Würth Finance Group

REPORT OF THE MANAGEMENT

"COVID-19 is the worst health and economic crisis since WWII, disrupting health, well-being and jobs, and creating extraordinary uncertainty. The economic impact will be felt everywhere, the recovery will be slow and the crisis will have long-lasting effects." This is how the OECD summarised the situation in the second quarter of 2020. Most countries were completely unprepared for the outbreak of the COVID-19 pandemic, which saw the global economy plunge into its deepest recession in decades in the spring of 2020. For several weeks, social and economic life came to a virtual standstill all over the world and economic forecasts turned bleak: for example, the OECD revised its 2020 GDP forecasts for the euro area and the USA from their previously positive figures to –10% and –8%, respectively.

These estimates proved to be too pessimistic, at least in part. The population learned to live with the new coronavirus, with most people adhering to the key protective and hygiene measures and accepting the restrictions imposed by their governments. Home working, video conferencing, online shopping, digital learning and take-away food became the norm worldwide. As a result, the supply of essential products and system-relevant services to the population, as well as an impressively large part of economic life in both industrialised and emerging countries, continued to function fairly well. Many governments around the world introduced financial assistance programmes to alleviate the economic hardship of those most affected. And orchestrated by the central banks, generous funds were made available to the private sector through the international financial markets and the banking system to bridge liquidity shortages. This prevented an even more severe slump in the global economy; GDP fell by around 7% in the euro area and by about 4% in the USA. But it has come at a high price: according to John Hopkins University, the COVID-19 pandemic has resulted in nearly 120 million infections and 2.6 million deaths (as at 15 March 2021). Doctors, nursing staff and the entire medical care infrastructure in many places have been massively overstretched for months. And despite short-time working compensation and other support measures in the job market, many employees, particularly in the catering, tourism, and culture and leisure industries, are suffering wage losses and unemployment.

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The COVID-19 pandemic also negatively impacted the business development of the Würth Group. Sales in April were down by more than 20% compared with the previous year. However, by May this shortfall had been reduced to 5%, and the previous year's sales were continuously exceeded from July on. Ultimately, the Würth Group ended financial year 2020 with a 0.9% increase in sales, driven in particular by the German market, where growth of 2.8% was achieved, as well as the construction-related Würth Line business area and the Electrical Wholesale business unit. By delivering this result, the Würth Group has clearly demonstrated its ability to withstand the COVID-19 pandemic so far and strengthened its competitive position thanks to the broad diversification of its business model. Excellent relationships with numerous suppliers worldwide made it possible to quickly expand the product portfolio to include hygiene products and personal protective equipment, which saw a spike in demand.

Based on preliminary figures, the operating result of the Würth Group developed in step with sales and reached EUR 770 million (2019: EUR 770 million). Gross profit margins remained relatively stable, while at the same time the use of digital communication and distribution channels made it possible to considerably increase productivity.

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 on 31 December 2020 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.

To ensure the continuous expansion of the business model was not neglected, investments were moderately reduced to EUR 470 million (2019: EUR 710 million); there was no reduction in personnel capacity. Thanks to the positive cash flow and disciplined investment and working capital management, the Würth Group's solid financial position continued to improve. This is reflected both in its financial metrics and in the confirmed rating from Standard & Poor's (A, outlook stable). This was welcomed by the capital market, with the EUR 750 million benchmark bond issued in May 2020 significantly oversubscribed. Shareholders' equity as at 31 December 2020 was EUR 5,900 million, corresponding to an equity ratio of 44%. With liquidity of around EUR 1,386 million and undrawn credit lines of EUR 400 million committed until 2023, the Würth Group has very comfortable liquidity reserves available.

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Adjusting the organisation of the Würth Finance Group's operations amid the COVID-19 pandemic challenged management and employees alike. They needed not only to adapt to the reduced personal contact with clients and business partners, but also to implement a home working system and focus on digital communication. The company's business continuity management system worked, although it was not specifically designed to deal with a pandemic of this sort. Both Würth Financial Services AG and the Inhouse Banking division were able to provide their clients and business partners with their services at all times, and operations continued uninterrupted. In these circumstances, the Würth Finance Group's investments in business process digitalisation paid off.

As in previous crises and times of major uncertainty, the Würth Finance Group's core competencies in the area of risk management were again in high demand – to secure the necessary financial resources and liquidity management for the Würth Group companies, as well as to handle claims due to cancelled travel, or optimise insurance cover for many customers in Switzerland. In addition, the legal and organisational integration of Optima Versicherungsbroker AG was completed on schedule.

To date, the COVID-19 pandemic has barely affected the Würth Finance Group's financial results: as expected, revenue from Group Financing declined slightly in the Inhouse Banking division and the performance of securities investments failed to match the previous year's result. However, the adjusted operating income of the Würth Finance Group was well ahead of the target, at EUR 84 million. Operating expenses fell year on year by around 3%, from EUR 32.4 million to EUR 31.5 million. This reduction was achieved through a number of different measures, such as the postponement of non-urgent IT projects, a general reduction in travel, and restraint in filling vacant positions and awarding consulting contracts. With an adjusted profit before taxes of EUR 52.5 million, the Würth Finance Group achieved the second-best result in the company's history (2019: EUR 55.0 million) and made a key contribution to the operating result of the Würth Group.

Details on the course of business in the Inhouse Banking and External Financial Services divisions follow on pages 12 to 25. The Würth Finance Group's report on risk management and control can be found on pages 28 to 33. The Würth Finance Group does not have its own audit committee and is therefore integrated into the Würth Group's audit process.

Outlook for 2021

Fortunately, effective COVID-19 vaccines became available earlier than expected and started to be injected in early 2021. Experts anticipate that it will be possible to quickly control the spread of COVID-19 and bring an end to the pandemic. The gradual easing of restrictions and safeguards should allow for a robust economic recovery and GDP growth in the range of 3 to 4% in industrialised countries in 2021. The Würth Group would like to benefit from this trend and, as an adaptable and competitive company focused fully on serving its customers, is confidently striving for significant growth. Investment, acquisition and development projects are aligned with the relevant markets and the growth targets for the next five years.

The Würth Finance Group focuses on the long-term growth opportunities offered by the transformation of the insurance and financial markets. Consequently, investments are continuously made in the further development and digitalisation of the business model in the Inhouse Banking and External Financial Services divisions – while keeping in mind the scope and quality of client services. This requires significant willingness to learn and adapt on the part of employees. The Würth Finance Group promotes the continuous professional development of its managers and employees throughout their entire working lives as the key to securing the company's future. Protecting assets – against cyber attacks, for example – and fulfilling the regulatory requirements are important prerequisites for financial and insurance service providers to conduct their business successfully over the long term. The Würth Finance Group has the necessary critical mass and organisational structure to ensure effective and efficient IT risk and compliance management.

In financial year 2021, the Management of the Würth Finance Group anticipates stagnating revenue and a decline in the operating result in the high single-digit percentage range. Insurance premium volumes with Würth Financial Services AG clients will be lower due to last year's recession, and in the Inhouse Banking division the record-low interest rates for extensions on loans to Würth Group companies as well as on liquidity investments will significantly detract from interest income. The Management of the Würth Finance Group is aware of the risk of setbacks in the fight against the pandemic, which could put a brake on economic recovery and trigger turbulence on the financial markets. Consequently, growth-oriented investment projects and capacity expansion will be implemented gradually and can be postponed if necessary.

Thanks

The Management of the Würth Finance Group is very satisfied with the results achieved in financial year 2020 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 2021.

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