

## Press release

### Annual press conference

## Freudenberg strategically and operationally successful

### Strong results in a tough environment

Weinheim, April 10, 2019. The global technology group Freudenberg continued its good business development in 2018 in a volatile and difficult environment and recorded strong organic growth of 4.3 percent. Including the effects of acquisitions and disinvestments (€+43.2 million), significant negative exchange rate effects (€-285.6 million) and the effects of the new accounting standard IFRS 15 (€-54.3 million), sales increased by €109.8 million (or 1.2 percent) over the previous year. Freudenberg therefore increased 2018 sales to €9,455.4 million (previous year: €9,345.6 million) on the basis of IFRS.

Profit from operations amounted to €910.3 million, slightly exceeding the high figure of €905.0 million for the previous year.

The future viability of the Group was further strengthened. Its broad positioning in about 40 markets and 56 countries minimizes the risk. One third of sales (33.6 percent) is generated with products introduced less than four years ago, providing an example of Freudenberg's innovative strength. The equity ratio of 51.9 percent ensures the company's stability.

As at December 31, 2018, the Freudenberg Group employed 49,137 people (previous year: 47,653).

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“Our strong strategic and operative planning are the keys to Freudenberg’s success, along with the team spirit of more than 49,000 employees as well as close and agile cooperation with our customers,” said Dr. Mohsen Sohi, CEO of the Freudenberg Group, at the annual press conference held in Weinheim on Wednesday.

In addition to sales, profit from operations and return on sales are Freudenberg’s key financial performance indicators.

The company generated a return on sales of 9.6 percent even though material and energy prices rose strongly over the course of the year under review and major investments were made in e-mobility.

Consolidated profit was a solid €602.4 million, although some €100 million below 2017 (€700.1 million). Lower income from participations and the lower pro-rata share in the profit of associated companies in 2018 led to this decline. Profit also increased in 2017, due to non-recurring tax revenues, partly due to the US tax reform.

Cash flow from operating activities amounted to €828.4 million (previous year: €929.0 million), equaling a drop of €100.6 million compared with the previous year. This decline is chiefly attributable to the first-time application of IFRS 15 (roughly €-80 million).

### **Equity development**

“We are proud to have boosted our equity ratio from 47.4 percent in the previous year to 51.9 percent. In absolute terms, equity rose by €477.1 million, chiefly due to the positive result,” said Dr. Sohi. The equity ratio means Freudenberg continues to hold a very good, comfortable equity base. The rating agency Moody’s Deutschland GmbH, Frankfurt am Main, confirmed its credit rating

of Freudenberg SE, Weinheim, at A3, with a stable outlook. The Group therefore continues to hold a single A rating.

### **Investments**

To secure the Group's future, Freudenberg invested in total some €555 million in 2018 (previous year: €670 million) including about €175 million in acquisitions (previous year: €170 million) and about €380 million (previous year: €500 million) in production plant, tangible assets, buildings and intangible assets (additions to the statement of financial position). The fall here also stemmed from the first-time application of IFRS 15 (roughly €-80 million).

Freudenberg invested €125 million in Germany (previous year: €175 million).

Major investments included the following:

In Maisach, the new European logistics center of Freudenberg Chemical Specialities, a project costing about €40 million, was commissioned.

The Freudenberg Performance Materials Business Group started work on the construction of a new spunlaid plant in Taiwan. Vi-bracoustic expanded production at its plant in Sroda Slaska, Poland, and started construction of a third plant in Chongqing, China. At its Potvorice facility in Slovakia, Freudenberg Filtration Technologies completed extensive expansion work and invested in new production machinery.

### **Innovation**

The growing investments and activities in electromobility are especially noteworthy. Freudenberg also acts as a reliable partner to its customers and is working hard on future-oriented innovations for all types of drive systems, including hybrids, fuel cells and internal combustion engines. Examples include battery separators and gas diffusion layers, as well as special filters for direct installation on gas diffusion layers.

The total amount invested in innovation was €444.3 million (previous year: €427.8 million). This represents 4.7 percent of sales (previous year: 4.6 percent). Freudenberg measures the effectiveness of its research and development activities using the share of new products (products introduced less than four years ago) relative to sales. This share reached 33.6 percent (previous year: 33.0 percent).

In the year under review, the number of research and development employees grew to 3,590 (previous year: 3,445).

Three examples from different Business Groups show how Freudenberg sustainably strengthens its customers and society through ground-breaking solutions: heat shields for electric-vehicle batteries, water-based hydro lubricants and new wound dressings with direct coatings of silicone adhesives.

### **Operational Excellence**

“With renewed vigor, we have worked intensively on making our processes, services and products more efficient, better and safer in 2018,” Dr Ralf Krieger, CFO of the Freudenberg Group, said. “We use standardization and the application of lean and six sigma methods along with other factors.”

At 6.7 percent, the administrative expenses ratio remained at the same level as the previous year.

In addition, Freudenberg also received an excellent Net Promoter Score of 57 in its latest image analysis. Net Promoter Scores of 50 are considered excellent. This is based on a high recommendation rate.

### **Portfolio**

Freudenberg’s strategy is to develop its portfolio selectively and in a focused way through **acquisitions** in all Business Groups. The objective is a balanced portfolio of cyclical and anti-cyclical

business with equal sales contributions from the Americas, Europe and Asia.

Examples of acquisitions include:

Freudenberg Home and Cleaning Solutions acquired E. D. Oates Pty. Ltd., Melbourne, Australia. Oates is the market leader in the professional cleaning business in Australia and has a broad and comprehensive range of household and cleaning products in the consumer business.

Japan Vilene Company acquired Hanns Glass GmbH & Co. KG, Grafing, Germany. The company is one of the world's leading manufacturers of floor mats for the automotive industry and holds a strong position in Europe.

Freudenberg Filtration Technologies signed a contract to acquire a majority stake in Apollo Air Cleaner Co., Ltd., of Shunde, China. Apollo is a leading supplier of air and water filtration solutions in China. The transaction was finalized at the end of March 2019.

To strengthen expertise in battery and fuel cell technology, Freudenberg Sealing Technologies acquired stakes in fuel cell manufacturers Elcore and Elcomax, as well as a minority holding in the battery manufacturer XALT Energy. In the current financial year, Freudenberg acquired a majority stake in XALT Energy.

Furthermore, the Freudenberg Group, together with the management of its Freudenberg IT Business Group (FIT), examined various strategic options best suited for the future of FIT. The process resulted in the sale of FIT to the Syntax Group of Canada, effective at the end of February 2019. Three IT companies - Syntax, FIT and EmeraldCube - are being brought together under the Syntax umbrella to create a strengthened global IT full-service provider with a clear IT growth plan. This is paving the way for the future success of FIT.

In the first quarter of 2019, Freudenberg already invested about 140 million euros in majority holdings of the US company XALT Energy as well as the Chinese filter manufacturer Apollo.

### **Human Resources**

Freudenberg is continually working to be and remain excellent in all areas. This is especially true for our **Talent Management**, where we made further progress in the year under review. The company offers employees excellent executive development programs. Talent Management goals include supporting diversity and inclusion in the company, while also attracting the best employees, developing their skills and retaining them within the company.

As at December 31, 2018, Freudenberg employed **49,137** people (previous year: 47,653 people). Employee numbers rose to 12,176 (previous year: 11,472) in Germany, to 26,243 (previous year: 25,369) in Europe (including Germany), to 10,783 (previous year: 10,285) in North America and to 10,062 (previous year 9,876) in Asia. In contrast, employee numbers in South America fell to 1,461 (previous year 1,640).

In 2018, 134 young people began their training with Freudenberg's German companies (previous year: 127). In total, 377 apprentices and students were working for Freudenberg in Germany as at December 31, 2018.

At Freudenberg, "**Responsibility for Society**" covers five areas: Sustainability; Health & Safety and Environmental Protection (HSE); Corporate Citizenship; Compliance and Human Rights & Labor.

### **Sustainability**

The sustainability strategy for the Group developed in 2016 was integrated in all Business Groups and is a systematic component of the strategy process.

The strategy has two dimensions: One dimension is process design and equipment usage to make production as resource efficient as possible (Footprint). The second dimension is the numerous Freudenberg products and solutions that make our customer's production more efficient and sustainable or allow products to be manufactured with greater resource efficiency (Handprint). Key performance indicators measure three core areas - material efficiency, energy efficiency and emissions.

### **Health & Safety**

Employee safety has top priority at Freudenberg. In the 2018 financial year, the LDIFR (Lost Day Incident Frequency Rate – this rate measures all incidents at work involving at least one day's absence per million working hours) – was 1.5 (previous year: 1.4). This is a good value for a manufacturing company.

### **Corporate Citizenship**

Freudenberg's commitment to Corporate Citizenship extends beyond the value chain. In 2018, many Group companies, sites and employees volunteered in small initiatives and complex projects. The e<sup>2</sup> (education and environment) program has been strengthening our corporate citizenship since 2015. The goal is to provide people with access to education and employment, and support environmental protection. Freudenberg has already donated a total of €14 million to the program. By the end of the year, e<sup>2</sup> was supporting some 70 projects.

### **Conclusion for 2018**

“Freudenberg looks back at 2018 as a year of strategic and operating successes. The company continued to perform well in a

volatile and difficult environment. In 2018, the Group was able to outperform the financial key performance indicators forecast for 2018 despite significant negative exchange rate effects and once again reported record profit from operations,” said Dr. Sohi.

## **Outlook**

Freudenberg expects a difficult macro-economic environment in the 2019 financial year. Growth forecasts for the world economy in 2019 are slightly lower than those for the previous year. The risk of a stronger decline in global growth has increased. Geopolitical and economic uncertainties are unlikely to abate. In the face of increasing market volatility, Freudenberg will closely monitor further developments and react flexibly. The spotlight is on the trade conflict between the US and China, the Brexit process, the financial stability of individual nations, rising commodity prices and a possible economic slowdown in the automotive sector. Freudenberg is well prepared to face these possible challenges.

In total, Freudenberg plans to invest in €370 million worth of projects in 2019. Of this amount, about €125 million are to be invested in tangible assets in Germany, including €30 million in Weinheim.

We are cautious in our planning and anticipate subdued business development in markets relevant to the Group for 2019. The company expects maximum sales growth of one to two percent, and profit from operations to remain at last year’s level in the best-case scenario.

## **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, specialty chemicals, medical products and the most modern cleaning products.

Strength of innovation, strong customer orientation, diversity, and team spirit are the cornerstones of the Group. The 170-year-old company holds strong to its core values: a commitment to excellence, reliability and pro-active, responsible action. In 2018, the Freudenberg Group employed more than 49,000 people in some 60 countries worldwide and generated sales of more than €9.4 billion. For more information, please visit [www.freudenberg.com](http://www.freudenberg.com)