Würth Finance Group

REPORT OF THE MANAGEMENT

It would be at best an understatement to say that the world has become more volatile over the past few years. In the wake of the pandemic and the (ongoing) war in Ukraine, the outbreak of war in the Middle East has triggered another crisis with a global impact that extends beyond the human tragedy of those directly involved. Relations between the US and China remain consistently tense, and the ongoing cost of living crisis has sustained and exacerbated the high geopolitical risk premium. The global economy continues to face the challenges posed by inflation and lacklustre growth prospects. Although GDP growth in 2023 was slightly stronger than expected, particularly in the US, it is now slowing due to tighter financing conditions, weak trade growth and lower business and consumer confidence in Europe and North America. Inflation rates declined rapidly and moved towards levels consistent with central bank targets. Accordingly, central banks were able to end their rate hike cycle in autumn 2023.

Würth Group
As expected, the impact of the stagnating economic trend on the Würth Group increased as financial year 2023 progressed. According to preliminary figures, the company nevertheless recorded sales growth of 2.4% to around EUR 20,400 million. The sales trend in the construction sector, which is important for the Würth Group, was subdued. However, this weakness was offset by the developments in other business units, such as Electrical Wholesale.

Higher energy prices, the increased cost of services and inflation-related wage increases pushed up operating expenses to a greater extent than sales in financial year 2023. Profits were therefore unable to keep pace with sales growth. However, at EUR 1,400 million, the company achieved the second-highest operating result in its history.

In financial year 2022, maintaining delivery capabilities was crucial to the company's success, so inventories were increased to a greater-than-average extent. In the year under review, the supply situation eased rapidly and the service level improved. At the same time, it was possible to normalise purchasing behaviour and reduce safety stocks.

This development had a very positive impact on the Würth Group's operating cash flow and net debt. With centrally – by the Würth Finance Group – held liquidity totalling around EUR 1,200 million and an undrawn credit facility of EUR 500 million committed until 2028, the Würth Group has comfortable liquidity reserves available.

Würth Finance Group
The performance of the Würth Group's core business had knock-on effects for the Würth Finance Group's Inhouse Banking division: as expected, the volume of payments stagnated compared with the previous year due to the reduction in inventories. Thanks to the higher interest rates, income from net lending to Group companies and from cash investments increased significantly, while interest expenses were kept relatively stable thanks to the existing fixed-rate bond financing. This led to a sharp rise in net interest income, from EUR 29.6 million to EUR 50.8 million. Würth Financial Services AG maintained the steady growth trajectory of its insurance brokerage business and saw commission income increase by 6%.

At EUR 134.7 million, the Würth Finance Group's adjusted income rose by a further EUR 27.8 million compared with the previous year's already high figure. This increase is primarily due to the above-mentioned improvement in net interest income in the Inhouse Banking division. Operating expenses increased by 11.9%, rising from EUR 36.7 to EUR 41.0 million. This development was driven by higher IT costs for operations and digitalisation projects, increased prices charged by service providers and higher personnel expenses. The latter is attributable to wage rises and a slight increase in the average headcount. As at 31 December 2023, the Würth Finance Group had 120 employees (FTEs). With an adjusted pre-tax profit of EUR 93.7 million, the company achieved a record-high result (2022: EUR 70.3 million).

In a challenging market environment in 2023, the Würth Finance Group successfully positioned itself on the financial markets and significantly enhanced its profile as an innovative provider of digital insurance solutions in Switzerland.

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 2023 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.

At the different company locations, the Würth Finance Group is known and valued as an attractive, reliable and successful employer that offers modern and flexible working conditions.

Details on the course of business in the Inhouse Banking and External Financial Services divisions follow on pages 20 to 31. The Würth Finance Group's report on risk management and control can be found on pages 32 to 39. The Würth Finance Group does not have its own audit committee, but is integrated into the Würth Group's audit process.

Outlook for 2024

The purchasing managers' indices for the manufacturing sector and the relatively restrictive financing conditions indicate that – in the best-case scenario – the economy will achieve a soft landing in the coming months, before potentially recovering somewhat in the second half of the year. Heightened geopolitical tensions due to the conflict following Hamas' terrorist attacks on Israel are again contributing to uncertainty regarding the short-term outlook. This could lead to major disruptions on the energy markets and key trade routes, hampering growth. For calendar year 2024, the OECD forecasts a growth rate of just 0.6% in the euro area.

Inflation rates will probably continue to decline, but core inflation will remain stubbornly above central bank targets. Consequently, monetary policy will need to remain restrictive until there are clear signs of a lasting decrease in inflationary pressure, inflation expectations decline further and balance between supply and demand on the labour and product markets is restored. Scope for key interest rate cuts is therefore likely to remain limited until well into 2024, even if key interest rates in Europe and the US have reached a peak.

Governments face growing fiscal pressure due to high debt burdens and additional spending on the ageing population, climate change and defence. In the short term, greater efforts are required to create the leeway needed for future spending pressure; fiscal support measures, including the remaining energy support schemes, should be withdrawn or better targeted at those most in need.

Following some three years of double-digit sales growth, the Würth Group expects sales in its core business to stagnate in the first half of 2024. The company is countering the economic headwinds by slowing down the expansion of its workforce, maintaining strict net working capital management and pursuing a disciplined investment approach, with growth-oriented projects and the expansion of capacities implemented only gradually. However, this will not detract from or result in compromises for our client-focused services. Our actions will remain consistently geared to our clients and their needs.

The Würth Finance Group's clients face a wide array of rapidly evolving challenges and risks. Through its financial and insurance products, services and expertise, the Würth Finance Group provides solutions for risk management, pension planning and protecting assets against potential losses. It provides dedicated support to its clients over the long term. The Würth Finance Group will continue to focus on its clients' needs and the constant changes in the insurance and financial markets in 2024. Consequently, investments are continuously being made in the further development of solutions and the digitalisation of the business model in the Inhouse Banking and External Financial Services divisions.
In view of the relatively weak economic forecasts for the first half of the year, the Management of the Würth Finance Group anticipates only a moderate rise in business volumes in the current year and a slightly lower operating result compared with the record year 2023.

Thanks

The Management of the Würth Finance Group is very satisfied with the results achieved in financial year 2023 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 2024.

Roman Fust
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Würth Financial Services AG