Würth Finance Group

REPORT OF THE MANAGEMENT

The world is paying a high price for Russia's war in Ukraine. It is a humanitarian disaster. The war, together with China's zero-COVID policy, has also set the global economy on a course for much slower growth coupled with high inflation – a situation last seen in the 1970s. GDP growth slowed to around 2% in the US and 3% in the euro area in 2022. Many of the hardest hit countries are in Europe, which is being heavily impacted by the war due to energy imports. The war has also dashed hopes of a quick end to the rising inflation caused by the COVID-19-related supply shortages in 2021 and early 2022. High food and energy prices and supply bottlenecks mean that consumer price inflation will peak later and at a higher level than anticipated. In a stagnating economy, this forced central banks to tighten monetary policy rapidly and significantly.

Würth Group
Despite the unstable economic environment, the Würth Group was able to maintain its growth momentum in financial year 2022 and record a 16.9% rise in sales to EUR 19,950 million (based on preliminary figures). The individual regions performed well across the board. With regard to the different divisions, the Electronics and Electrical Wholesale units recorded above-average growth. Although the strong sales growth needs to be adjusted for inflation, it still represents a milestone in the family-owned company's history.

The steps taken to improve performance in the digital field bore fruit. As a robust addition to the classic sales force and the branch network, sales from e-business rose by around 21% to EUR 4,100 million in 2022.

The drastic rise in energy and raw materials prices resulted in significantly higher purchase prices, which were passed on to customers only partly. However, thanks to high capacity utilisation and additional measures to improve productivity, the operating result increased by 18.1% to EUR 1,500 million based on preliminary figures, maintaining the profit margin of 7.5%. A remarkable achievement.

Given the supply bottlenecks for many product groups, supplying our customers was even more important than in normal times. Thanks to numerous long-standing relationships and the massive efforts made in the areas of purchasing and logistics, the service level – as a measure of timely delivery to customers – improved during financial year 2022 from under 94% to over 96%. The strategy of maintaining higher levels of safety stocks contributed to this improvement. Accordingly, net working capital increased at an above-average rate compared with sales.

The Würth Group's financial position nonetheless remains very solid. This is reflected both in its financial metrics and in the confirmed rating from Standard & Poor's (A, outlook stable). This was also appreciated by the capital markets, as reflected in two successful bond issues with respective volumes of EUR 600 million and CHF 300 million. As at 31 December 2022, shareholders' equity amounted to EUR 7,900 million, with an equity ratio of 46.0% (preliminary figures). With liquidity of around EUR 1,000 million and an undrawn credit facility of EUR 500 million committed until 2027, the Würth Group has comfortable liquidity reserves available.

Würth Finance Group
In 2022 also the Würth Finance Group proved its ability to act and adapt to changing market conditions. The Inhouse Banking division successfully completed an extensive refinancing phase despite the sometimes considerable turbulence on the capital markets, and Würth Financial Services AG took advantage of the opportunities offered by the digital distribution of insurance products with its InsurHub platform.

The 2022 year under review was also very successful for the Würth Finance Group in financial terms. At EUR 107.0 million, adjusted operating income exceeded the EUR 100 million mark for the first time in the company's history – and by a significant margin. The year-on-year rise amounts to EUR 17.4 million (19.4%) and is mainly attributable to a doubling of net interest income in the Inhouse Banking division, driven by increased lending volumes and higher interest

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 2022 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.

income on cash investments. Operating expenses increased by 7.7%, rising from EUR 34.0 to EUR 36.7 million. Around half of this rise is due to exchange rate effects from the translation of operating expenses at the Swiss locations. The average number of employees remained stable; as at 31 December 2022, the Würth Finance Group had 121 employees (FTEs). Accordingly, productivity improved significantly. With an adjusted pre-tax profit of EUR 70.3 million, the company achieved a record-high result (2021: EUR 55.5 million) and made a significant contribution to the consolidated result of the Würth Group.

Details on the course of business in the Inhouse Banking and External Financial Services divisions follow on pages 8 to 21. The Würth Finance Group's report on risk management and control can be found on pages 24 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 2023
Combating inflation will rightly remain the top political priority. In many countries where inflation remains high and is impacting large parts of the economy, central banks will continue to raise key interest rates. Borrowing is becoming more expensive, posing major challenges and risks for companies and households. At the same time, the room for monetary policy manoeuvre is shrinking. In many places, governments have exhausted their financial options for providing families and businesses with targeted temporary protection against the energy shock. Furthermore, it is already becoming apparent that the gas supply in Europa in winter 2023/2024 will be difficult.

There is no doubt that the economic outlook is troubled. The OECD forecasts minimal economic growth of around 0.5% in the US and the euro area in 2023. However, the Ukraine war has prompted numerous changes that would have been impossible until recently. These include the sharp rise in investments in energy security, energy supply diversification and the promotion of renewable energy. The current crisis is therefore also accelerating the transformation of society and the economy, while also opening up opportunities. In addition, the materials shortages in industry and bottlenecks in many sectors began to gradually ease in the first quarter 2023.

How consumer behaviour and energy prices will develop and the impact of China's abandoned zero-COVID strategy on supply chains remain to be seen. Adapting to these fragile conditions remains the central task of the Würth Group. It is possible that the peak of inflation has been seen and economic growth will bottom out by the end of the first quarter of 2023. The company therefore remains cautious, keeping market opportunities in sight and carrying the momentum from the past year into financial year 2023. Investment, acquisition and development projects are aligned with the relevant markets and the growth targets for the coming years, but will be adjusted to the speed of the economy.

For the Würth Finance Group, intense competition on the insurance and financial services market means margins are constantly under pressure and continuous operational efficiency improvements are required. At the same time, the changes on the insurance and financial markets are creating long-term growth opportunities, which the Würth Finance Group is focusing on. Consequently, investments are continuously being 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. Protecting assets – against cyber attacks, for example – and fulfilling 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.

Overall, the Management of the Würth Finance Group expects business volumes to remain stable in the current year, but income to be lower than in the record year 2022, with the operating result on a par with 2019 to 2021.

Thanks
The Management of the Würth Finance Group is very satisfied with the results achieved in financial year 2022 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 2023.

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