

Strategy update: thyssenkrupp speeds up realignment

- Systematic evolution to create a “Group of Companies” with strong performance and structured portfolio
- Clear focus on industrial prospects, competitive profitability and cash flow
- Materials Services and Industrial Components to be developed by the company on its own
- Automotive Technology will also remain within the Group; selective strengthening through alliances and development partnerships
- Steel and Marine Systems: increase profitability for future development within the Group; parallel discussion of possible consolidation options
- For businesses with sales of around €6 billion and no long-term prospects within the Group, thyssenkrupp is primarily seeking development paths outside the company
- CEO Martina Merz: “We have taken some difficult decisions that were long overdue. thyssenkrupp will emerge smaller but stronger from the transformation”

Despite the current challenges resulting from the coronavirus crisis, thyssenkrupp is continuing to press ahead with the strategic realignment it has initiated. In their meeting today, the Executive Board presented its respective plans to the Supervisory Board. At the core of the new strategy is the transformation of the company into a high-performant “Group of Companies” with a lean management model and a clearly structured portfolio. In the future, the company’s businesses will be divided into two categories: those whose potential thyssenkrupp will develop on its own or together with partners, and those for which thyssenkrupp will primarily pursue development paths outside the Group.

Martina Merz, Chief Executive Officer of thyssenkrupp AG: “In recent months, we have left no stone unturned in very carefully examining the individual development potential of each business for thyssenkrupp. The most important aspect of this work was to decide which constellation would offer each unit the best prospects for the future – a place under the thyssenkrupp umbrella, in a partnership or outside the company. With this reassessment of the portfolio, we have taken some difficult decisions that were long overdue and will now implement them systematically. thyssenkrupp will emerge smaller but stronger from the transformation.”

Clearly structured portfolio of materials and capital goods businesses

Based on the potential of each individual business, the following portfolio decisions were taken. The former Business Areas will be known as “Segments” going forward:

- On the basis of its own market position and competitive strength, thyssenkrupp sees persistently good development potential in **Materials Services** and **Industrial Components** (Forged Technologies and Bearings). The company will continue to develop these businesses on its own in the future. thyssenkrupp will keep the **Automotive Technology** business within the Group. In line with the industry trend for collaboration, alliances and development partnerships are also conceivable on a selective basis. Given the specific market and industry situation for **Steel**, thyssenkrupp is pursuing performance improvement measures under a stand-alone development within the company while, at the same time, exploring possible partnerships and consolidation options. The same two-way approach applies to **Marine Systems**.
- Those businesses for which thyssenkrupp sees no sustainable future prospects within the Group for various and very specific reasons will be managed separately. These units will be combined in the “Multi-Tracks” segment under the leadership of Dr. Volkmar Dinstuhl, Head of Mergers and Acquisitions at thyssenkrupp AG. For **Plant Technology**, the **stainless steel plant (AST)** in Terni, Italy, including the associated sales organization, **Powertrain Solutions** and **Springs and Stabilizers**, thyssenkrupp is seeking partnerships or a sale. Restructuring will continue at the Springs and Stabilizers business. For **Infrastructure** (formerly GfT Bautechnik), **Heavy Plate** and **Battery Solutions**, thyssenkrupp is examining the option of a sale or the closure of sites. Employing a total of some 20,000 people, the Multi-Tracks businesses account for annual sales of around €6 billion. In the previous fiscal year, the businesses recorded a negative business cash flow of around €400 million. From the next fiscal year, separate financial reporting is planned for this segment.

Systematic performance management in the businesses

The overarching goal of the revised strategy is to boost the performance of all businesses. Each unit has been set an individual profitability target, based on benchmark analysis. All targets are to be systematically backed with specific measures. The businesses’ management teams bear full responsibility for the results. Within the Group, capital is allocated based on the anticipated value contribution.

Dr. Klaus Keysberg, Chief Financial Officer: “The ‘performance first’ principle remains in place and is now more important than ever. After completion of the Elevator transaction, it is crucial to increase profitability of the remaining businesses in such a way that we can generate a sustainably positive cash flow without the Elevator business. In addition, all

businesses must earn at least their cost of capital – and we would obviously welcome more in the long run.”

Elevator transaction creates capacity for action

In order to finance the realignment, thyssenkrupp decided in February this year to sell the Elevator business to a consortium of financial investors for €17.2 billion. The cash proceeds are expected by the end of the current fiscal year at the latest. Given the current uncertainty in the macroeconomic environment, the company initially intends to retain the greatest possible flexibility in using the funds. In a first step, thyssenkrupp will use the proceeds to repay financial debt along the maturity profile. The Elevator transaction will substantially improve the company’s equity ratio. This also makes fundamental structural changes possible.

In addition, part of the proceeds will be selectively used to develop businesses where respective target margins can be achieved. The exact allocation and priorities for using the funds will depend on how the corona crisis develops; today, this cannot yet be forecast with any adequate degree of accuracy.

Martina Merz: “Despite corona, the sale of the Elevator business gives us the capacity for action. We are now able to initiate the necessary restructuring and portfolio measures. The Executive Board and the businesses’ management teams are in total agreement about what needs to be done now. This allows us to systematically press ahead with the implementation.”

Steel: discussions about possible consolidation

In order to safeguard the competitiveness of its steel business, thyssenkrupp recently adopted the “Steel Strategy 20-30” and negotiated the corresponding collective agreement with employee representatives. This strategy remains the correct course of action. The plan encompasses the reduction of 3,000 jobs, optimization of the production network and additional investment totaling €800 million over the next six years. With this, thyssenkrupp is paving the way to make the steel business sustainably viable in what is an extremely challenging competitive environment. The goal is to keep steel production with its integrated value chains and associated jobs in Germany over the long term.

In the past, thyssenkrupp has repeatedly emphasized the benefits of consolidation in the steel industry. The necessity is only heightened as a result of the corona crisis as there will be a structural increase in existing overcapacities in Europe. In addition, thyssenkrupp sees favorable opportunities in speeding up the requisite transformation toward climate-neutral steel production, provided the industry pools its resources and legislators create the framework needed.

This is why thyssenkrupp is also examining possible consolidation solutions for Steel Europe and is keeping all its options open. With the knowledge of the Supervisory Board, discussions are already ongoing. Implementation of the “Steel Strategy 20-30” remains a component of each potential scenario.

Seeking a national or European solution for Marine Systems

Alongside Steel, thyssenkrupp is also actively seeking consolidation options for its Marine Systems business. In light of the current competitive situation and its market position, the company sees long-term future prospects in developing Marine Systems together with partners. thyssenkrupp believes that naval shipbuilding will be better able to compete in domestic and international markets in a consolidated set-up.

Oliver Burkhard, Chief Human Resources Officer and Labor Director of thyssenkrupp AG with responsibility for Marine Systems: “In order to safeguard jobs and shipyard sites, it makes sense to create a strong naval shipbuilding company. This is why thyssenkrupp is open to solutions that will further strengthen the position of Marine Systems in the long term. Both national and European options are viable.”

Against this backdrop, thyssenkrupp is in intensive discussions with various potential partners. Politics is also involved in these considerations.

Strengthening the automotive components business within the company

Automotive Technology, in which thyssenkrupp has made substantial investments globally in recent years, will be continued as a segment and undergo strategic realignment. In the wake of the automotive sector’s ongoing transformation, size and technology leadership are increasingly becoming mission-critical.

Alongside further measures to enhance performance and competitiveness, Automotive Technology will therefore align with the industry trend in exploring, evaluating and independently pursuing strategic options to develop the automotive components business in alliances and development partnerships. The guiding principle in this approach is to selectively extend product and system competencies as a means of expanding the company’s technology leadership in this area and creating the basis to improve its market position overall.

Aligning all areas of the organization with portfolio development

The portfolio transformation and the stronger focus on performance will take the organization another step forward. It means thyssenkrupp will evolve into a Group of Companies with efficient, independent businesses, a strong umbrella brand and the leanest possible holding. In the future, headquarters will be responsible first and foremost for governance, portfolio and investment (capital allocation) decisions. In keeping with this new role, headquarters is to be aligned with the structure and size of the Group of Companies.

“We have a clear roadmap for the future. We are transforming thyssenkrupp into an international group of largely independent, efficient industrial and technology businesses. The focus lies on industrial development and competitive financial results. With our products and services, we make an important contribution to a better and sustainable future. We combine a performance culture with entrepreneurial and social responsibility. These are the values that will guide the new thyssenkrupp,” Merz concluded.

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