

Press release

Business performance

Freudenberg strengthens future viability

Solid results in a difficult environment

Weinheim, April 1, 2020. Freudenberg, the global technology group, performed well in the 2019 financial year, in spite of the difficult economic and geopolitical market environment. At €9,467.8 million, sales in 2019 were at about the same level as in 2018 (€9,455.4 million). Acquisitions and disinvestments roughly offset each other, while exchange rate effects (€+150.6 million) made a positive contribution to sales.

At €20.0 million, operating result was below the high level of the previous year (€10.3 million). This corresponds to a return on sales of 8.7 percent (previous year: 9.6 percent). Reasons for the decline included the downturn in the automotive industry, lower growth in China and the start-up costs in the battery and fuel cell business.

The future viability of the Group was further strengthened, on the one hand, by its broad positioning in some 40 markets and 56 countries and, on the other hand, by an intensified focus on innovation. In 2019, more than one third of sales (34.7 percent, previous year: 33.6 percent) was generated with products introduced less than four years ago. The Group also invested a record €481 million in research and development activities, including and increasingly in innovative and efficient technological solutions that make a positive contribution to climate protection.

The high equity ratio of 51.3 percent (previous year: 51.9 percent) ensures the Group's stability.

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As at December 31, 2019, the Freudenberg Group employed 48,851 people (previous year: 49,137).

Commenting on the 2019 performance, Freudenberg Group CEO Dr. Mohsen Sohi says: “We once again invested heavily in our future, in machines, equipment, acquisitions and, above all, in the three focus areas of our 2018 to 2020 strategic planning period: Mobility, Digitalization and Sustainability. In addition, as an innovative technology group, we also considerably intensified our already very high levels of research and development activity.”

Consolidated profit rose to €610.6 million (previous year: €602.4 million).

Cash flow from operating activities in the 2019 financial year amounted to €956.9 million, representing an increase of €128.5 million compared with the previous year. This increase is chiefly attributable to the first-time application of IFRS 16.

The equity ratio marginally decreased from 51.9 percent to 51.3 percent in 2019. “Adjusted for the effects of the application of IFRS 16, the equity ratio would have risen to 52.8 percent. In absolute terms, equity rose to €5,819.5 million (previous year: €5,312.1 million),” says Freudenberg Group CFO Dr. Ralf Krieger.

In the year under review, the rating agency Moody’s Deutschland GmbH, Frankfurt am Main, confirmed its credit rating of Freudenberg SE, Weinheim, at A3, with a stable outlook, as in the previous year. The Group continues to hold a single A rating.

Managing innovations successfully

In the 2019 financial year, Freudenberg conducted research and development activities in the amount of €480.9 million (previous year: €444.3 million). That figure is equivalent to 5.1 percent of

sales (previous year: 4.7 percent). Freudenberg measures the effectiveness of its R&D activities as the share of new products (those less than four years old) in total sales. This share rose to 34.7 percent (previous year: 33.6 percent).

In the year under review, the number of employees working in R&D rose to 3,784 (previous year: 3,590).

Freudenberg consistently aligns its innovation activities to both the value chain and the supply chain, and therefore to the customer's benefit. This is true especially when it comes to the trends towards greater integration and the combination of several technologies and services into a single system. In so doing, Freudenberg continues to broaden the scope of its business activities beyond the manufacture of components and products.

New drive technologies in the automotive industry such as fuel cells or electric engines require innovations in materials and testing methods. Freudenberg has comprehensive expertise in electrochemical and surface technology. This know-how is harnessed to create solutions for fuel cells and batteries or to improve friction properties, increasing a product's service life. One example are heat shields for electric vehicle batteries.

Investments in 2019

To secure the Group's future, Freudenberg invested a total of about €681 million in 2019 (previous year: €555 million), including around €319 million in acquisitions (previous year: €175 million) and some €362 million (previous year: €380 million) in machinery, plants and property.

Freudenberg invested €110 million in Germany (previous year: €125 million).

Major investments included the following:

Freudenberg Performance Materials continued work on the construction of a new line in Taiwan, which began in 2018, and also

initiated the relocation of its production site in Nantong, China, at the request of the local government.

Vibracoustic continued work on the construction of a third plant in Chongqing, China.

Freudenberg Filtration Technologies invested in a new 55,000-square-meter production and office complex in Shunde, China, for the newly acquired Freudenberg Apollo Filtration Technologies.

Especially noteworthy are Freudenberg's increasing investments and activities in e-mobility. As a reliable partner to its customers, the Group is working hard on future-oriented innovations for all types of drive, including hybrids, fuel cells and internal combustion engines. Freudenberg's portfolio includes battery separators and industrial-scale gas diffusion layers, as well as special seals for direct installation on gas diffusion layers.

Operational Excellence

Freudenberg continued to work on making processes, services and products more efficient, better and safer. At 6.7 percent, the administrative expenses ratio remained at the same level as in the previous year.

Customer satisfaction

Furthermore, Freudenberg achieved an excellent net promoter score of 57 in its image survey, completed in 2019. Net promoter scores of 50 are considered excellent.

Portfolio

In a volatile environment, it is beneficial to be a broadly diversified company. Freudenberg reduced risk by strengthening the various business areas through additional acquisitions in 2019. Below are some examples:

At the beginning of 2019, Freudenberg Sealing Technologies increased its stake in XALT Energy, LLC to more than 50 percent.

Among other products, the company headquartered in Midland, Michigan, USA, develops and produces lithium-ion technology solutions for heavy-duty mobility applications.

In April 2019, Freudenberg Medical increased its share in medical technology specialist Cambus Teoranta, Spiddal, Ireland, from 40 to 90 percent.

Also, in April 2019, Freudenberg Filtration Technologies acquired a 75-percent share in Apollo Air-Cleaner Co., Ltd., Foshan, China, a leading provider of air and water filtration solutions.

Freudenberg Performance Materials acquired the Filc group, Škofja Loka, Slovenia, in December 2019. Filc is a manufacturer of needle punch nonwoven textiles and laminated materials and will supplement our technology portfolio.

In September 2019, Freudenberg Performance Materials made an offer to acquire 100 percent of the shares of Low & Bonar PLC, London, United Kingdom, a globally active manufacturer of technical textiles. The proposed transaction is subject to approval by the antitrust authorities.

Freudenberg sold the Freudenberg IT Business Group (FIT) to the Canadian Syntax Group at the end of February 2019. Three IT companies – Syntax, FIT and EmeraldCube – were brought together under the Syntax umbrella to create a strengthened global IT full-service provider with a clear IT growth plan.

Employees

Working at Freudenberg means striving to achieve and maintain excellence. Talent Management plays an important role here. The objective is to ensure the holistic professional development of employees. It is important to successfully identify and train future

managers: In 2019, about 800 managers took part in training measures worldwide.

As at December 31, 2019, Freudenberg employed 48,851 people (previous year: 49,137 people). Of these, 11,398 (previous year: 12,176) worked in Germany, 25,499 (previous year: 26,243) in Europe (including Germany), 10,562 (previous year: 10,783) in North America, 10,864 (previous year 10,062) in Asia, and 1,359 (previous year: 1,461) in South America.

In 2019, 121 young people began their training with Freudenberg's German companies (previous year: 134). In total, 390 apprentices and students were working for Freudenberg in Germany as at December 31, 2019.

Sustainability at Freudenberg

The sustainability strategy for the Group is a systematic component of the strategy process.

In addition, in the 2019 financial year, Freudenberg analyzed the Sustainable Development Goals announced by the United Nations in 2016 and, on the basis of a comprehensive quantitative and qualitative assessment, identified eight goals which were to be prioritized.

Freudenberg's sustainability strategy is based on two dimensions. The first concerns designing its own processes and operating its plants in a resource-efficient manner (Footprint). Secondly, the Group offers products and solutions that allow customers to manufacture more efficiently and sustainably, making their products more resource-efficient (Handprint).

Key performance indicators measure three core areas – material efficiency, energy efficiency and emissions, in order to make a contribution to CO₂ reduction.

Health & Safety

The safety of employees has top priority at Freudenberg. In 2019, the Lost Day Incident Frequency Rate (LDIFR – used to measure all incidents at work involving at least one day’s absence per one million working hours) – stood at 1.4 (previous year: 1.5) – a good value for a manufacturing company.

Corporate Citizenship

Freudenberg’s commitment to corporate social responsibility extends beyond the value chain. In 2019, many Group companies, sites and employees volunteered for small initiatives and complex projects. The e² (education and environment) program, with a budget of €14 million, has been a key element of our corporate citizenship activities since 2015. The goal is to provide people with access to education and employment and support environmental protection.

In 2019, Freudenberg turned 170. The Group celebrated this anniversary by planting trees in the areas and communities surrounding its sites as a symbol of its commitment to society. Thousands of employees planted a total of about 20,000 trees, reforesting depleted landscapes and making both urban parks and the surroundings of the Freudenberg facilities greener and more attractive.

2019 in brief

Dr. Mohsen Sohi: “Despite all the uncertainties, we accomplished a lot in 2019. We made considerable progress with our strategic topics of e-mobility, digitalization and sustainability and further increased our innovative strength.”

Outlook

Freudenberg expects the environment to remain challenging in the 2020 financial year. The economic and geopolitical uncertainties are unlikely to ease.

Furthermore, the spread of the coronavirus and the containment measures have resulted in macro-economic risks that will have a negative financial impact on the global economy and the Freudenberg Group. This development not only impairs demand, but also production, the procurement market and the supply chain. The impact will depend on how long the crisis lasts.

Against this backdrop, Freudenberg is planning cautiously for the coming year and expects business developments in the markets relevant for the Group to be subdued. Nevertheless, Freudenberg intends to continue investing in long-term projects. The mobility transformation, digitalization and an expansion in sustainable solutions will remain central components of Freudenberg's strategy. The Group plans to further strengthen its portfolio through acquisitions. The company's goal is a balanced portfolio of cyclical and non-cyclical businesses – with equal sales contributions from the Americas, Europe and Asia.

About the Freudenberg Group

Freudenberg is a global technology group that strengthens its customers and society long-term through forward-looking innovations. Together with its partners, customers and research institutions, the Freudenberg Group develops leading-edge technologies and excellent products and services for about 40 markets and for thousands of applications: seals, vibration control components, technical textiles, filters, cleaning technologies and products, specialty chemicals and medical products.

Innovation strength, strong customer orientation, diversity, and team spirit are the cornerstones of the Group. The 170-year-old company lives by its core values: a commitment to excellence, reliability and pro-active, responsible action.

In 2019, the Freudenberg Group employed some 49,000 people in around 60 countries worldwide and generated sales of more than €9.4 billion. For more information, please visit www.freudenberg.com.