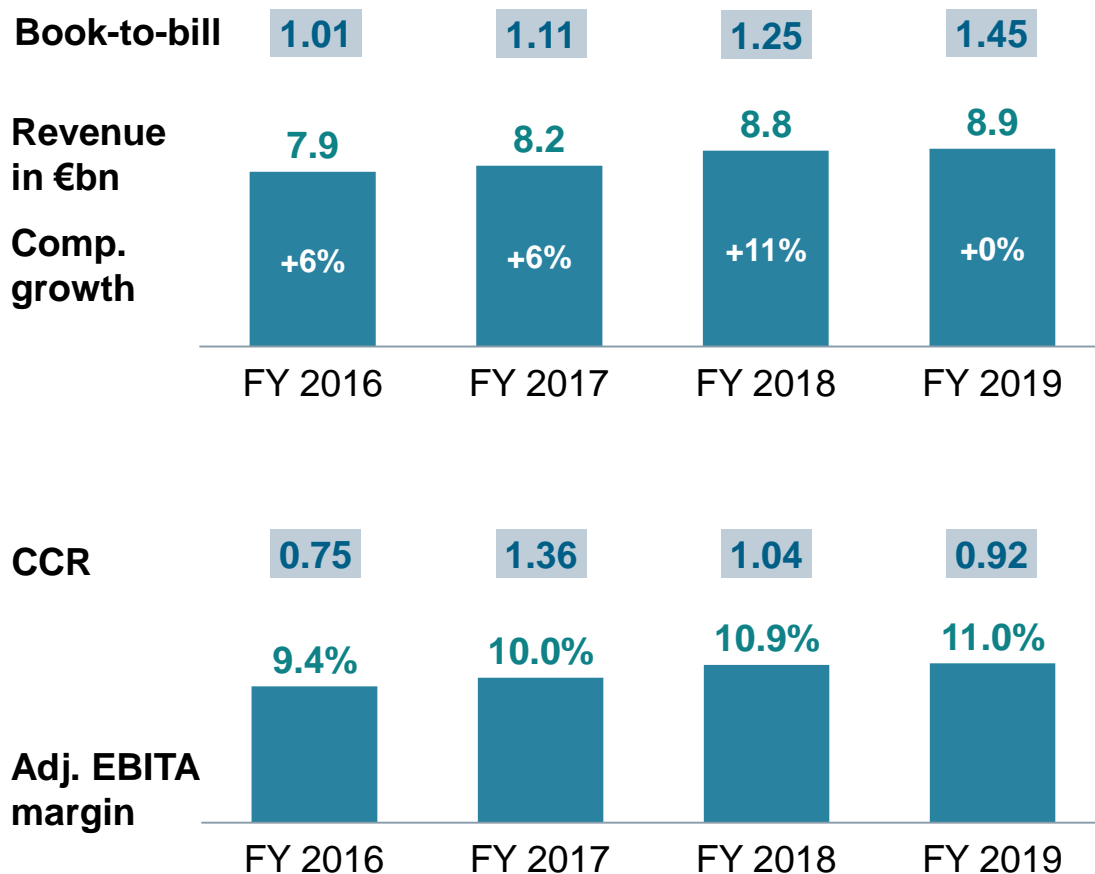
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Mobility - Attractive long-term growth opportunities

Industry leading margins



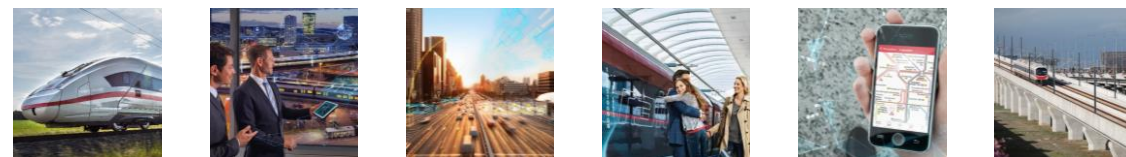
Excellent resilient performance



Note: FY 2016 including Traction Drives business

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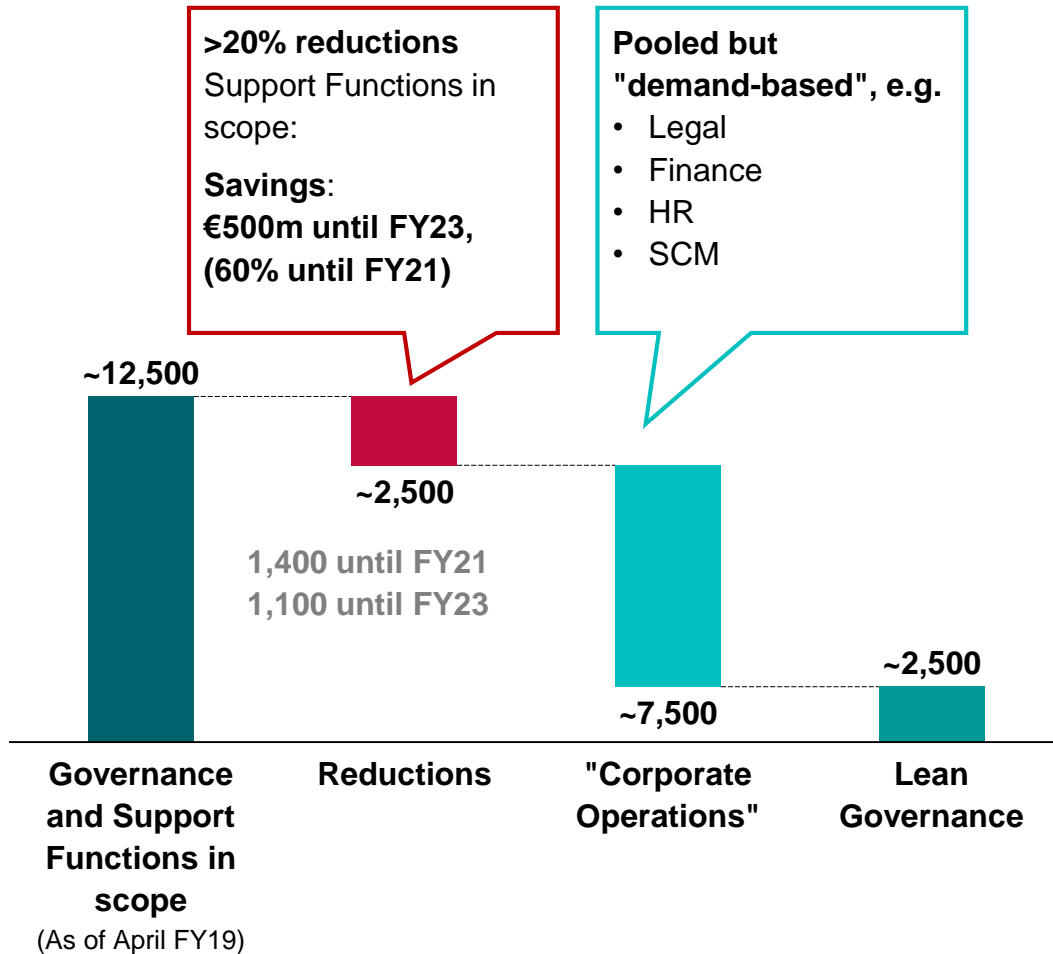
Strategic priorities, FY 2020 framework



- **Healthy order backlog of €33bn**
- **Favorable market environment**
- **Sustain leading margin position** through reliable execution, operational excellence, footprint optimization
- **Expand technology leadership** through digitalization
- **Rail Infrastructure**
Transform portfolio from proprietary hardware to cloud
- **Rolling Stock**
Lead cost offerings enabling growth, i. e. turnkey markets
- **Customer Services**
Life cycle approach and scaling digital services

Stringent execution of lean governance and efficient corporate operations

Support functions, CMD view 05/2019



Current status

- **€500m savings target until FY 2023 confirmed**
- **Cost reduction FY 2019 €50m achieved**
- **Implementation of measures ongoing**
- **Transfer of functions in scope to Siemens Energy concluded till 03/2020**

Portfolio Companies (POC) – Clear progress to deliver on commitments, equity investments remain negative and volatile



POC FY19
Revenue €5.5bn
Adj. EBITA margin -1.3%

Siemens Logistics
Large Drives Applications
Mechanical Drives (Flender)
Other smaller businesses
Process Solutions
Subsea Business
Voith Hydro (35%)
Ethos Energy (49%)
Primetals (49%)
Valeo Siemens (50%)

Process Solutions
Subsea Business
Voith Hydro (35%)
Ethos Energy (49%)

**Transferred to
Gas and Power**
Revenue €1.0bn
Adj. EBITA margin 4.5%



**POC FY 19
comparable**
Revenue €4.6bn
Adj. EBITA margin -2.5%

Siemens Logistics
Large Drives Applications
Mechanical Drives (Flender)
Other smaller businesses
Valeo Siemens (50%)
Primetals (49%)

- ① Break even FY2020
- ② Target FY 2022 >5% Adj. EBITA margin

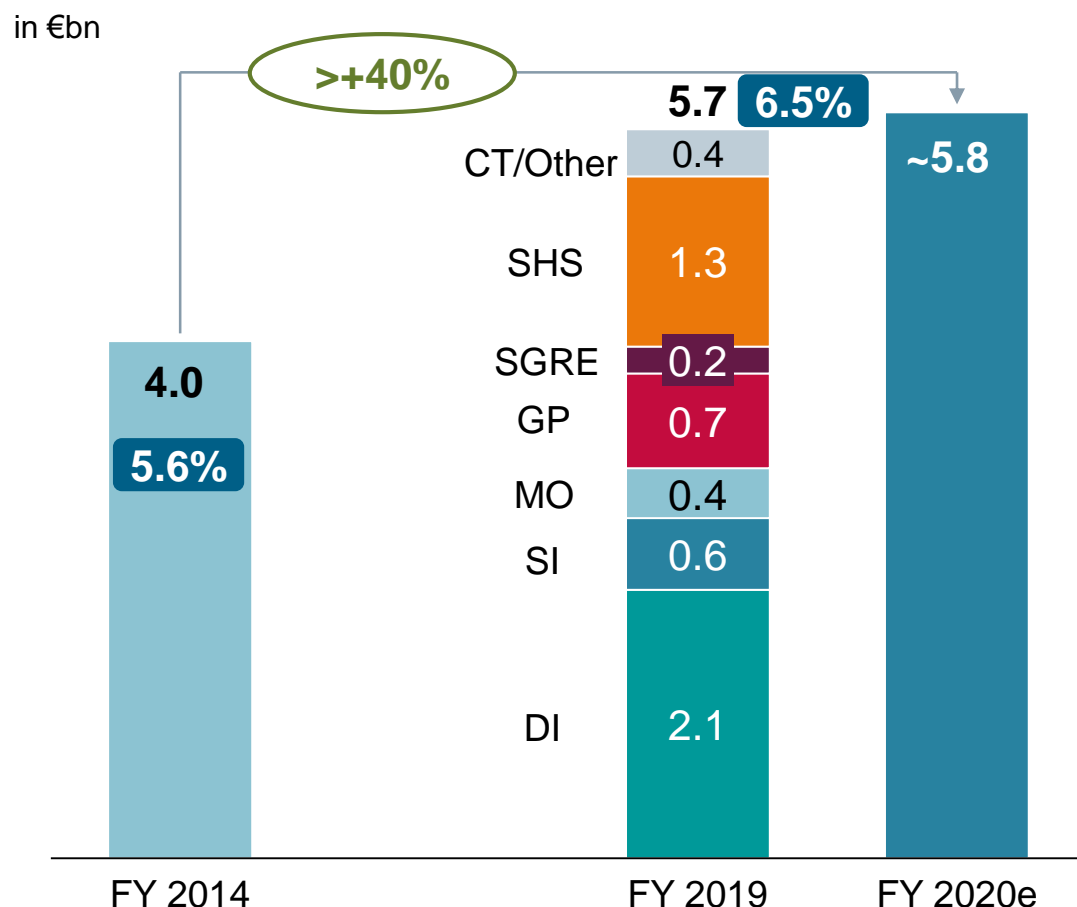


Divestment to MHMM¹⁾
Closing FY 2020e

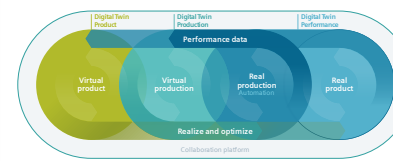
Primetals (49%)

R&D investment with clear focus on software, digital services and vertical applications

High level of R&D investment...



... to stay ahead of the curve



Digital Industries

Expand Digital Enterprise portfolio –
AI, Edge, 5G, cloudification of SW
Enhance Process Control System
PCS neo



Smart Infrastructure

~50% of R&D Software related
Digital smart building offerings
Leverage capabilities of acquisitions



Core Technologies, e. g.

Applying data analytics & digital twin
Cyber Security concepts
Energy efficient power electronics

Guiding assumptions for FY 2020



Business environment

Global macroeconomic development expected to remain **subdued**
Risks related to **geopolitical and geoeconomic uncertainties**,
particularly for **short-cycle businesses**



Opex and Capex

Maintain high levels of **investment in R&D (Software, Cloud, IoT), go-to-market and Capex**
Stringent focus on resource allocation



Severance

Siemens Group:
~ prior year level

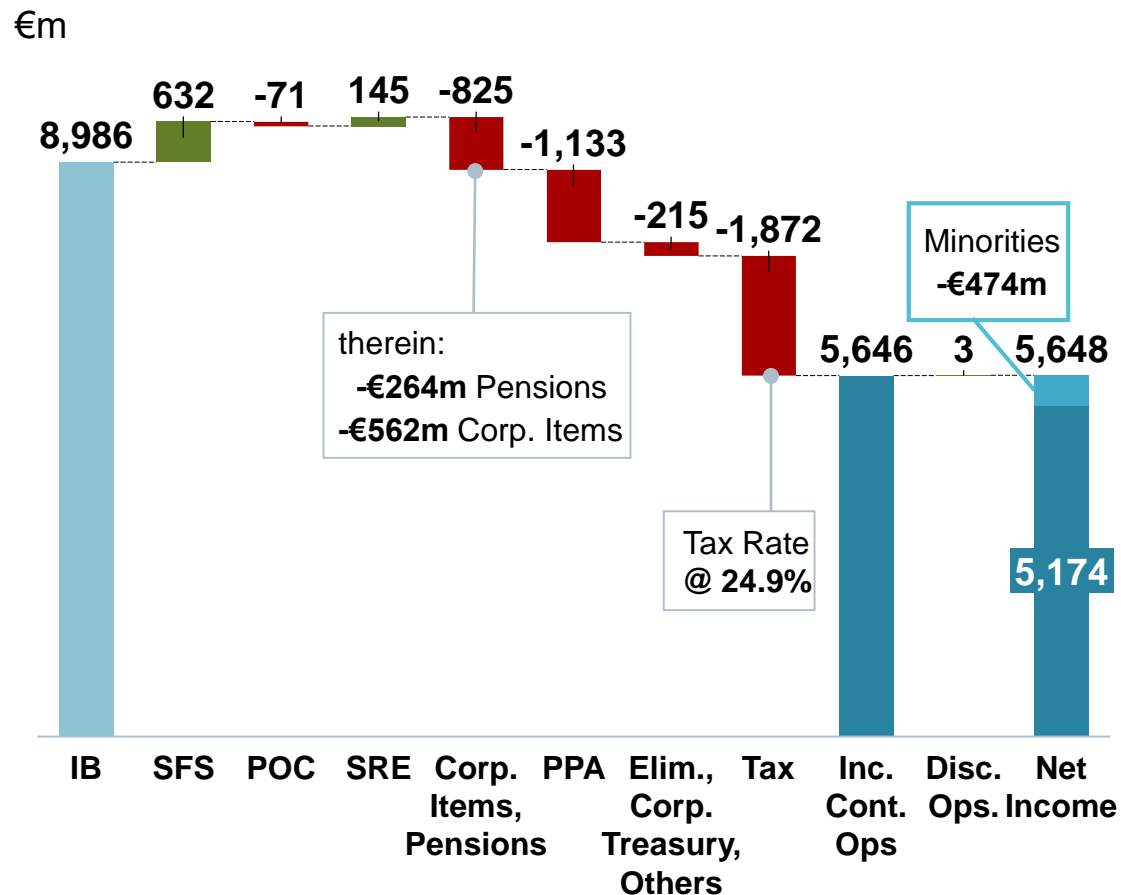


Foreign exchange

Modest negative topline effects
No material impact on bottom line

Below Industrial Business FY 2020 framework

Below Industrial Business – FY 2019



Expectations for FY 2020

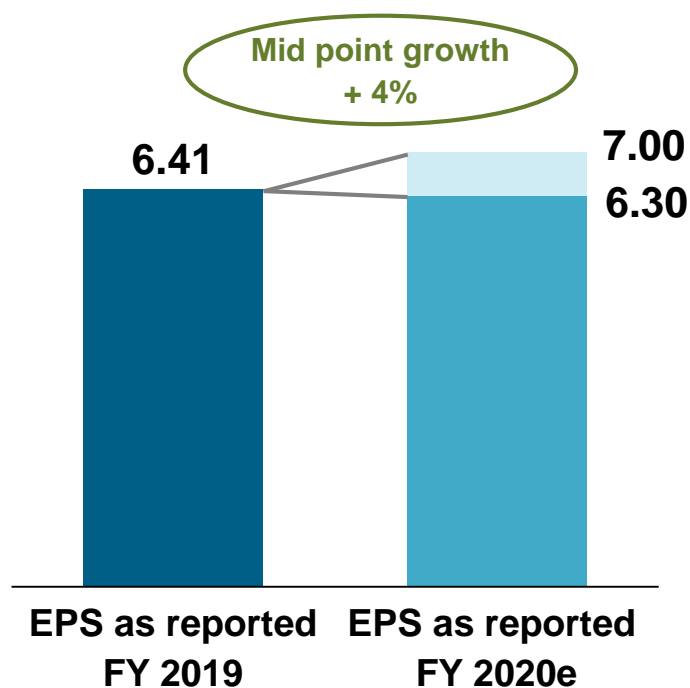
- **SFS:** ~ FY 2019 level
- **POC:** Fully consolidated businesses profitable; equity investments remain negative and volatile
- **SRE:** dependent on disposal gains
- **Corporate Items & Pensions:** ~€1.2bn – €1.4bn for FY 2020 incl. Siemens Energy carve-out cost; H2>H1
- **PPA:** ~ FY 2019 level
- **Eliminat., Corp. Treasury, Others:** ~ FY 2019 level
- **Tax rate:** expect range of 35% to 39% impacted by Siemens Energy carve out
- **Discontinued Operations (D/O):** Substantial gain at spin-off expected

Assumption: Positive effects in D/O will offset carve-out costs and tax expenses related to the Siemens Energy spin off and Group-wide severance charges for FY 2020

Outlook FY 2020

FY20 Framework Siemens Group

- Book-to-bill > 1
- Moderate comp. revenue growth



FY20 Framework Siemens non-listed Companies

	Comparable revenue growth	Adj. EBITA margin expectation ¹⁾
Digital Industries	Flat	17 - 18%
Smart Infrastructure	Moderate	10 - 11%
Mobility	Mid-single digit	10 - 11%
Gas and Power	Moderate	2 - 5%

¹⁾ as reported

Stringent milestones for execution (as of May 2019, CMD)

- ☒ **New company structure operational as of April 1, 2019**
- ☒ **First update on Corporate efficiency measures Q4 FY19, ongoing quarterly**
- ☐ **GP carve out effective by April 2020**
- ☐ **GP partial spin-off by September 2020**
- ☐ **Update on Mobility by Q2 FY20**
- ☐ **GBS efficiency target achieved: 10% by Q4 FY20, 20% by Q4 FY21**
- ☐ **Portfolio Companies target 5% adj. EBITA margin achieved by FY22**

Questions and Answers

Appendix



Siemens Financial Framework



Siemens (targets over the cycle)

Growth Siemens

comparable revenue growth

4 – 5%

Capital efficiency

ROCE¹⁾

15 – 20%²⁾

Industrial Businesses margin³⁾

11 – 15%

Capital structure

Industrial net debt/EBITDA

up to 1.0x

Cash conversion (CCR)

FCF IB / Adj. EBITA IB

CCR = 1 – comp. growth rate

Dividend payout ratio

40 – 60%⁴⁾

Operating Companies

Adj. EBITA margin ranges³⁾

**Digital
Industries**
17 – 23%

**Smart
Infrastructure**
10 – 15%

**Gas and
Power**
8 – 12%

Strategic Companies

Adj. EBITA margin ranges³⁾

Mobility
9 – 12%

**Siemens
Healthineers**
17 – 21%

**Siemens
Gamesa R. E.**
7 – 11%

Service Company

RoE⁵⁾

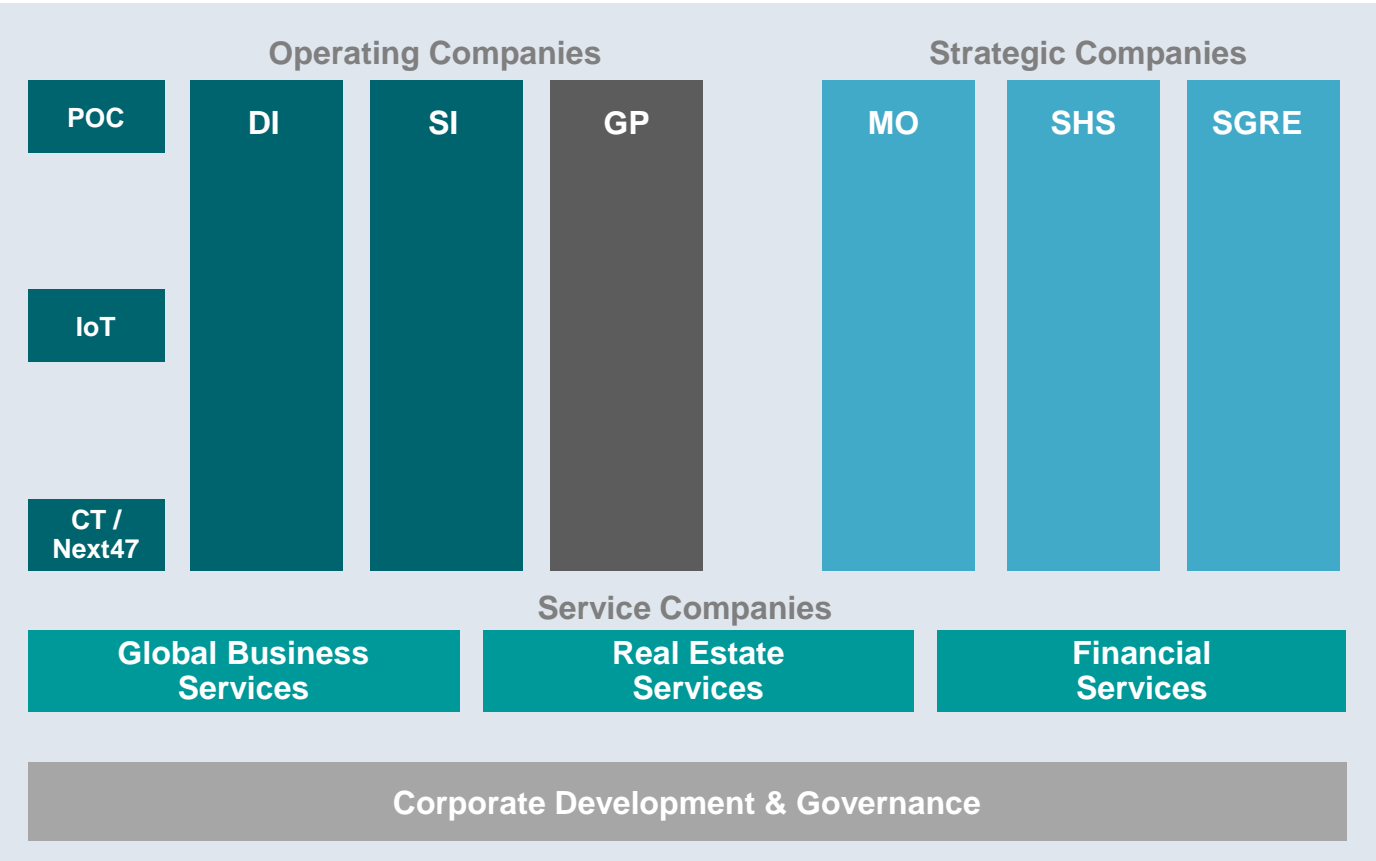
**Financial
Services**
17 – 22%

1) Based on continuing and discontinued operations; 2) Long-term goal; currently ROCE burdened by significant M&A; 3) EBITA adjusted for operating financial income, net and amortization of intangible assets not acquired in business combinations; margin ranges for Siemens Healthineers and Siemens Gamesa R. E. reflect Siemens expectation; 4) Of net income attributable to Siemens shareholders excluding exceptional non-cash items; 5) Return on equity after tax

Siemens structure – entrepreneurial freedom for businesses



Vision 2020+ structure as of April 1, 2019

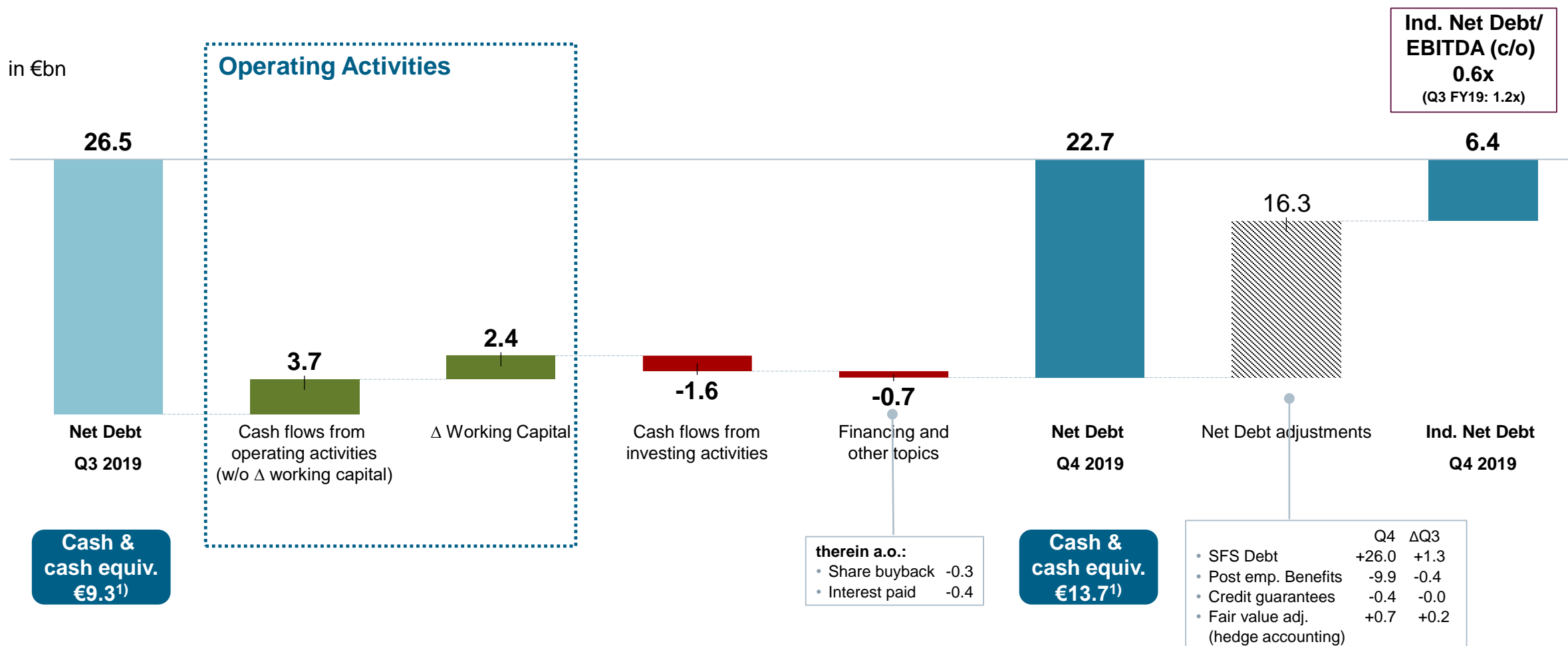


Mid-term target

Accelerated comp. revenue growth	+ 2 ppts. CAGR
Margin lift at Industrial Business	+ 2 ppts.
EPS growth ¹⁾	> revenue growth

1) on constant minority shareholdings

Q4 FY 2019 – Net debt bridge



1) Including current interest-bearing debt securities formerly shown as current available-for-sale financial assets .

Provisions increased in Q4 mainly due to lower discount rate

Q4 FY 2019 – Pensions and similar obligations

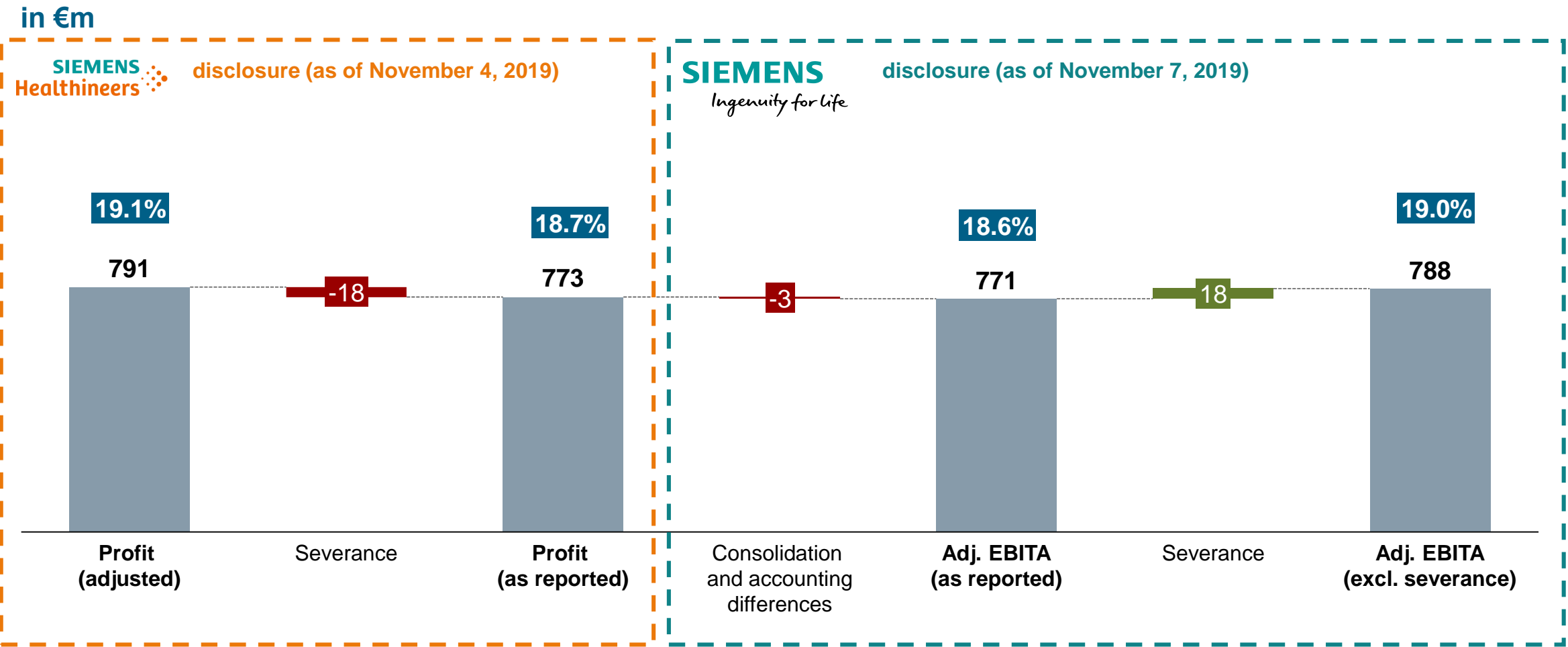
in €bn ¹	FY 2016	FY 2017	FY 2018	Q1 FY 2019	Q2 FY 2019	Q3 FY 2019	Q4 FY 2019
Defined benefit obligation (DBO) ²	-42.2	-36.9	-35.9	-36.4	-38.4	-39.0	-40.3
Fair value of plan assets ²	28.7	27.6	28.7	27.7	29.5	30.1	31.3
Provisions for pensions and similar obligations	-13.7	-9.6	-7.7	-9.2	-9.4	-9.5	-9.9
Discount rate	1.7%	2.4%	2.4%	2.2%	1.9%	1.7%	1.3%
Interest income	0.8	0.5	0.5	0.1	0.1	0.1	0.1
Actual return on plan assets	3.3	0.3	0.4	-0.7	1.7	1.0	1.2

1) All figures are reported on a continuing basis

2) Difference between DBO and fair value of plan assets additionally resulted in net defined benefit assets (Q4 2019: +€0.9bn); defined benefit obligation (DBO), including other post-employment benefit plans (OPEB) of -€0.6bn

Q4 FY19 Profit Bridge from SHS disclosure to SAG disclosure

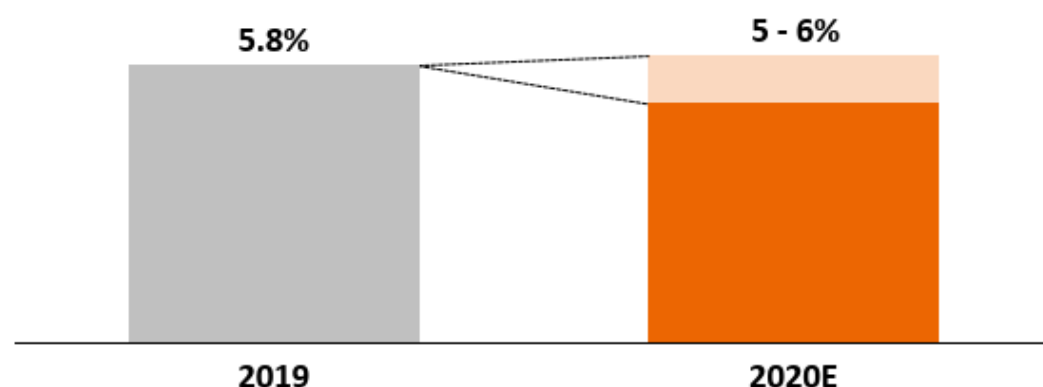
Different profit definitions at SHS and SAG to be considered in models



x.x% Margin

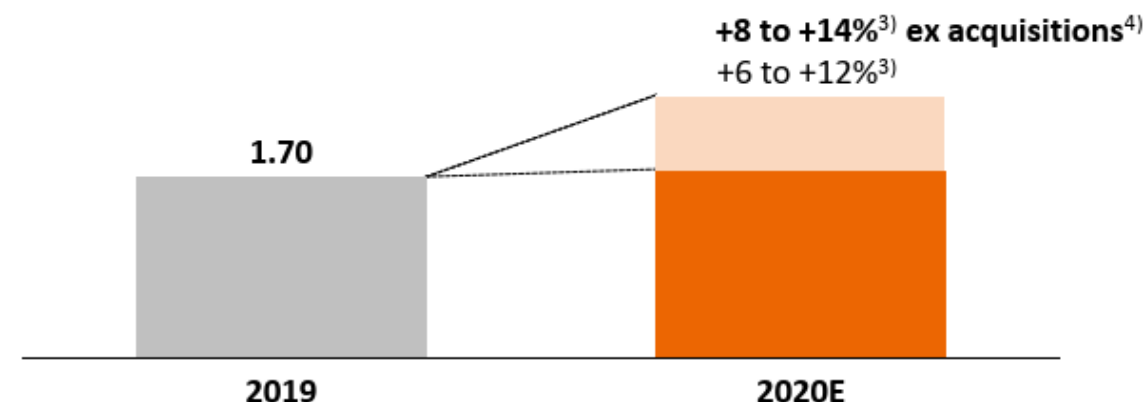
As disclosed
on November 4, 2019

Comparable revenue growth¹⁾



- **Manifesting new growth level** of 5 - 6% after strong FY19
- **Imaging** to continue attractive growth, growth rate below the very strong growth in FY19 within group outlook
- **Diagnostics** to accelerate growth, yet below group outlook
- **Advanced Therapies** to continue attractive growth clearly within group outlook

Adj. EPS growth²⁾



- **Adj. EBIT margin² for the group** expected at 17 - 18%
 - **Imaging** to continue to expand margins like in prior year
 - **Diagnostics** margin to slightly decrease
 - **Advanced Therapies** margin to significantly decrease due to acquisition of Corindus Robotics
- **Interest expenses** expected between €60 - 80 mio.
- **Tax rate** expected at 27 - 30%

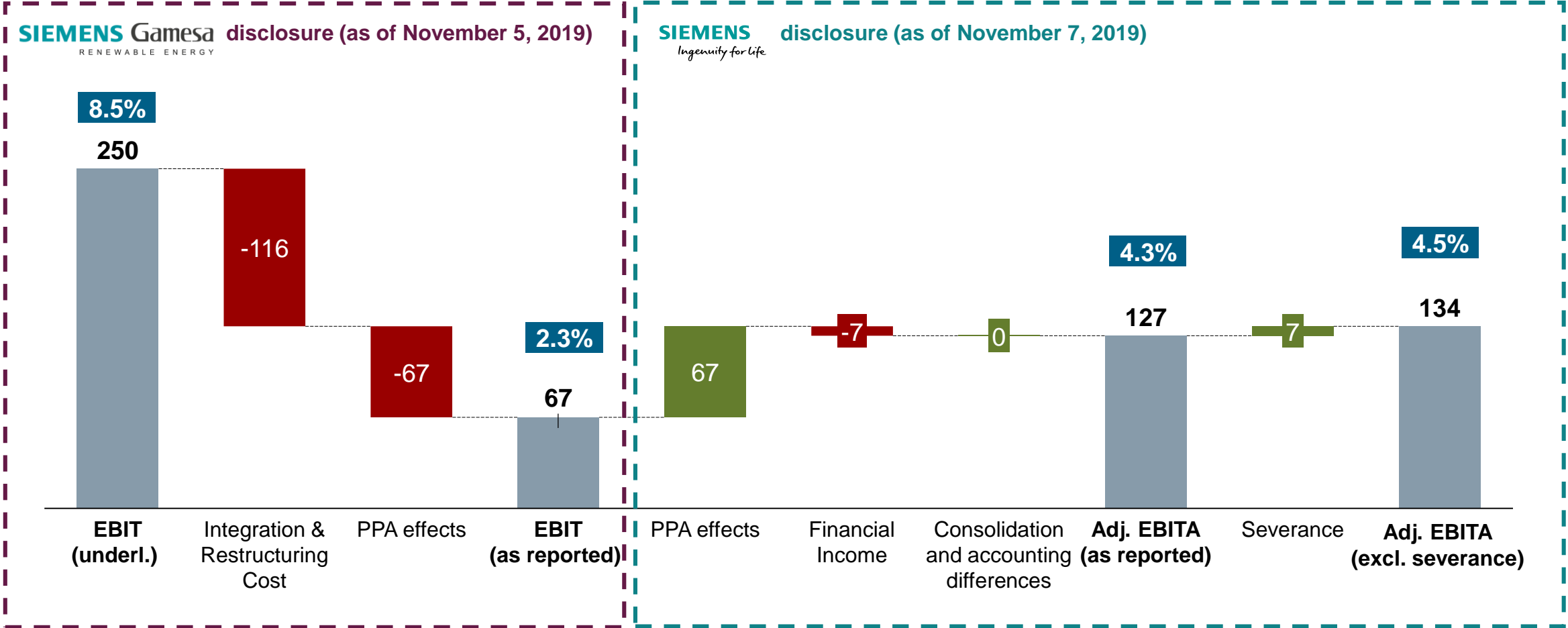
¹ Y-o-y on a comparable basis, excluding translation and portfolio effects | ² Adjusted for PPA, severance charges and acquisition-related transaction costs, for EPS net of tax | ³ The outlook is based on current foreign exchange rate assumptions and on the current portfolio (incl. signed or closed M&A transactions) | ⁴ excluding effects from acquisition of Corindus Robotics, ECG Management Consultants and MiniCare

Q4 FY19 Profit Bridge from SGRE to SAG disclosure

Different profit definitions at SGRE and SAG to be considered in models



in €m



Fiscal Year  2019 Outlook & Conclusion

Market headwinds continue impacting FY 20 performance in a transition year but top line growth is secured

Guidance ¹	FY 19	FY 20E ²
Revenue (in €m)	10,227	10,200 - 10,600
EBIT margin pre PPA and I&R costs (in %)	7.1%	5.5% - 7.0%

- **Strong top line visibility** with FY 20 revenue coverage of 90%³, 10 p.p. above FY 19 coverage as of September 30, 2018
- **Margin guidance** reflects ongoing industry transition, specific company developments and external headwinds
- Back-end loaded activity expected
- PPA impact of €260m and I&R costs of €200m

Other targets

- **CAPEX to sales target:** c. 6% to accommodate strong growth in Offshore beyond 2020 (investments in France and Taiwan) and investments in new Onshore technology

1) Guidance excludes the impact of the acquisition of selected assets of Servion and any impact from the change in the composition of SGRE shareholder base.
2) This outlook excludes charges related to legal and regulatory matters and it is given at constant FX rates.
3) Revenue coverage: order backlog (€) as of September 30, 2019 for FY 20 sales activity divided by the FY 20 revenue guidance range of €10.2bn to €10.6bn.

Financial calendar

November 2019

November 7, 2019

Q4 Earnings Release

November 7 - 8, 2019

Roadshow London

November 12 - 14, 2019

Roadshow New York, Boston, Toronto

November 14, 2019

Roadshow Frankfurt

November 15, 2019

Roadshow Paris

January 2020

January 13, 2020

Commerzbank Conference

February 2020

February 5, 2020

Q1 Earnings Release, Annual General Meeting



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