Würth Finance Group

REPORT OF THE MANAGEMENT

After the global growth outlook deteriorated relatively rapidly at the end of 2018, there was no real bottoming out in 2019. On the contrary, economic researchers had to continuously reduce their forecasts for global growth: to 2.25% in the USA and 1.25% in the euro area, around three-quarters of a percentage point less than in the previous year. In the European automotive industry in particular, repeated sales slumps have occurred in important markets such as China and India since 2017. The global drop in demand for diesel passenger cars and the transition to new drive systems are slowing growth in key markets for the Würth Group, such as Germany and France.

Würth Group
As a consequence, the Würth Group's growth slowed to 4.8%. Sales growth in Germany was fairly modest, at 2.1%. Business areas such as the Würth Electronics Group and the manufacturing and tool trading companies, whose clients are active in this industry sector, had to accept a decline in sales. Outside Germany, the Würth Group increased its sales by 6.8%.

Based on preliminary figures, the operating result of the Würth Group was EUR 750 million, which was 14% below the previous year (2018: EUR 870 million). This decline was mainly due to the pressure on gross profit margins: it was not possible to pass on the full increases in purchasing prices to clients in the market.

Continuously expanding the business model and implementing long-term growth initiatives, even at times of weaker gross cash flow, are central to the Würth Group's ethos. Investments totalling EUR 710 million were made in 2019 (2018: EUR 635 million). To ensure the Würth Group's solid financial position, inventories and receivables are regarded as key balance sheet items, and the focus is always on optimising these. While receivables rose by 5.3%, in line with sales growth, the relatively low increase in inventories of 1.2% reduced the capital commitment. The Würth Group enjoys a very sound financial position. As at 31 December 2019, equity stood at EUR 5,500 million, producing an equity ratio of 43%, and net financial debt was at EUR 1,400 million.

Responsibility Statement

In accordance with the EU Transparency Directive and the Dutch Financial Supervision Act (Wet op het Financieel Toezicht), the Management of the Würth Finance Group hereby confirms that, to the best of its knowledge, the financial statements for the financial year ended 31 December 2019 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and that the management report includes a fair review of the development and performance during the financial year and of the financial situation of the Group at the balance sheet date, as well as of the risks associated with its business.

Würth Finance Group
The pace of change in the insurance and financial markets is high and offers the Würth Finance Group great opportunities to grow further and to successfully develop the company.

In this context, the investments made by the Würth Finance Group to strengthen its capabilities and performance in relation to information and communication technology (ICT) are paying off. This is borne out by the successful completion of the project to renew the IT infrastructure for processing international payments, the introduction of a new insurance management system and various optimisations relating to the digitalisation of business processes, which were achieved in the reporting year.

As part of its growth strategy, Würth Financial Services AG acquired 100% of the shares in Optima Versicherungsbroker AG based in Chur, integrated Markus Diener Versicherungstreuhand GmbH into its Arlesheim branch and significantly expanded the sales team in the Zurich branch.

As a family business, Würth focuses on the long-term development of the company. That applies equally to supporting up-and-coming talent at the Würth Finance Group. For many years it has taken on apprentices and employed them on a permanent basis once they have completed their training. In order to secure the company's future, the Würth Finance Group supports ongoing training throughout employees' professional lives. Management positions are largely filled from within the company's own ranks, while up-and-coming staff are supported in their professional development by participating in internal training programmes.

The major central banks – particularly in the USA and Europe – have reacted to the economic slowdown with further monetary policy expansion. These steps have triggered a sharp rise in prices of shares and other assets worldwide and pushed interest rates to historic lows. The Würth Finance Group also benefited from this state of affairs, particularly in the area of securities investments in the Inhouse Banking Division. In the Insurance Brokerage business, earnings increased significantly thanks to the successful acquisition of a considerable number of new clients. Overall, the adjusted earnings of the Würth Finance Group increased by 16% from EUR 75.4 million to EUR 87.4 million.

Operating expenses increased in parallel with the expansion of personnel capacity and the expansion of operational infrastructure, climbing 10% from EUR 29.4 million to EUR 32.4 million.

In 2019, the Würth Finance Group achieved an adjusted profit before taxes of EUR 55.0 million (previous year: EUR 46.0 million), representing a new record and making a significant contribution to the Würth Group's consolidated results.

Details of business in the Inhouse Banking and External Financial Services divisions follow on pages 10 to 23. The Würth Finance Group's report on risk management and control can be found on pages 26 to 31. The Würth Finance Group does not have its own audit committee and is therefore integrated into the Würth Group's audit process.

Outlook for 2020

Until recently the International Monetary Fund and the OECD expected global economic growth to remain relatively slow. But the outbreak and the worldwide spread of the new coronavirus (Covid-19) made these forecasts invalid and irrelevant.

Today we know that the global GDP growth slowdown will be stronger than anticipated – but the extent and the duration are unclear. In the best case and with substantial political, fiscal and monetary support the functionality of the global infrastructure is not systematically weakened and capacity utilisation will resume in the second half of 2020. But there is a reasonable risk that the rebound will be slower and weaker, with a considerable number of businesses not surviving the current sharp drop in demand.

Throughout its almost 70-year history, the Würth Group has strengthened its competitive position, particularly at times when the economy is not very dynamic. It has achieved this by continuously pursuing investments to further develop the business model, while by no means neglecting the scope and quality of client services.

This continues to be a strategic pillar of the Würth Group. And looking at the upheavals in the automotive industry, the digitalisation of value chains and the adaptation of business models to sustainability goals, the global economy is not lacking in dynamism. On the contrary, the cards are being reshuffled in many industries. In this environment, the Würth Group is acting with great confidence and the conviction that it can benefit from these developments as an adaptable and competitive company, fully focused on serving its clients. Investments, projects and measures will be consistently continued, aligned to the relevant markets and the growth targets for the next five years. A selective and disciplined approach continues to be applied to acquisitions.

A combination of continuity and dynamism is also shaping the ongoing development of the Würth Finance Group. In Inhouse Banking and External Financial Services, digitalisation is being pursued further, with projects to improve the client performance and optimise processes. This demands a high level of learning capacity and adaptability from staff and is key to ensuring high service quality and satisfied clients.

Protecting assets, particularly against cyber attacks, and fulfilling the regulatory requirements are important prerequisites for financial and insurance service providers to conduct their business sustainably. The Würth Finance Group has the necessary critical mass and organisational structure to ensure effective and efficient IT risk and compliance management.

The effects of the 2020 recession will have an impact on the Würth Finance Group's results in the current financial year. The Management expects the Würth Group's core business to stabilise in the second half but is nevertheless anticipating a double-digit fall in its revenue and operating result.

Thanks
The Management of the Würth Finance Group is very satisfied with financial year 2019 and would like to thank all employees for their important contribution to the success achieved. Thanks also go to our clients and business partners, whose trust in the Würth Finance Group has made our success possible in the first place. We look forward to continuing to work with them in 2020.

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