



## **Press Release**

### **Annual Press Conference on Fiscal Year 2009**

#### **Behr: Market Drop Leads to Massive Losses in 2009**

##### **Growth in sales expected for 2010 / Turnaround targeted for 2011**

Stuttgart, April 20, 2010

In 2009, light vehicle production declined by 20% in Europe and by 32% in North America. The truck market was hit even harder with decreases of 65% and 34%, respectively. As a result of this market situation, sales of the Behr Group, the vehicle air conditioning and engine cooling specialist, adjusted for the sale of Behr Industry (pending approval by the antitrust authorities), dropped by 22%. Reported sales decreased by 26 % to 2.47 billion euros. Behr concluded the past business year with a massive loss: Earnings before interest and taxes (EBIT), excluding restructuring, amounted to -112 million euros compared to -3 million euros in the previous year. The loss before taxes stood at 235 million euros as opposed to the prior year's figure of 70 million euros; this includes approximately 80 million euros for restructuring expenses. This means that, excluding restructuring expenses, the loss has more than doubled, from 67 million euros to 155 million euros.

Markus Flik, Behr CEO, explained why the crisis has had such a dramatic impact on Behr: "We are strongly involved in three areas that have experienced a massive slump; that is in North America, the truck business, and the premium segment." He added: "We introduced and implemented timely and comprehensive measures to lower costs and capital commitment. These measures took full effect and already resulted in a positive EBIT, excluding restructuring, in the fourth quarter of 2009."

**Outlook for 2010**

According to J.D. Power, in 2010 light vehicle production in North America will increase by 25%. In Western Europe, production is expected to remain virtually constant. The growth markets of Brazil, India, and China will develop positively.

According to Power Systems Research, truck production will increase by 13% in the NAFTA region, by 4% in Western Europe and by 28% in Eastern Europe. In the words of Markus Flik: "It remains to be seen whether these volumes will actually be achieved, especially in Europe. The large fleets remain cautious in their purchasing behavior." The growth markets in South America and Asia will also record higher production figures for trucks.

"In the first quarter of the current fiscal year we were able to increase sales by 28% to 749 million euros compared to the previous year. In the first quarter of 2010, we recorded a positive EBIT, excluding restructuring, of 9 million euros as compared to -47 million euros in the first quarter of 2009", said Hermann Tetzner, Behr CFO.

"On the basis of the market forecasts, we expect approximately 10% sales growth overall for 2010, especially stemming from new product launches and our strong position in the growth markets", emphasized Markus Flik. "As our measures are already showing proportionate results, and given the market trend that is evident at this time, we will be able to halve our losses in 2010. We are confident that we will achieve a turnaround in 2011."

**Fiscal year 2009**

Due to the loss situation, the equity ratio dropped from 22% to 13%. "This is not enough equity capitalization in our industry. That is why we are in search of a strategic investor, who wishes to invest equity capital in the Behr Group," said Hermann Tetzner.

Through the drastic reduction of capital expenditure in fixed assets from 185 million euros to 97 million euros and the reduction of inventories from 308 million euros to 247 million euros, it was possible to limit the increase in net debt to 45 million euros – from 479 million euros to 524 million euros.

In addition to the consistent lowering of committed capital, the focus in 2009 was on reducing costs across all divisions:

- Primarily through increased efficiency, development expenses were lowered by 48 million euros to 206 million euros (8.3% of sales).
- Despite lower production volumes, the plants operated at high productivity levels around the globe and were able to cut their costs by 57 million euros.
- Administrative costs were successfully reduced by 39 million euros.
- Overall, measures to improve earnings, corresponding to 229 million euros, were implemented under the company's Project 2010 initiative. The original target of 175 million euros was thus significantly exceeded.

As a result of these measures, the number of **employees** worldwide fell by 1,741, or 9.3%, to 17,071. In North America, around 15% fewer staff were employed. On December 31, 2009, staff numbers in Germany totaled 6,516, which is 7% less than in 2008. In terms of full-time equivalents, the reduction in Germany amounted to as much as 16%, or 23% overall, compared to the peak value recorded in August 2008. This figure reflects the effectiveness of short-time working measures and other instruments employed to enhance flexibility.

### **Restructuring**

Among other factors, the crisis in the sector is a result of excess capacities. This is why structural adjustments were also unavoidable at Behr in 2009:

- An agreement with the works council and IG Metall (German metalworkers' union) concerning the reduction of up to 300 development and administration jobs in Stuttgart
- Complete closedown of the production plant in Barcelona, affecting around 200 employees
- At Behr America, the reduction of around 200 salaried staff and the offshoring of a considerable volume of development work to Behr Engineering Services in India

- In Dayton/Ohio, the additional relocation of labor-intensive products to Mexico, as well as the conclusion of a plant agreement involving a reduction in costs of more than 10 million US dollars annually

A further measure was the sale of non-core business activities:

- The business with thermostats for domestic applications was sold to Vernet.
- A share of 60% of Behr Industry will be sold to Mahle, pending the approval of the antitrust authorities. In 2009, Behr Industry generated sales of 178 million euros with approximately 860 employees.

### **Position in Growth Markets**

The companies in the growth markets of Brazil, India and China have developed well. For example, in 2009 Behr generated sales of 274 million euros in Asia, which is 31% up on the previous year. These markets also generated positive earnings.

In the established automotive markets of Europe, North America and Japan, production will not regain the level of 2007/2008 for some years. Growth in the auto industry is mainly being generated in the emerging markets, especially in India and China. Behr is well positioned to accommodate this trend and will continue to expand globally:

### **China**

The Chinese truck market remains unaffected by the global downturn and is still growing strongly. At the three Behr joint ventures in China more than 1,000 staff members were employed, proportionately, and generated sales of around 160 million euros.

With Behr Jinan, the first wholly-owned Behr subsidiary in China, Behr is further leveraging its strong position in the local truck business. The new plant is located approximately 900 km northwest of Shanghai and started production in early 2010. From here, the company delivers air conditioning components and cooling systems to CNHTC, one of China's most successful manufacturers of heavy trucks.

### **India**

In the year under review, Behr India employed 500 staff and generated sales of 45 million euros, which will continue to increase strongly.

In order to additionally benefit from the availability of skilled engineers in India, Behr Engineering Services (BES) was established in 2009. A business unit of Behr India and located in Pune, performs development services for other Behr locations, especially Troy/Michigan and Stuttgart. The number of employees, which totaled about 100 at the end of 2009, will continue to rise.

### **Turkey**

As the gateway between Europe and Asia, Turkey plays an increasingly vital role for the European auto industry – also in terms of exports. Within the past few years, the country has evolved into a key region for European auto makers and parts suppliers and constitutes an important bridgehead for the markets in the Middle East and neighboring countries.

Behr aims to participate in the potential this market offers. An agreement was signed with the Turkish supplier Kale Oto Radyatör to found a joint venture that will sell cooling systems for cars as well as for light and heavy trucks in Turkey. The agreement is pending the approval of the Turkish competition authorities.

## **Ecological mobility**

In the coming years, essential growth drivers for Behr will be products that contribute to ecological mobility. Here are just a few examples:

### **Reducing truck emissions**

The concepts developed by Behr for cooled exhaust gas recirculation and indirect charge air cooling are already helping toward meeting the Euro 5 emission targets for trucks. Behr innovations will also enable compliance with Euro 6 standards in the further developed version.

### **Reducing fuel consumption in cars**

The objective, here, is to make the gasoline engine as efficient as the Diesel. In this context, downsizing – or the reduction of displacement volume without compromising engine power – has become the predominant instrument for reducing fuel consumption and emissions in all car segments. Downsizing is achieved with the aid of turbocharging in combination with charge air cooling and, in future systems, also with cooled EGR technology. For Behr, the increasing number of downsized, turbocharged gasoline engines, and thus the growing need for additional heat exchangers, presents interesting growth opportunities.

### **Electromobility**

In times of spiraling fuel prices, growing eco-awareness and increasingly stringent eco-legislation, the issue of powertrain electrification is becoming increasingly important. Behr is supporting this development with innovative products designed to thermally control the temperature-sensitive lithium-ion drive batteries and to provide energy-saving heating and air conditioning systems for vehicle cabins.

### **Systems competence in thermal management**

As a systems partner, Behr provides comprehensive single-source thermal management. This know-how helps manufacturers to comply with increasingly stringent emission standards, utilize energy more efficiently, and thus lower fuel consumption and CO<sub>2</sub> emissions. One example of this is the Porsche Panamera:

For this sports sedan, Behr developed the world's first four-zone climate control system with temperature and air mass control in a single device, i.e. without additional rear HVAC module. Similarly, Behr developed the air ducting in the cabin, the refrigerant and heating circuits, as well as the cooling module for the engine and powertrain. BHTC developed the climate control system including the control head, while HBPO provided the front-end module. In cooperation with Dräxlmaier, Behr and BHTC were also closely involved in the integration of the cockpit.

## **Fiscal year 2010**

Behr has established clear priorities for the current fiscal year:

### **1. Cost reduction measures**

The target for 2010 is within the same range as that of 2009.

### **2. Restructuring in Europe and North America**

- Behr is negotiating with the works councils and IG Metall concerning the closure of the plant in Stuttgart and restructuring of the Kirchberg and Kornwestheim locations. A total of up to 440 employees will be affected by these measures. The negotiations are proceeding constructively.
- At the Stuttgart location Behr has already shed 110 jobs in Development and Administration by not filling vacated positions, and by offering partial retirement and voluntary severance pay schemes. The company still cannot rule out redundancies as of March 31, 2011.
- After closing of the plant in Barcelona in 2009, Behr plans to also shut down the development and administrative location there this year. This will affect 127 employees. The company can offer approximately half of them employment in Montblanc, which is one hour away by car.
- In Dayton/Ohio (USA), Behr is transferring part of the production, the so-called North Complex, to the South Complex and to Mexico. This reduces the production space by half, with the associated reductions in structural costs. In addition to this, development activities will be offshored from Troy/Michigan to Behr Engineering Services in India. Supported by the market trend, these restructuring measures will enable Behr America to achieve a turnaround in 2011.

### **3. Minimization of capital employed**

Behr will use the accomplished logistics process improvements to handle the growth in sales with a constant inventory level. In 2010, the company will continue to invest substantially below depreciation by optimally utilizing the existing capacities globally.

### **4. Group refinancing**

At the end of 2009, Behr had free liquidity of approx. 200 million euros at its disposal via undrawn or unused credit lines. "We are currently conducting negotiations with our banks concerning a new financing concept for the entire restructuring period until the year 2013. The negotiations are proceeding constructively. We are confident of being able to conclude these in the third quarter", said Hermann Tetzner.

### **5. Bolstering equity**

After agreeing with Mahle in early February on the acquisition of a majority interest in the subsidiary Behr Industry (pending approval by the antitrust authorities), both companies are currently conducting negotiations concerning strategic cooperation. "We see opportunities for strengthening our joint market position in the area of engine-mounted components, thermal energy management and mechatronics", said Flik. A participation by Mahle in Behr would underpin the collaboration. However, Behr is also negotiating with other interested parties, including both industrial and financial investors.

#### **About the company:**

Behr GmbH & Co. KG, Stuttgart, is a systems partner of the international automotive industry. A specialist for automotive air conditioning and engine cooling systems, the Behr Group is one of the world's leading manufacturers and suppliers of original equipment for passenger and commercial vehicles. Group sales in the 2009 business year came to around 2.5 billion euros. Currently, Behr employs some 17,000 staff at 17 development locations, 28 production sites and 12 joint ventures worldwide.

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