



BOSCH

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**Bosch stays on course through the coronavirus crisis –
achieving positive result and carbon neutrality**

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Chairman of the board of management, Robert Bosch GmbH,
and Prof. Stefan Asenkerschbaumer,
deputy chairman of the board of management,
Robert Bosch GmbH,
at the new year's media briefing
on February 3, 2021

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Ladies and gentlemen,

- The coronavirus pandemic still requires us to stay distanced. Despite this, or precisely because of this, we want to foster close dialogue with you. It therefore gives me particularly great pleasure to welcome you to our new year's media briefing. At least there are some reasons to be hopeful – foremost among them the start of vaccinations at the turn of the year. Our outlook for the new year is thus one of cautious optimism.
- Which topics will we be touching on this evening? We'll start by reviewing the past year: how did Bosch's business develop in 2020? But beyond that, what prospects and business opportunities do we see in climate action and mobility, the internet of things and artificial intelligence?
- The year 2020 was very much defined by coronavirus – socially, politically, and economically.
- It was a year that demanded a great deal from all of us: our customers, our suppliers, and the Bosch team.
- It was a year in which our associates demonstrated what "We are Bosch" means, even in the face of adversity: initiative, solidarity, and staying power. They achieved extraordinary things, whether in the smooth, rapid ramp-up of more than 100 affected plants following shutdowns, or in developing a rapid coronavirus test in just six weeks – a test that also reliably detects mutant coronaviruses. And at the same time, they set a milestone in the fight to mitigate global warming: according to in-house calculations, Bosch and all its 400 locations worldwide have been climate-neutral since spring 2020 – earlier, with fewer offsets, and more cost effectively than expected. I'm particularly proud of that. An independent audit is currently being carried out.
- So before I take a look at the preliminary business figures, I would first like to thank our associates around the globe on behalf of the entire board of management. Without their strong commitment and solidarity, Bosch would not have been able to manage the coronavirus crisis as well as it has.
- In fact, our business developed better than expected in 2020. Despite the effects of the pandemic, we were able to achieve a very positive result. Once again, our broad global footprint and our diversification proved their worth.

- The situation remains challenging, and unfortunately we cannot drop our guard – and this not only because of the ongoing coronavirus pandemic. We must also still contend with pressure resulting from the decline in automotive production and structural change in the industry.
- Stefan Asenkerschbaumer will now present the preliminary business figures for 2020. He will follow this with an initial appraisal of the current year.

Business year 2020: development better than expected

- Thank you, Volkmar! Ladies and gentlemen, I would also like to welcome you, whether at home or in your newsrooms.
- In economic terms, 2020 was dominated by the coronavirus pandemic. The suspension of public life led to an economic slump in almost every country in the world, especially in the second quarter. Entire industries were forced to shut down. This also posed major challenges for the automotive industry with its closely interwoven global supply chains.
- At Bosch, this caused business development to plummet in the spring: our sales in April and May fell by an average of around 40 percent compared with the same months of the previous year. When restrictions eased in the second half of the year, economic activity picked up again. This also enabled Bosch to make up a great deal of lost ground.
- We are very satisfied with the way business developed overall in 2020 despite the crisis. We achieved a very positive result. Overall, Bosch Group sales also developed better than we were expecting in the middle of the year.
- Before I come to our key figures, I would like to touch on some of our crisis management measures. We acted quickly to align our costs with the decline in sales. But we also ensured that we continued to push ahead with promising new areas such as electromobility and AIoT.
- Moreover, together with our employee representatives we were able to quickly find solutions to safeguard jobs through commensurate savings in personnel costs – taking advantage of wage subsidy programs, reducing working hours, and giving managers unpaid leave. Our associates supported the necessary cost-cutting measures across all levels. I would like to take this opportunity to add my sincere thanks for this.

- We were just as thorough when it came to capital expenditure: by reducing capital expenditure we were able to save more than 1.1 billion euros of cash compared with the previous year. Our capex ratio amounted to some 5 percent. This also enabled us to increase our liquidity.
- But what does this mean in concrete terms for our preliminary business figures? As in previous years, the key figures we disclose are taken from our internal reporting system, which may differ somewhat from the external figures in the annual report:
- The sales of the Bosch Group amounted to 71.6 billion euros: a year-on-year drop of 4.4 percent after adjusting for exchange-rate effects.
- Our EBIT reached approximately 1.9 billion euros.
- This puts the estimated EBIT margin at around 2.5 percent of sales.
- This result includes restructuring expenditure to the tune of some 1.4 billion euros – which will strengthen our profitability in the long term.
- After adjusting for this expenditure, we achieved an estimated EBIT of approx. 3.3 billion euros – a margin of roughly 4.5 percent.
- The cost adjustments and cutbacks in capital expenditure have also created positive free cash flow of some 5 billion euros. This is the highest figure in our company's history – despite the fact that in the first half of the year we were still forecasting a year-on-year decline.

Business year 2020: developments by business sector

- Ladies and gentlemen, sales fell in three of our four business sectors, albeit to varying degrees. Only our consumer goods business saw sales growth.
- Industry shutdowns hit **Mobility Solutions**, our biggest business sector, particularly hard. At 42.3 billion euros, sales were down 9.5 percent on the previous year. After adjusting for exchange-rate effects, the decrease was 8.1 percent. Overall, however, our business grew faster than the market, where automotive production contracted by 15 percent.
- The **Consumer Goods** business sector served to stabilize our business. We benefited here from an extraordinary boom in household appliances and power tools as the coronavirus pandemic caused consumers to focus their energies on their home environment. Despite the collapse in the spring, sales rose a nominal 5.2 percent to 18.6 billion euros. After adjusting for exchange-rate effects, this figure rises to 8.2 percent.

- The **Industrial Technology** business sector was again unable to escape the continuing market weakness in 2020. In addition, the coronavirus crisis is having a major impact on business. At 5.1 billion euros, overall sales were 16.0 percent down on the previous year, or 15.0 percent after adjusting for exchange-rate effects. Encouragingly, order intake has also been picking up in this sector since the fall.
- The **Energy and Building Technology** business sector benefited from subsidy programs for climate-friendly heating systems and stability in the integrator business in building technology. The product business here was less favorable. For example, the cancellation of many events led to considerable losses in conference and public-address technology. Overall, however, the decline in sales was limited, with revenues falling by 3.4 percent to 5.4 billion euros. Adjusted for exchange-rate effects, this is a decrease of just 2.0 percent.

Business year 2020: developments in the regions

- Ladies and gentlemen, next I will take a brief look at the development of sales in the individual regions. Here, too, the slump in sales in the spring left its mark, albeit to varying degrees.
- Sales revenue in **Europe** totaled 38.0 billion euros. This represents a decrease of 5.7 percent, or 4.6 percent after adjusting for exchange-rate effects.
- Sales in **North America** declined by 14.0 percent to 10.8 billion euros, an exchange rate-adjusted drop of 12.0 percent.
- In **South America**, exchange rate-adjusted revenues fell by 2.5 percent to 1.1 billion euros. In nominal terms, sales fell by 21.0 percent.
- In **Asia-Pacific**, revenues totaled 21.7 billion euros, which was fortunately only a slight decrease of 1.4 percent. After adjusting for exchange-rate effects, sales in fact grew by 0.5 percent. The early market recovery and the positive sales trend in China helped. Our sales in China exceeded sales in Germany for the first time in the company's history.

Business year 2020: headcount development

- Ladies and gentlemen, let us now take a look at headcount development. As of December 31, 2020, the Bosch Group employed some 394,500 associates worldwide. Of these, 129,900 were employed in Germany.

- Our worldwide headcount was down just 1.1 percent year on year. This shows that we have so far been able to keep employment levels virtually stable, despite the crisis – in our research and development units headcount even slightly increased, which we did to ensure we can continue to drive forward key strategic investments.

Outlook for 2021: subdued development of the global economy

- It is not only the coronavirus pandemic that makes us view the new business year with caution. We must be prepared for a slower pace of recovery in the global economy than in recent months. After contracting by around 4.5 percent last year, we estimate growth of just under 4 percent this year.
- Yet it is not only the persisting consequences of the pandemic that are holding growth back. Political developments such as Brexit and continuing strategic competition between the U.S. and China with its potential for trade restrictions are also negatively impacting global economic development.
- It is a similar picture in the automotive industry. Roughly 85 million vehicles will roll off the assembly lines worldwide this year. In 2020, automotive production collapsed to approx. 78 million units, down from a good 92 million in 2019. To remind you: the historic high in this segment – 98 million units – was reached in 2017. This points to overcapacity in the market – of as much as 20 percent. At present, the bottleneck on the global semiconductor market is making business in the automotive industry more difficult – and it has not left Bosch unscathed either.
- Ladies and gentlemen, given the continued volatility of our business environment, we do not wish to give you sales and earnings forecasts for the current year at this time.
- It remains our goal to grow more strongly than the markets in the sectors and regions that are important for us. Irrespective of the pandemic's further development, we must continue with the necessary structural adjustments that have already been initiated. To achieve this, we will continue to strive for solutions that are as socially acceptable as possible – we see this as our Bosch way.
- Our aim is twofold: to lead Bosch out of the coronavirus crisis stronger than before, and to help successfully shape the structural change in the automotive industry.

- At the same time, we will be working without let-up on our competitiveness and profitability. Our target for EBIT margin – as you know – is around 7 percent. We need a sound financial basis to be able to expand promising new areas.
- But what are the future growth areas for Bosch, and what are our challenges? Volkmar Denner will now tell you.

Strategy I:

Sustainable growth – with climate neutrality and electromobility

- Thank you, Stefan. Ladies and gentlemen, I would like to begin my strategy overview with the Bosch compass that guides us, especially in times of crisis. I am referring to our “Invented for life” ethos. It is an ethos that is manifested in products and services that save lives, improve quality of life, and keep our impact on the environment and resources to a minimum.
- Invented for life – this spurs on our engineers above all to regularly produce pioneering achievements. Our AVP automated valet parking, for example, is the first solution for driverless driving to be officially approved by the authorities. And in the next few months, we will put the world’s first radar-based assistance systems for motorcycles into mass production, for BMW as well as for Ducati and KTM – we describe these as virtual shields for riders.
- Invented for life – this idea guides our very strategy. We focus it clearly and systematically on areas of future importance – areas we can help shape, areas in which we want to and can grow. One of them is AIoT, the interplay of the internet of things and artificial intelligence; another is sustainability with a focus on climate action.
- We made Bosch climate neutral – a first for a global industrial company – but our climate action doesn’t stop there. Through our new company Bosch Climate Solutions, we want to pass on our experience to other companies. It has attracted a lot of interest, and gained its first few customers – including companies as diverse as Freudenberg and Hansgrohe, Köhler Papier and Prettl. With this CO₂ advisory service, Bosch is making it easier for more companies to quickly become climate neutral. And we are turning climate action into a new business model with which we can grow.

- In addition, we want to further drastically reduce the carbon footprint along our supply chain; in other words, we are tackling what are known as Scope 3 emissions. To this end, we were the world's first automotive supplier to agree a binding target with the Science-Based Targets initiative: to cut CO₂ emissions 15 percent by 2030. This calls for new and improved technical solutions for our products, and not least for the future of driving. Bosch climate action must also take place on the road.
- But what does sustainable mobility mean? Fundamentally, this concerns the powertrain of the future. For Bosch, this future is open; in any case, we have always thought in terms of alternatives. We will invest some 700 million euros this year on the road to electromobility, after 500 million euros last year. In total, we have already made upfront investments of a good 5 billion euros.
- Again, the effort is paying off: since 2018, Bosch has acquired 90 powertrain electrification projects, including 30 last year alone worth 7.5 billion euros. We are currently growing twice as fast as the market. More than 2.5 million vehicles around the world currently feature Bosch electric powertrain components. For Bosch, our business with electromobility is already worth several billion euros.
- Electromobility is thus becoming one of Bosch's core businesses. Nonetheless, in times of structural change, we would be well advised to continue thinking in terms of alternatives. Even when it comes to electric driving, we are not just relying on batteries; we are also readying fuel-cell drives for large-scale production. Electric cars are carbon neutral when they run on renewable electricity, and the same goes for diesel and gasoline cars – provided they run on synthetic fuels. The upcoming Euro7 regulation should not squander this opportunity to mitigate global warming.
- Even now, modern diesel and gasoline engines no longer have a significant impact on urban air quality. But our current understanding of the European Commission's proposals suggests that they would be obligated to comply with the Euro7 limits in every driving scenario, no matter how unrealistic – which will not be possible without making vehicles considerably more expensive.
- Fundamentally, we find ourselves in a challenging transition phase. This should be clear to everyone involved – including the politicians responsible for passing regulations.

- Electromobility is coming and nobody disputes this – Bosch has been actively driving forward this shift for years. But the upfront investments to finance it have to come from our existing powertrain business. And to keep as many associates as possible on board during this transformation, it is crucial that the transition be smooth. We can make all powertrain alternatives – whether diesel, gasoline, or electric – carbon neutral. Just because something is socially and economically right, it doesn't have to be ecologically wrong. We must maintain a balance between economic, ecological, and social considerations. Helping the automotive industry transition to climate-friendly, green mobility, while safeguarding jobs at the same time, should be the goal. At present, however, I can see a one-sided emphasis on the ecological perspective, with the implicit assumption that business will be able to take this in its stride. This urgently needs rethinking.

Strategy II:

AIoT as a growth opportunity — making connected products intelligent

- The automotive powertrain example clearly shows the mix of opportunities and challenges that the topic of sustainability creates for a technology company like Bosch. New growth can emerge from this.
- This brings me to another area of future importance to our company. If any company can connect its product portfolio with the internet of things (IoT) and artificial intelligence (AI), then it is Bosch. We call this combination “AIoT.” We want to become the leading supplier in this area – and we have more at our disposal than most of our competitors: both broad domain knowledge and extensive expertise in electronics and software.
- With AIoT, we create benefit for our customers – such as lower energy costs and increased comfort and safety. Meanwhile, for us, AIoT opens up the possibility of a closed value-creation cycle. To date, Bosch has understood value creation to mean primarily the manufacture and supply of products. Only connectivity generates information about how our products are used – field data that we can analyze with the help of AI to improve product use via software updates or as the basis for new functions and services.

- The technical prerequisites are in place: an IoT suite to connect devices, sensors, and gateways; cloud infrastructure to process data; and an AI platform to rapidly scale up artificial intelligence applications. Now it's a matter of turning technical expertise into business.
- Bosch is on track to becoming a leading AIoT company. We have already sold some ten million connectivity-enabled power tools, home appliances, and heating systems, and the number of active users is growing. Altogether, more than 90 percent of all Bosch electronic products already feature connectivity. Moreover, from 2025 at the latest, every Bosch product will either contain AI or have been developed or manufactured with its help.
- Work done at the Bosch Center for Artificial Intelligence (BCAI) is now bearing fruit. Just three years after it was set up, our initial investment had paid off. Its projects have now achieved a contribution to result of some 300 million euros.
- Artificial intelligence is particularly profitable in manufacturing. At Bosch, it is already being used in 600 production lines. For instance in our highly complex wafer fabs, AI is used in detailed production scheduling, saving time and costs as it guides the wafers through almost 1,000 processing steps. This alone means a 5 percent faster wafer throughput, with an investment payback time of just three months.
- It is above all in Mobility Solutions, our biggest business sector, that we can see the extent to which our path toward AIoT strengthens our expertise in electronics and software. Since the beginning of the year, around 17,000 associates worldwide have been working together in our new Cross-Domain Computing Solutions division. This unit brings together hardware and software development for new automotive electronics architectures.
- With these architectures, we are addressing a future market that is emerging as a result of automated driving. Automation calls for more intelligence in the car. And more than ever, cross-domain vehicle computers will combine the functions of separate control units for brakes, powertrains, and steering.
- The market for software-intensive electronic systems in vehicles is already worth around 20 billion euros. We are expecting to see annual growth of up to 15 percent until 2030.

- In the second half of 2020, Bosch won orders worth around 2.5 billion euros for its vehicle computers. Further deals worth billions are expected to follow this year.
- We are developing AIoT applications across all our business sectors. However, the range of solutions is wide, as we can see from three very different examples:
 - First, intelligent fire protection. Equipped with AI, our Aviotec video-based fire detection system also works in environments where there is no visible light thanks to new video-analysis algorithms we have developed. This means Aviotec can reliably detect smoke and flames even with infrared as the only light source.
 - The second example is fitness tracking. On this subject, we unveiled an AI-enabled sensor at CES in Las Vegas – the first of its kind in the world. The sensor can recognize any new fitness activity that is based on repetitive movement. Its secret is “edge AI.” In other words, the intelligence is in the sensor itself. This minimizes latency and power consumption while also keeping data protected. The global fitness tracking market is currently growing at 15 percent annually (source: Fortune Business Insights).
 - And lastly, artificial intelligence in manufacturing. Our special-purpose machinery unit has developed an application platform for machine-based visual inspection of workpieces. We call it “Machine Vision AI” – and it helps detect even the tiniest scratches on surfaces or defects in weld seams. With applications like these, our prospects for growth are good. This is because industrial solutions account for a large share of the global IoT market, which is expected to grow by 11 percent annually until 2024 (source: IDC).

The coronavirus isn’t everything – Bosch remains on course to achieve its goals

- The versatility of our AIoT solutions perfectly illustrates Bosch’s broad diversification. And on a personal note, I might add that although we must continue to navigate prudently through the coronavirus crisis, we are not losing sight of the strategic goals we have set ourselves.
- Yes, 2020 was an extraordinary year, and yes, 2021 will hardly be less challenging, but still we remain on course – to enable sustainable mobility for people and goods and to become a leading AIoT company.

- The crisis is not over yet. To remain viable in the future, we will continue our work on costs. But the medium-term targets we have set hold out the promise of sound growth. I'm sure we'll now have a lot to talk about. But for now, let me thank you for giving me your time.