

- Check Against Delivery -

## **A World in Transition**

### **Statement**

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**Annual Press Conference 2020**

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Good morning, Ladies and Gentlemen,

I too would like to welcome you to this year's Annual Press Conference. We are very pleased to see you here in Ditzingen today, as coming together in person is far from a matter of course right now. And perhaps for this very reason, also a statement.

I.

Today I will be presenting to you the figures for a fiscal year that will also go down in the history of our company from a negative perspective. Against the backdrop of the popular Johns Hopkins graphic, I will start with the figures that occupied us most between March and June – at least as intensively as our sales revenues and order intake: TRUMPF's “coronavirus record”.

First of all, it is important for me to say that we can be happy that the spread of coronavirus at TRUMPF was, all in all, very manageable, even during the particularly serious weeks in March.

In the period to June 30, 2020, there were 70 positive coronavirus cases and 843 people in quarantine throughout the TRUMPF Group. In Ditzingen, there were 26 infections and 158 quarantine cases in the same period – and what is most important: no serious cases of illness or worse. You can see these numbers in the chart behind me.

In the TRUMPF Group, we currently have 17 active coronavirus cases and 77 people in quarantine. Of these, 8 people are in “technical quarantine” – meaning that they are symptom-free. These are service technicians who have returned from a foreign assignment and are now sitting at home.

Perhaps we will come back to this in the Q&A session, but in retrospect, this issue was one of our greatest logistical challenges, as TRUMPF has around 50,000 machines in use with customers worldwide.

For months it was either impossible or only possible with a great deal of effort to send out service technicians within Europe or to Asia or North America, as they usually had to spend two weeks in quarantine on arrival and departure. If they could even travel at all.

You could also say that TRUMPF's service-intensive business across national borders was particularly affected by the coronavirus pandemic. Our service staff have spent more days and nights in hotel rooms than ever before – mostly not by choice and in far from luxurious conditions.

The fact that we had virtually no positive coronavirus cases here in Ditzingen was due not only to the special precautions we took but also to our coronavirus governance, which in hindsight I would describe as exemplary.

The immediate establishment of a central crisis unit, which coordinated local crisis teams and traced each individual case, is worthy of mention. But above all, TRUMPF's health center has been conducting very consistent and broad-based testing for coronavirus right from the start – including as a preventive measure in suspected cases, even without any noticeable symptoms.

The idea behind the early testing was as much due to our concern for our staff as to our conviction that things had to keep going. From the very beginning, we have tried to manage the special balancing act of accommodating both aspects: ensuring comprehensive health protection on the one hand, but also guaranteeing the economic well-being of the company and our business partners on the other.

This is why there was never a “real lockdown” at TRUMPF, even during the particularly difficult weeks of March and April. Instead, we let parts of

production, services and central functions continue to operate under the highest possible safety precautions.

All in all, 60 percent of employees here in Ditzingen worked from home during the particularly critical weeks.

TRUMPF has also been making use of the short-time working scheme since that time. Our short-time working quota averaged 30 percent between March and June 2020, and is now back below that figure at 27 percent.

A distinction must be made here: While virtually all central functions and parts of the production of the Machine Tool and Laser Technology business divisions went into short-time working, the EUV business field in Ditzingen and the Electronics business field in Freiburg, which belongs to the Laser Technology division, did not in fact work short time. In these areas, work continued at full capacity – although with enhanced safety precautions in place, of course.

With hindsight, this was the right thing to do, as this was the only way for us to continue generating sales revenues in our successful business divisions and protect our value chains.

Nevertheless – and this brings me now to the business figures – we have not succeeded in bucking the general trend of an economic downturn, which we have already been observing for two years. Even though the fallout from coronavirus and the economic crisis has been significantly milder in our company than in other companies in the mechanical engineering sector.

## II.

As I was just saying: After an outstanding fiscal year 2017/18, which was historically the best ever for TRUMPF, we began to feel the effects of a

weakening global economy from October 2018 onwards. In the period that followed, sales revenues remained strong. However, the main reason for this was our backlog of orders, which was still very healthy.

Let us now take a closer look at the sales revenues of the TRUMPF Group in the past fiscal year, which ended on June 30, 2020.

Compared with the previous fiscal year, sales revenues fell to just under 3.5 billion euros. This corresponds to a decrease of 7.8 percent. As I mentioned, we initially benefited from our high order backlog, with the result that sales revenues were 210 million euros higher than incoming orders.

You can now see our order intake behind me. As stated, it fell more sharply than sales, down 10.9 percent to 3.3 billion euros. In fiscal year 2017/18, the figure was 3.8 billion euros. We are therefore talking about a decline in new orders of half a billion euros within just two years. This is a figure that prompted us to take decisive action on cost management even before the coronavirus pandemic.

### III.

Let us now take a look at our business divisions and business fields.

Sales revenues in Machine Tools, our largest business division, fell significantly by 11.3 percent to 2.1 billion euros. The declines affected all markets equally, so we did not see any regional “hotspots” here.

Generally speaking, this was due to the fact that the mechanical engineering cycle peaked in 2018 and, as expected, demand for machine tools has fallen since then. In addition, there was undoubtedly a coronavirus impact from China.

We were nevertheless hit particularly hard by the downturn in our most important single market, Germany, which, in addition to the previously mentioned cyclical business in machine tools, we certainly interpret as a

consequence of the structural change in the automotive sector. And yet our decline has been considerably less pronounced than in the machining industry, for example, because we are much less dependent on the automotive industry in the machine tool sector.

I would even like to turn it around and say that the technological change is currently creating opportunities for TRUMPF because electromobility benefits from flexible sheet metal processing. In the current phase of development, there are smaller quantities of electric cars in production rather than the hundreds of thousands of units produced with conventional engines.

Precisely because e-mobility is currently working with smaller production runs and still involves many changes in design, for example to the battery housing, flexible sheet metal processing has a clear advantage over large presses.

We are also supplying TRUMPF machine tools, such as pipe cutting machines, to completely new areas that are currently generating high sales revenues due to coronavirus and people working from home. One of these areas is logistics, because the trend towards digital shopping is increasing the demands on warehouses. Home fitness equipment, e-bikes, office furniture and home office accessories are also selling very well.

All in all, we can say that incoming orders in the mechanical engineering sector have fallen by around 30 percent in total. The trends that I mentioned helped TRUMPF to achieve a drop of only 11 percent despite coronavirus, the global economy and trade disputes. This makes us reasonably optimistic about the coming months; I will say more about this at the end when I talk about the outlook.

At 1.2 billion euros, sales in the Laser Technology business division were 13 percent down on the previous year.

We partly attribute this to stronger Chinese competition in the laser sector in terms of numbers, which led to lower market shares for our high-tech lasers, especially through cheaper “good enough” products.

But: We have adapted our strategy accordingly and now intend to take an even more systematic approach to the so-called “high-volume market”, i.e. the market characterized by high volumes at low unit prices. This is why we have set up a dedicated organization for this purpose at TRUMPF.

Our declining sales figures were also a reflection of the structural change in the automotive industry, particularly in our home market, Germany, where there is an established link between laser technology and the automotive industry. Falling numbers of registrations for cars with internal combustion engines coupled with provisions made by the companies themselves in view of possible fines led to lower sales revenues in this area.

And yet, as with the Machine Tool division, we are optimistic that we will be able to generate an increasing share of sales as a result of electromobility and make full use of this drive technology for TRUMPF – for example in welding battery cells! Mr. Schmitz can say a few more things about this later in the Q&A session...

So even if we see a negative figure, we are not too pessimistic about the analysis. Given the severity of the pandemic – especially in China, our most important laser market – the aggressive price war by some competitors, and the trade disputes between China and the USA, we have been able to hold our ground reasonably well.

In addition to the two large business divisions Machine Tools and Laser Technology, we are also reporting individual business fields separately for the past fiscal year. Or documenting particularly good performances in certain sub-divisions – in this case, sub-divisions of Laser Technology.

In the first instance, I am talking about the Electronics business field based in Freiburg and Warsaw, which grew at a double-digit rate to achieve sales revenues of 230 million euros, an increase of 15.0 percent over the previous year.

This was due to the rapidly growing solar business in China, where we supply components. Most notably however, TRUMPF increased its market share in semiconductor sectors in the US and Japan – driven by applications in the “Internet of Things” and big data management. The display business within Electronics also grew by more than 50 percent, driven by 5G and smartphone-related applications.

I would also like to mention EUV, a technology but also laser technology business field, which reports separately. Here, we once again increased our previous year's sales revenues of 388 million euros to 460 million euros: an increase of almost 19 percent. As a result, EUV again made a significant contribution to Group sales revenues in the past fiscal year – almost as much as TRUMPF's entire US subsidiary.

EUV took a long time to reach market maturity. Today we are benefiting enormously from the fact that we had staying power back then. And even if it might bring bad luck to talk about things ahead of time:

We are delighted that ZEISS, Fraunhofer and TRUMPF have been nominated for this year's Deutscher Zukunftspreis (German Future Prize) for their work in developing EUV technology. From an industrial policy point of view, too, this is an important signal that Europe is also a player in the race for semiconductor production, especially in relation to Asia!

#### IV.

Let's now move on from the business fields to take a look at sales revenues by region. And here the picture is a familiar one as far as the leading positions are concerned.



- In Germany, our strongest single market, sales revenues fell from 721 million euros in the previous year to 612 million euros: a drop of 15 percent. As I said earlier, the main reason for this is the decline in the automotive business.
- Markets in Europe developed along different lines for TRUMPF. EUV sales revenues from our customer ASML in the Netherlands were a major growth driver. At around 480 million euros, the Netherlands was the third strongest TRUMPF market after Germany and the US.
- By contrast, sales revenues in the other European markets declined or stagnated. This was the case in Eastern Europe as well as in Western European countries like France, Italy, and Spain.

Let's now take a look at the American continent, where the market also performed less well, following the growth of previous years.

- In our second largest single market, the US, we recorded a decline of 10 percent to 490 million euros. Even the US government's tax reforms and self-assured stance in the trade dispute with China – that is, the strengthening of local supply chains, which many of our customers view positively – could not prevent this.
- The mechanical engineering cycle also played a central role here. In America, for example, we were already seeing a decline even before the coronavirus pandemic, especially since the previous fiscal year was a record year as well, while the crisis symptoms in an east-west direction had long since started to show in Europe.
- Of course, coronavirus also played a role in the decline of the US business, considering how labor laws and social legislation in the US differ from those in countries such as Germany with regard to

short-time working benefits, etc. Many of our customers simply shut down their production for two to six weeks in spring, with a high degree of uncertainty as to how things would continue. During this period, hardly any investments were made – which is perfectly understandable from a human perspective.

- This was complemented by a more positive trend in Canada, where sales increased by a good 25 percent to 80 million euros.

Let's now take a look at the Asian markets, which declined as indicated.

- Overall, our sales revenues in the Asia-Pacific region fell by 6.4 percent to just under 800 million euros. Sales revenues in our largest Asian market, China, again declined, shrinking by 16.0 percent to 348 million euros, compared to 415 million euros in the previous year.
- Apart from the previously mentioned downturn in the laser business, the main reason for this was definitely the coronavirus pandemic at the beginning of the year, which the government responded to with a restrictive set of regulations and, unlike in Europe, did not actually allow any economic activity. Although we saw a recovery at the end of the fiscal year, this did not fully make up for the months of poor performance during the coronavirus period in China.
- Japan, an important but highly volatile mechanical engineering market by tradition, also recorded a significant decline of 14 percent to 148 million euros following growth in the previous year.
- South Korea was the only country to record significant growth again after a weak previous year, with growth of 14 percent to 134 million euros thanks to major orders. These orders related to applications in the display industry.

What do these figures mean for our internal sales revenue split and analysis? They confirm the motto of this year's annual report: "A Changing World".

- Because we had to struggle in traditional markets such as Germany, our home market, Germany's share of TRUMPF's total sales revenues dropped to 17 percent from 19 percent in the previous year.
- Europe excluding Germany accounted for 40 percent of our sales revenues.
- The portion attributable to the American markets rose slightly to 19.0 percent.
- Despite the negative sales trend in China, Asia's share also increased slightly year on year to 22.9 percent.

V.

Ladies and Gentlemen, after looking at our regional trends, I would now like to turn to the most important key figure, operating earnings before interest and taxes, EBIT.

In fiscal year 2019/20, this fell by 40 million euros, from 349 million euros in the previous year to 309 million euros.

Given the loss of 300 million euros in sales revenues, this is nevertheless a very good performance by the company. The 11.5 percent decline in EBIT is therefore mainly due to lower sales revenues.

Cost reductions through our Koyer program, the postponement of investments, but above all further efficiency improvements in processes have contributed to this success and significantly slowed the decline in the Group's return.

At 8.9 percent, we therefore achieved another very good EBIT margin almost at the previous year's level. In fiscal 2018/19, it was only marginally higher at 9.2 percent. The reduction in capacities and non-personnel costs as well as improvements in efficiency were the decisive factors here.

We responded to the macroeconomic consequences of the coronavirus pandemic in spring 2020 by implementing further cost-cutting measures, such as the utilization of excess balances on working time accounts and accumulated vacation days and the introduction of short-time working, as mentioned above. This has contributed significantly to the stabilization of the company.

As far as personnel costs are concerned, we followed a very clear and, above all, objective scheme, as regulated in principle by our “Jobs Alliance” (Bündnis für Arbeit). Initially, we significantly reduced staff leasing and fixed-term contracts, which at TRUMPF – unlike in the automotive industry, for example – only account for an average of 4 percent of total capacity in the case of staff leasing contracts and about 12 percent in the case of fixed-term contracts. The percentages are even lower here in Ditzingen.

At the same time, we started to “run down” overtime accounts across the board. Since April, short-time working has also been imposed.

As a result, we are now in a position to announce a good margin of 8.9 percent today, which will also enable us to pay out a profit share to employees covered by collective wage agreements and bonuses to managers at the end of the month.

## VI.

This brings me to our investments and headcount development, starting with research and development spending – our investment in the future.

- R&D expenditure fell by almost 5 percent to 377 million as a result of coronavirus and the Koyer program. By contrast, the R&D ratio in relation to sales has increased to almost 11 percent and thus remains at a very high level, well above the industry average.
- At 14,325, the global number of employees at TRUMPF has remained almost at the previous year's level; the difference worldwide only amounts to around 160 positions, which we have reduced through natural fluctuation and structural changes within the Group.
- Of our 14,325 employees, 7,437 – so more than half – were working in Germany as of June 30, and 4,353 of our German employees are based at our headquarters in Ditzingen and neighboring Gerlingen. In other words, more than a third of TRUMPF employees worldwide work here in Ditzingen. Although, as we have just seen, Germany's share of sales revenues has now fallen to less than one fifth, exactly 17 percent.
- In the year under review, 513 young people completed a training course or co-op work-study program at TRUMPF. At 3.6 percent, the training ratio was even higher than in the previous year despite the coronavirus pandemic. Here, too, TRUMPF continues to take its socio-political responsibility as a family business very seriously.
- I would therefore like to take the opportunity to inform you about an important personnel matter. Oliver Maassen has been Head of Human Resources and Social Affairs at TRUMPF since 2017. On Monday of this week, he was appointed Group Managing Director by the Supervisory and Administrative Board of TRUMPF effective October 1, 2020, and will thus take over the role of Labor Director from me.
- Coronavirus, dealing with short-time working, working from home, and so on are not the first things to illustrate the central importance

of HR issues for our company. Since the Jobs Alliances (Bündnisse für Arbeit), we have been breaking new ground in terms of flexible working time models. In this respect, this appointment also reflects TRUMPF's strategic orientation in the area of human resources.

## VII.

Finally, I would like to comment on the investments made in the past fiscal year.

- As part of the “Koyer” earnings improvement program that I mentioned earlier, we drastically scaled back investments by a third to 194 million euros - after 288 million euros in the previous year. Tangible assets, and in particular construction projects that had already been started, accounted for 183 million euros. Some of you will perhaps take part in the guided tour of our smart factory later on...

The following can be added to the acquisitions made by TRUMPF:

- Effective July 1, 2019, we acquired Aixtooling in Aachen, a tool manufacturer for precision optics, through our subsidiary INGENERIC.
- On October 31, 2019, TRUMPF Photonics in the US acquired a 100-percent stake in Stellar Industries, a manufacturer of metallized ceramics that are used, among other things, for the production of diode lasers.
- In December 2019, we acquired a minority share in the French laser technology start-up GLOphotonics. The company is developing a special optical fiber to make laser light faster in material processing.

- In January 2020 we took over HBH Microwave, thereby expanding TRUMPF Hüttinger's technology portfolio to include semiconductor-based microwave generators.

It is particularly important to me to mention climate protection at the end of this section on investments. Last year, we announced that TRUMPF was aiming to achieve a carbon-neutral energy balance at its production sites worldwide by the end of 2020 through the purchase of 100 percent green electricity or corresponding certificates to offset the remaining emissions. We have already achieved this goal this month – so ahead of schedule.

Coronavirus doesn't change the fact that we will stabilize our investments in climate protection as a whole, not only when purchasing electricity. The goal remains to save around 7,000 tons of CO<sub>2</sub> by the end of next year. To achieve this, a total of around 6 million euros will be invested in improving energy efficiency, among other things.

In the past fiscal year, TRUMPF has invested around half a million euros in energy efficiency measures. For example, 1,250 megawatt hours of electricity have been saved by improving our production, testing, and building processes – as well as by converting to LEDs and optimizing our air conditioning.

One of our most important construction projects, the new building in Hüttingen-Langenbühl, is currently in the final stages of completion and will be occupied in January 2021. We are implementing energy efficiency measures amounting to 1.1 million euros and are focusing particularly on optimizing the interaction between manufacturing processes and buildings, for example when heating with industrial heat. In Hüttingen alone, these measures enable us to save around 600 tons of CO<sub>2</sub> per year.

Overall, it is important to us to prioritize this systemic approach. This means always thinking about buildings, processes, material usage and

machines in an integrated way, rather than concentrating solely on green power.

#### VIII.

So much, Ladies and Gentlemen, for the key figures for the financial year, which you can see summarized once again in the background.

This brings me as usual to the outlook. And this inevitably turns out to be subdued, which is largely due to the further course of the coronavirus pandemic and the mounting trade conflicts, for example after the presidential elections in the US.

We have to assume that new orders and sales revenues over the entire fiscal year will decline again compared to the previous year. Although there is light at the end of the tunnel, as the past three months, i.e. the first quarter of the new fiscal year, exceeded our expectations, with incoming orders and sales revenues growing again, albeit from a low level.

In other words, we see cautious signs that the economic downturn is coming to an end, although there is still no real upturn. And as I already mentioned: building on an already low level.

For the current fiscal year, which runs until June 30, 2021, we therefore expect a decline in sales revenues due to the lower order intake level. And also, a lower profit and a declining but still positive EBIT margin.

As I said, it is still too early to be overly optimistic, especially since the coronavirus pandemic reminds us every day that the economic situation can also be abruptly transformed for the worse.

And yet, in view of the very “delicate” economic recovery, we are also assuming that we will be able to release an increasing number of employees from short-time working, so that the percentage will fall further from the



current 27 percent in October. This is also important as a signal to the workforce.

We can't second-guess what the future of the working world will look like – even if some people already believe they can answer this question today. To state this clearly in terms of the “new normal”: We do not want to succumb to the blind activism we see in other companies.

We want to think through the processes from start to finish and, based on comparative studies, first form a solid opinion about the demonstrable impact of working from home on productivity in the long term.

But we also want to understand the cultural and social consequences when people stop meeting up for weeks and months at a time. What happens to the special spirit and cultural distinctiveness of a company when relegates its employees to their home offices for months on end? How should employees form a bond with their company? Doesn't it matter in the end where I work, and for whom?

For these reasons, we consider the belief in an extensive shift to working from home to be risky, particularly since the options for a production company are limited, in any case. You can't exactly install a machine from home, of course.

We also want there to be real interaction within management functions and administrative activities, which – in our own experience – is also the basis for innovation.

## IX.

This brings me to the last section: our technological responses to a changing world.

Now more than ever, we are there for our customers. This is also the motto of our annual report, which you will find in front of you. Right now, we are looking for new business fields for the post-coronavirus, post-crisis world. Here are just four examples:

1. I have already mentioned EUV technology several times, and we will be hearing a lot more about this in the future.
2. My brother in particular is active in the field of quantum technology. We can point to spin-offs such as “Q.ant” from our in-house incubator “Internehmertum”, for example. This is an initiative where TRUMPF employees are given money and working hours to become entrepreneurs themselves.

There is now also an expert council on quantum computing initiated by the German government, which was constituted a few days ago. And which is headed by my brother as co-chair.

3. A third topic is the new smart factory here in Ditzingen, through which we will give you a guided tour under special hygiene conditions. Our digital manufacturing facility provides an example of how smaller companies can also benefit from digitization. Customers can learn how to produce up to 30 percent more efficiently in our smart factory.
4. A fourth and final topic is a very special one, which was already reported on earlier this week. What we are talking about here is nothing less than a completely new understanding of mechanical engineering sales, meaning that our customers no longer have to buy an expensive machine as they used to, but pay a fee per part produced.

We will now watch a short film about this, after which my husband will say a few words. Let me just say this much in advance: This is the first time that TRUMPF is cooperating with a renowned Dax company like Munich Re and its subsidiary Relayr on a business model for machine tools.

X.

Ladies and Gentlemen, you can see from the initiatives that I have mentioned that we are looking for new growth areas for TRUMPF. Not least in order to overcome the current crisis as soon as possible.

I would like to expand on what has been said by adding that we intend to use our Neukirch site in Saxony as the operational headquarters for this new project. Remote and service access to our machines will be coordinated from Neukirch, as will the administration. In other words, we are deliberately entrusting a region that is in the midst of structural change in connection with the lignite phase-out with the management of a digital project for the future.

A good interplay between politics and business is important to us, and not only because of this particular example. In this difficult economic situation, what companies do not need are higher taxes and more regulation, from the legal right to home-based working to liabilities in the supply chain for the actions of third parties. And the EU plans now underway to increase CO2 targets also represent a major challenge for European industry. No matter how correct the underlying goal of a more sustainable economy may be.

But first we, too, will be looking at the further progress of the coronavirus pandemic and the coordination between the federal and state governments. Despite all the advantages of federalism, a pandemic must ultimately be tackled in a unified manner – not least for the sake of public acceptance.

Thank you for your attention. We will now be happy to accept questions, which Mr. Möller will moderate.