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Navigating Siemens' Landscape:
A Comprehensive Equity Analysis

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Abstract

The following equity research report was conducted between June 2023 until December 2023 thesis provides a comprehensive analysis of Siemens AG share price for 2024 as part of an investment decision. Siemens AG is a globally recognized technology conglomerate with diversified interests in industry, infrastructure, transportation, and healthcare. Emphasizing its innovative approach in fields like electrification, automation, and digitalization, Siemens maintains a strong market position both in Europe and internationally. The thesis strongly recommends a BUY for Siemens AG's stock, projecting a target price of €234 by FY24, reflecting a total return potential of 42.1%, considering current market trends and the company's strategic initiatives, presents a strong investment opportunity. To reach the price target, we performed a DCF, Multiples Analysis, Sensitivity and Scenario Analysis.

Keywords:

Siemens AG; Industrial: Equity research; Valuation

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This report is part of the *Navigating Siemens' Landscape* report (annexed), developed by Francisco Fortes and João Alves, and should be read has an integral part of it.

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Introduction

The goal of this joint report is to deliver a comprehensive analysis of Siemens AG, encompassing all aspects of its operations - from the broader macroeconomic context to the specific operational and financial details. This thorough examination aims to accurately assess the fair value of Siemens AG's stock over the next twelve months, culminating in a well-informed BUY, SELL, or HOLD recommendation. Furthermore, the report equips investors with essential data and various potential scenarios, enabling them to form an independent valuation of Siemens AG’s stock, based on their own understanding of the company, its industry, and the overall market.

Our report is methodically divided into two distinct sections. The first section, which I have authored, provides a detailed and informative overview. It encompasses the current competitive landscape, a macroeconomic overview, financial analysis and performance ratios, and a forward-looking perspective on how these factors may influence Siemens' various operating segments in the future.

The second section, crafted by my colleague, delves into a more analytical approach. It begins by identifying key drivers affecting Siemens' diverse segments and businesses, both financial and non-financial, using insights gathered from the first part of the report. These drivers are then correlated with the company's financial data to project Siemens’ future financial statements. This projection forms the cornerstone of our valuation framework and underpins our investment recommendation. Additionally, this section includes various scenarios and alternative valuation methods to rigorously test our baseline assumptions, offering investors additional perspectives for a more rounded investment decision.

Company Overview

Company Description

SIEMENS

320,000 employees
Founded in 1847
by Werner von Siemens
headquartered in Munich, Germany
Operates in 200+ countries
Market Value: €134,46B

Siemens is a technology group that is active in nearly all countries of the world, focusing on the areas of automation and digitalization in the process and manufacturing industries, intelligent infrastructure for buildings and distributed energy systems, smart mobility solutions for rail transport, and medical technology and digital healthcare services (Siemens 2023). The Siemens' group comprises Siemens Aktiengesellschaft (Siemens AG), a stock corporation under the Federal laws of Germany, as the parent company, and its subsidiaries.

From being founded in 1847 as an electrical engineering 10-man startup producing electrical telegraphs (responsible for the invention of the pointer telegraph), and eventually broadening its scope to include telegraph lines, constructing the world's first electric streetcar line, to start expanding internationally in the 1850s and becoming a global giant synonymous with innovation, quality, reliability and technology force over the years. Siemens' extensive product and service portfolio is designed to enhance the efficiency and productivity of industrial processes, energy generation and distribution, medical imaging, and urban infrastructure. The company's commitment to technological excellence, sustainability, and engineering prowess has solidified its position as a global powerhouse.

SIEMENS Healthineers

71,000 employees
Founded in 1847
by Werner von Siemens
headquartered in Erlanger, Germany
Operates in 200+ countries
Market Value: €134,46B

Siemens acquired and combined with various other companies to increase its capabilities, expanding its specializations into the various sectors in which it operates today. Its diverse operational landscape is segmented into distinct, strategically aligned units, each playing a crucial role in the comprehensive business model. These are: Digital Industries, Smart Infrastructure, Mobility and Siemens Healthineers, which together form the "Industrial Business" and Siemens Financial Services (SFS), which not only augments the activities of Industrial Business but also independently engages with external customers. Furthermore, results are reported for Portfolio Companies, which encompasses distinct businesses managed independently to optimize performance and market positioning, focusing on operational excellence and strategic growth. All reportable segments and Portfolio Companies often engage in inter-segment transactions, resulting in internal orders and revenue that are systematically eliminated at the Group level to ensure clarity and accuracy in financial reporting.

Business Model and Segments

Siemens' Digital Industries segment epitomizes innovation in automation and digitalization for discrete and process industries. This segment offers a comprehensive array of products and systems, including factory automation software, numerical control systems, drives, inverters, and integrated automation for machine tools. Key offerings also encompass process control systems, machine-to-machine communication products, a variety of sensors, and RFID systems.

In the realm of software, Digital Industries excels with its production and product lifecycle management (PLM) software, complemented by simulation and testing software for mechatronic systems. The segment's prowess extends to electronic design automation (EDA) software and the Mendix low-code development platform, enhancing app development efficiency. Additionally, Digital Industries provides lifecycle and data-driven services, fostering optimization across product design, development, production, and post-sale services. This comprehensive suite of offerings aids customers in transitioning to a “Digital Enterprise,” boosting production flexibility, efficiency, and reducing time-to-market.

Digital Industries serves pivotal markets like automotive, machine-building, pharmaceuticals, chemicals, food and beverage, and the electronics and semiconductor industry. Its sales strategy is tailored to customer and industry needs, ensuring broad access across all channels. However, market fluctuations, especially in standard products, can cause significant short-term variability in profitability. The segment faces competition from multinational corporations with broad portfolios and smaller, regionally focused firms.

Trends shaping its business include the need for modernizing production capacity in a digital environment, offering vertical solutions and services, and adapting to regionalization and varied regulatory requirements, as it is sensitive to macroeconomic cycles. Innovations in AI, edge computing, Software as a Service (SaaS), and software-defined control are central to its R&D efforts.

Despite a downturn in orders due to customer destocking, revenue grew across all businesses, particularly in factory and process automation, aided by improved component availability. Geographically, revenues increased in all regions, with the most significant contributions from Europe, C.I.S., Africa, and Middle East.

Siemens AG's Smart Infrastructure segment stands at the forefront of guiding the global transition towards renewable energy sources and the development of smarter, more sustainable buildings and communities. This versatile division offers a wide array of products, systems, solutions, services, and software, all aimed at enhancing the efficiency and resilience of infrastructures and urban landscapes.

At the heart of Smart Infrastructure's offerings is a robust buildings portfolio that caters to the comprehensive needs of operators, owners, and users. This includes everything from integrated building management systems and software to HVAC controls, fire safety, security systems, and energy performance services. Meanwhile, the electrification portfolio is reshaping power grids, making them more resilient and efficient with advanced grid simulation, substation automation, and innovative medium-voltage switchgear, including environmentally friendly F-gas-free options. Additionally, the electrical products portfolio is tailored to both industrial and building applications, featuring an array of low-voltage switching, measuring, and control equipment.

Smart Infrastructure's customer and end-user base is as diverse as its offerings. It encompasses infrastructure developers, construction companies, contractors, operators of public and commercial buildings like hospitals and data centers, process industries such as oil and gas, discrete manufacturing industries including automotive, and utilities and power grid operators. The segment approaches its vast market through various channels, including direct sales organizations, distributors, and partners such as panel builders, OEMs, and value-added resellers. For more complex customer requirements, dedicated sales forces are deployed within the country organization. Moreover, e-commerce platforms and digital marketplaces, particularly Siemens Xcelerator, are becoming increasingly crucial for Smart Infrastructure, strengthening its digital omni-channel marketing and e-commerce presence.

In a competitive landscape dominated by large multinational corporations and emerging smaller manufacturers, Smart Infrastructure also contends with local players like system integrators and facility management firms. The demand within this segment is notably influenced by macroeconomic cycles, with a more immediate impact on electrical and building products, while changes in systems and solutions offerings tend to follow with a time lag.

Underpinning Smart Infrastructure's success are major global trends like urbanization, demographic changes, decarbonization, and digitalization. These trends are driving the need for intelligent, human-centric buildings and more sustainable energy infrastructures, including the rapid growth in electric mobility. Siemens' R&D efforts are focused on sustainable, decarbonizing solutions for buildings, utilities, and industrial customers. Innovations in digital offerings, such as cloud solutions using field data from controllers and IoT devices, along with advancements in AI, are enhancing Smart Infrastructure's capabilities in managing electricity distribution with a higher share of renewables.

Fiscal 2023 was a period of robust performance for Smart Infrastructure, with marked increases in orders and revenue across all businesses, especially from the electrification and electrical products sectors. This growth was primarily driven by large contract wins and was most pronounced in the Americas region..

Siemens AG's Mobility segment is a comprehensive division dedicated to transforming rail passenger and freight transportation. This segment integrates all of Siemens' businesses in this domain, delivering a wide range of offerings that cater to the intricate needs of modern rail transport. Within its rolling stock business, Mobility's portfolio includes a variety of vehicles and components for urban, regional, intercity, and long-distance transport. This encompasses metro systems, trams, light rail, commuter trains, high-speed rail, and passenger coaches. Additionally, it provides locomotives and automated transportation solutions, such as automated people movers. The rail infrastructure business of Mobility extends to products and solutions for rail automation, including automatic train control systems, interlocking, operations control, telematic systems, digital station solutions, and railway communication systems. This segment also covers electrification needs with AC and DC traction power supply, contact lines, and network control.

Mobility's service business is pivotal, offering maintenance and digital services for rolling stock and rail infrastructure across their lifecycles. Furthermore, in its turnkey business, Mobility combines consulting, planning, financing, construction, service, and operation of complete mobility systems. The software business within Mobility is expansive, featuring train planning systems, trip planning, mobile ticketing, Mobility as a Service (MaaS) platforms, on-demand transportation, fleet management, data analytics, and inventory and reservation management.

The primary customers of Mobility are public and state-owned companies in the transportation and logistics sectors, with markets primarily driven by public spending. These customers typically have multi-year planning and implementation horizons, making their contract tenders less susceptible to short-term economic trends. Large contracts in rolling stock and rail infrastructure are often bundled with service contracts, which start generating revenue only after the products and solutions are operational, which can take several years post-award.

Mobility faces stiff competition from multinational companies and is impacted by industry consolidation, which could increase competitive pressures and reduce sourcing options for rail customers. The segment is driven by key paramethers such as urbanization, decarbonization, and digitalization. The rising need for daily mobility in urban centers, combined with the challenges of reducing CO2 emissions, noise, and transportation costs, is continuously increasing the pressure on mobility providers. Digital solutions are becoming essential for improving availability, connectivity, and sustainability of rail infrastructures. For analysis context, we see Alstom SA, CRRC Corp Ltd and Stadler Rail AG as its main competitors.

Mobility's R&D strategy focuses on reducing lifecycle costs, securing system availability, increasing network capacity, optimizing rail operator processes, and enhancing passenger experience. Major R&D areas include the development of efficient vehicle platforms, eco-friendly power supplies, the Railigent X suite for rail asset maintenance, smart connected products, cloud-enabled signaling, automatic train operation, safe AI for driverless trains, air-free brake systems, 5G technology, and cybersecurity.

FY23 was a remarkable year for Mobility, with order intake exceeding previous levels, highlighted by significant contracts in India, Egypt, and Germany. Revenue growth was bolstered by improved component availability and was strongest in the rolling stock business. Geographically, revenue grew across all regions, despite some portfolio effects impacting volume development.

Order intake at Mobility exceeded the record level a year earlier on sharply higher volume from large orders. Contract wins in fiscal 2023 were highlighted by an order worth €2.9 billion for locomotives and associated maintenance in India, a €2.5 billion order for the first line of a turnkey rail system in Egypt and a €2.1 billion order for suburban trains in Germany. Order intake a year earlier included among others an order worth €1.5 billion for high-speed trains in Germany.

Siemens Healthineers

Siemens holds a majority stake, just over 75%, in Siemens Healthineers AG, a publicly listed global provider of healthcare products, solutions, and services. Siemens Healthineers is renowned for developing, manufacturing, and selling a diverse range of diagnostic and therapeutic products and services to healthcare providers, complemented by clinical consulting services, and an extensive range of training and service offerings. This comprehensive portfolio supports customers throughout the entire care continuum, from prevention and early detection to diagnosis, treatment, and follow-up care. Healthineers' customer base of is broad and varied, encompassing public and private healthcare providers, including hospitals and hospital systems, clinics, laboratories, universities, physicians, public health agencies, health insurers, pharmaceutical companies, and clinical research institutes. In the imaging business, Siemens Healthineers provides cutting-edge products and solutions in magnetic resonance imaging, computed tomography, X-ray, molecular imaging, and ultrasound. The diagnostics business offers in-vitro diagnostic products and services for laboratory and point-of-care diagnostics. The Varian business focuses on multi-modality cancer care technologies for oncology departments, while the advanced therapies business delivers products and solutions for minimally invasive treatments in fields like cardiology, interventional radiology, and surgery.

Competition in these domains mainly comes from a few large multinational companies, while the diagnostics market is more fragmented with global and regional players. Its markets are generally stable but can experience fluctuations due to macroeconomic and health political developments, such as changes in health policy, regulation, or reimbursement systems. A significant portion of Siemens Healthineers' revenue is recurring, providing a stable foundation for growth. Four major trends shape the markets of Siemens Healthineers: demographic changes, including the growing and aging global population; economic development in emerging countries; increasing non-communicable diseases; and the transformation of healthcare providers driven by societal and market forces. These trends are leading to the consolidation of healthcare providers into networks, driving demand for standardized, scalable systems, solutions, and new business models. GE HealthCare Technologies Inc and Koninklijke Philips NV. Its R&D investments are focused on innovative and sustainable solutions in diagnostics and therapy, with artificial intelligence, sensors, and robotics being key areas. Those are mainly directed towards expanding manufacturing and technical capabilities, particularly in the U.S. and China, while improving operational efficiency.

Fiscal 2023 saw a decrease in orders for Siemens Healthineers, with revenue on par with the previous year. Growth in imaging and Varian businesses offset a decline in the diagnostics business. Profit was affected by lower revenue from rapid coronavirus antigen tests and transformation charges in diagnostics, as well as impairments in the advanced therapies business. The order backlog at the end of the fiscal year stood at €34 billion, with €11 billion expected to be converted into revenue in fiscal 2024.

Siemens Financial Services (SFS) offers vital financing solutions to both Siemens' customers and external entities, integrating deep financing expertise with specialized knowledge in Siemens' business domains. Its services include leasing, lending, working capital, and structured financing for a range of equipment and projects. SFS also enhances Siemens' industrial operations by providing financial advisory and risk management services, and collaborates on digital business model development, especially in sustainable technologies.

In fiscal 2023, SFS saw increased earnings in the debt business despite a volatile credit market. This improvement was a shift from the previous year, which included charges related to the sale of operations in Russia. Its equity business also performed strongly, benefiting from sales of equity investments and favorable market conditions. Its current cashflows from operations and investing activities were negative, due to significant investments and changes in financing receivables, partly offset by solid free cash flow. Despite a rise in financing activities, total assets decreased, largely due to currency effects. SFS's focus is closely aligned with Siemens' core areas like Digital Industries, Smart Infrastructure, and Mobility, and is influenced by the market dynamics of these sectors as well as broader economic factors like inflation and recession risks. With a diversified portfolio across industries and a strong presence in investment-grade countries, primarily the U.S., SFS is strategically positioning itself to capitalize on the growth in select Asian markets, maintaining its role as a key financial component within Siemens' expansive business ecosystem.

Siemens AG's Portfolio Companies encompasses a range of businesses offering specialized products, software, solutions, systems, and services across diverse industries, including oil and gas, chemicals, mining, cement, logistics, energy, marine, water, and fiber. These businesses are managed independently, with a focus on unlocking their unrealized potential through measures such as internal reorganization, digitalization, cost improvements, and optimization of procurement, production, and service processes. Upon reaching specific performance targets, these businesses may undergo strategic transformations, including integration with other businesses, sales, formation of external private equity partnerships, or public listings.

Nowadays, the segment is primarily consisted of three independent units. Large Drives Applications specializes in electric motors, converters, and mining solutions. Siemens Logistics is focused on sorting technology and solutions, particularly for baggage and cargo handling at airports. Siemens Energy Assets includes certain regional activities of the former Gas and Power segment, retained by Siemens due to regulatory or economic reasons during the Siemens Energy carve-out. The industries served by Portfolio Companies often show a delayed response to overall economic changes, with financial results closely tied to customer investment cycles in their respective sectors. Particularly in commodity-based industries like oil and gas or mining, these cycles are more influenced by commodity price fluctuations than production volume changes. Catering to a heterogeneous industrial customer base, Portfolio Companies employ a dedicated sales approach that leverages a deep understanding of industry-specific needs and customer requirements, utilizing diverse sales and marketing channels to effectively reach and serve their clients.

Macroeconomic Overview and risks

In 2023, the global economy faced numerous challenges, including the lingering impacts of COVID-19, geopolitical tensions, notably the war in Ukraine, inflationary pressures, and financial market volatility. Despite these headwinds, global GDP growth was resilient, expected at 2.6%. Key trends included the normalization of consumer spending patterns and a shift back to services from goods, alongside businesses reducing inventory levels built up during supply chain disruptions.

The Chinese economy, initially buoyant post-COVID-19 lockdowns, faced a slowdown due to its real estate crisis, with GDP growth projected at 5%. The U.S. economy, however, outperformed expectations despite monetary tightening, with robust consumption and investment driving a 2.5% GDP growth. The EU struggled with energy price hikes and inflation, leading to minimal GDP growth.

Looking ahead to 2024, global GDP growth is expected to decrease to 2.3%. However, the EU is projected to see a slight increase in GDP growth, while the U.S. is anticipated to experience a deceleration, with potential for a mild recession. China's growth is also expected to moderate. Global trends suggest a gradual normalization in consumer spending and inventory policies, with a modest uptick in global goods demand, trade, and industrial production.

Siemens' and its industries outlook for fiscal 2024 are shaped by these macroeconomic conditions, with expectations of productivity improvements and price adjustments to offset wage and raw material cost increases. The company faces currency translation risks, particularly involving the U.S. dollar, British pound, and Chinese yuan. Despite global currency market volatility, Siemens' diversified production and natural hedging strategies aim to mitigate these impacts.

Risk management remains a key focus for Siemens, addressing strategic, operational, financial, and compliance risks. The company's risk management policy, guided by its Managing Board, integrates into business planning and execution, with a comprehensive enterprise risk management approach. Key risks include economic, political, and geopolitical conditions, cybersecurity threats, supply chain management challenges, and the evolving regulatory landscape. Siemens' risk mitigation strategies involve continuous monitoring, adaptation to changing conditions, and leveraging insurance coverage where feasible. Despite the identified risks, no single or combined threat endangers Siemens' ongoing viability. The company anticipates benefiting from high order backlogs and easing supply chain constraints. The infrastructure sector is also expected to gain from stimulus programs. Additionally, Siemens plans to manage cost pressures by improving productivity and adjusting prices.

Recently, the German government has halted significant green initiative and industry support spending due to a constitutional court ruling, which impacted its budget by creating a €60 billion shortfall. This ruling could also influence Germany's fiscal responses to future crises and shape its fiscal policy going forward. This may impact the Infrastructure’s segment.

Helthineers' 2023 outlook is predicated on several assumptions: the management of the COVID-19 pandemic won't adversely affect product and service demand, and the war in Ukraine won't significantly impact business operations. This forecast considers the current macroeconomic climate and exchange rates, excluding portfolio activities and legal, tax, or regulatory charges, based on the number of shares at the end of fiscal 2022.

Market dynamics in FY23 saw clear growth in sectors served by Smart Infrastructure, influenced by post-COVID-19 recovery, improved supply chains, and price inflation, despite challenges like rising interest rates, especially in the U.S., and weaker-than-expected recovery from lockdowns in China. The war in Ukraine and high energy prices significantly impacted Europe.

Competitive landscape

Siemens operates in industries that require significant capital investment, technological expertise, and established brand recognition. As many of Siemens' markets are mature, which can limit the influx of new competitors but can also lead to more intense competition among established players. These factors create substantial barriers for new entrants. Siemens relies on various suppliers for components and raw materials. However, its size and purchasing power give it leverage in negotiations. Also, global supply chain complexities can affect bargaining power, especially if specialized or rare materials are involved. From a customers’ perspective, especially large industrial clients, can exert significant bargaining power due to the high value and custom nature of many of Siemens' products. In more standardized product areas, customers may have more options, increasing price sensitivity and buyer power.

In several of the group’s operating sectors, like energy and healthcare technology, there are viable substitutes available. This threat varies depending on the specialization and differentiation of Siemens' products. Additionally, there is the threat of rapid technological changes which can lead to the emergence of new, innovative substitutes that could disrupt Siemens' market position. Siemens faces intense competition from global companies like General Electric, ABB, and Honeywell. This competition is fierce in areas like industrial automation, energy, and healthcare technology. As the company operates in mature markets, competition is often about gaining incremental market share, which can lead to aggressive marketing, innovation races, and even price wars.

All in all, Siemens must continuously innovate to retain its market share and avoid the risk of products becoming obsolete. Siemens' commitment to innovation is evident in its focus on autonomous robotics, blockchain, additive manufacturing, e-mobility, cyber security, and AI. This dedication is backed by approximately 45,000 patents and substantial R&D investment (€6,183 million in FY2023), representing 7.9% of its revenue. (On November 3rd Siemens announced an investment, as part of a €2 billion global investment strategy to boost growth, innovation and resilience, of US$150 million in a new high-tech manufacturing plant in Dallas-Fort Worth to support high-growth markets like data centers, batteries, semiconductors, EV charging and rail transportation and accelerate artificial intelligence adoption) As a global leader in energy-efficient technologies, infrastructure solutions, and medical imaging equipment, Siemens holds a strong position across multiple industries. In FY2023, the company showed an impressive growth, with revenues increasing to €77,769 million (8% increase) and net income rising to €7,950 million. Siemens also pursuits collaborative innovation whether through recent acquisitions, like BuntPlanet and HMH, s.r.o., or new partnerships with Intel and M42 on digitalization and sustainability, highlighting its strategic enhancement of its technological portfolio while simultaneously strengthening its market position by following latest market trends. The projected surge in Europe’s renewable electricity capacity (IEA) aligns with Siemens' strengths in sustainable technologies, presenting significant growth opportunities. Nonetheless, its dependence on global supply chains and the compliance with environmental and safety regulations, particularly in its manufacturing operations, could increase costs and operational complexities. In addition, the decline in cash and equivalents (from €10,465 million to €10,084 million) raises concerns about short-term liquidity and potential reliance on external financing.

Historical Performance and Ratios

FY23 was another very successful year for Siemens. We achieved excellent financial results in a volatile market environment, which on the one hand included destocking by customers and distributors following previously proactive purchasing, particularly in our short-cycle businesses, and on the other hand included improved supply chain conditions, which accelerated revenue conversion from our high order backlog. We raised our outlook during the fiscal year after the first and the second quarters. We then reached or exceeded all the targets set for our primary measures for fiscal 2023. Revenue was higher in nearly all our industrial businesses and rose to €77.8 billion, up 8% year-over-year. Smart Infrastructure and Digital Industries contributed double-digit growth with all businesses posting increases. Excluding currency translation and portfolio effects, revenue for Siemens rose 11%. Profit Industrial Business exceeded the record high of a year earlier and rose 11% to €11.4 billion. The profit margin of our Industrial Business rose to 15.4%, up from 15.1% a year earlier, reaching its highest level ever. Net income nearly doubled year-over year to a historic high of €8.5 billion and corresponding basic earnings per share (EPS) more than doubled to €10.04. Free cash flow from continuing and discontinued operations for fiscal 2023 was €10.0 billion, reaching a record high.

Shareholder structure

Siemens AG's financial foundation is robust, with a stock capital of €2.550 billion distributed across 850 million registered shares held by approximately 840,000 shareholders. Its diverse ownership profile includes 66% institutional investors and 22% private individuals, with the Siemens family itself holding 6.38%, including family members and family-founded foundations, and the remaining being unidentified investors. Notable shareholders include BlackRock Institutional Trust Company with 6.58%, The Vanguard Group claims 3.09%, and the Government of Qatar owns 2.98% of Siemens AG. These investors portfolio extends to other ventures within the same industries as Siemens' operational segments. Geographically, the shareholding spread is broad, with 29% based in Germany, 28% in the US, and the remaining distributed across the UK, France, Switzerland, and other regions. The shareholding comes with equal rights and duties as mandated by the German Stock Corporation Act. Yet, certain shares like treasury shares and those distributed under employee share programs, notably the Share Matching Plan, have voting right limitations, ensuring no single shareholder has disproportionate influence. This strategic distribution of ownership and investment reflects Siemens AG's commitment to growth and corporate responsibility, ensuring stability and equitable shareholder representation.

A notable shift occurred on June 28, 2023, when Siemens AG reduced its stake in Siemens Energy by transferring 6.8% to Siemens Pension-Trust e.V., marking a new stake of 25.1%. Siemens indicated before the spin-off as well as in conjunction with the public listing of Siemens Energy – and has since consistently stated – that it would further reduce its investment in Siemens Energy depending on the conditions. Most recently, on June 28, 2023, Siemens transferred a 6.8 percent stake to Siemens Pension-Trust e.V.

With this move, Siemens is executing its previously announced plans to further reduce its investment in Siemens Energy. By transferring the shares to Siemens Pension-Trust e.V., Siemens is strengthening its pension assets in Germany.

Siemens Energy's problems at its onshore wind turbine business could cost the company up to 4.5 billion euros. Siemens Energy shocked markets in late June when it announced several problems at Siemens Gamesa, one of the world's biggest wind turbine makers, just weeks after it fully acquired the business it had only partly owned.

Siemens and Siemens Energy shape solution to provide stability and accelerate separation in India as Siemens intends to acquire 18% in Siemens Ltd. India for a purchase price of €2.1B. Simplification of corporate setup in one of the fastest growing and strategically important markets. Siemens has agreed with Siemens Energy indirect financial measures totalling one €1B to allow third parties to arrange guarantees for Siemens Energy. This would increase Siemens’ stake in the publicly listed Siemens Ltd. India from 51% to 69%, while Siemens Energy’s stake would decrease from 24% to 6%. Siemens will provide no new guarantees to Siemens Energy. Siemens has agreed with Siemens Energy indirect financial measures totaling one billion euro to allow third parties to arrange guarantees for Siemens Energy. Firstly, Siemens allows Siemens Energy to use its 5% shareholding in Siemens Ltd. India, worth 750 million euro, as collateral for guarantees. If the collateral is drawn, Siemens has committed to buy up to 5% of shares in Siemens Ltd. India for 750 million euro. Secondly, Siemens grants payment deferrals at market conditions in the amount of 250 million euro, also to be used as collateral for guarantees. These commitments enable Siemens Energy to provide appropriate collateral for the bank consortium providing a guarantee line. This line serves to secure Siemens Energy's business development and participation in the German energy transition.

Stock performance and dividend policy

We intend to continue providing an attractive return to our shareholders. In the Siemens Financial Framework, we strive for a dividend per share that exceeds the amount for the preceding year, or at least matches it.

As in the past, we intend to fund the dividend payout from Free cash flow. Our primary measure to assess our ability to generate cash, and ultimately to pay dividends, is the cash conversion rate for the Siemens Group, defined as the ratio of Free cash flow (continuing and discontinued operations) to net income. Over a cycle of three to five years, we aim to achieve a cash conversion rate of 1 minus the annual comparable revenue growth rate. Following this year’s dividend of €4.25 per share, the company has already committed to a distribution of €4.7 per share at the beginning of next year.

In June 2021, Siemens announced a 5-year share buyback program with a total volume of up to €3 billion with approval by the Annual Shareholders’ Meeting the company. During F2023, Siemens had repurchased 6,853,091 shares as part of its program. Further expanding its shareholder return efforts, Siemens extended its share buyback on November 16, committing now up to more €6 billion over a five-year span.

Management

Roland Busch, Siemens' President and CEO since November 2021 has joined the group in 1994 while project head of the Corporate Research and Development Department. Since then he has accumulated loads of experience and multiple positions within the group, and sustained companies' most successful years with overarching responsibility for Siemens' Industrial Businesses and as a member of the Managing Board. In addition, during his tenure as CEO, he achieved a total average return of more than 8%. Although his 2023 annual compensation of €16,5 million is way above the average compensation for CEOs of similar size in the German market, 83% of his remuneration was performance-based. Therefore, with a term due to expire in March 2025, we place a lot of credibility on his leadership, given his exceptional tenure at the company.