

## **Continental AG raises profit forecast after quarterly gains**

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**By Christoph Rauwald, Bloomberg**

Continental AG, Europe's second- biggest maker of car parts, raised its profit forecast for 2014 after first-quarter earnings jumped on higher sales of tires, braking systems and engine components.

Earnings before interest and taxes, excluding acquisition- related gains and costs, climbed nearly 20% to 953 million euros (RM4.25 billion), the Hanover, Germany-based company said today in a statement ahead of its annual shareholders meeting. According to the preliminary figures, revenues rose 4.4% to about 8.4 billion euros.

Continental now expects adjusted Ebit to be "comfortably" more than 10.5% of sales for the full year, up from a previous forecast for a margin of at least 10%. Even with the more upbeat outlook, the company is less optimistic than some analysts estimate. Continental also announced that personnel chief Elke Strathmann, 56, was leaving the company immediately. The shares fell.

"Continental is always guiding very conservatively," said Marc-Rene Tonn, an analyst with M M Warburg in Hamburg, who forecasts a margin of 11.8% this year.

The company, also Europe's second-largest tiremaker, is targeting a fifth consecutive year of record sales in 2014, expanding on deliveries of parking-assistance systems and braking electronics that bolstered revenue last year. The company has a goal to outpace broader auto-market growth by focusing on components that enhance driving safety, help reduce vehicle emissions and facilitate in-car communication links.

### **Stock Drop**

Continental's shares fell as much as 3.3% to 168.60 euros and were down 1.1% at 10:29am in Frankfurt trading. The stock has surged 92 percent in the past 12 months, valuing the company at 34.5 billion euros.

In January, Continental forecast that 2014 sales will increase about 5% to 35 billion euros, more than double a predicted 2.4% expansion in global car production. Still,

growth is being held back by the euro's gains on currency markets. Excluding exchange-rate effects, first-quarter revenue rose 8.3%, the company said. Final results for the period will be released on May 6, 2014.

"We are confident that we can maintain the current momentum, as the positive trend of the first three months appears to be continuing in the second quarter," chief executive officer Elmar Degenhart said in the statement. "All of our five divisions contributed to our successful start."

### **Personnel Differences**

Strathmann, who held Continental's personnel post for about two and a half years, will be replaced by Ariane Reinhart, 44, who will join the company from Volkswagen AG's Bentley unit by Oct 1, 2014. The partsmaker said there were disagreements with Strathmann over future development of the company's human resources.

"There were differences between us on the next steps to be taken," Degenhart said today in a separate statement. "We very much regret this."

Continental also extended the contracts of chief financial officer Wolfgang Schaefer and Power division chief Jose Avila to 2019. Schaefer will oversee labor relations and personnel issues until Reinhart takes over.

The German manufacturer's shareholders will vote today on renewing the term of former Bayerische Motoren Werke AG executive Wolfgang Reitzle as supervisory board head for five years. The tenures of Maria-Elisabeth Schaeffler and her son Georg, who jointly own 46% of Continental's shares, are also up for extension.

### **Hoses, Belts**

Sabine Neuss, chief operating officer at Linde Material Handling GmbH, and Rolf Nonnenmacher, a self-employed accountant who is a former manager at KPMG International consulting company, are nominated as new supervisory board members. The shareholders will also decide on raising the dividend 11% to 2.50 euros per share.

To reduce dependence on the automotive industry, Continental agreed in February to buy Veyance Technologies from the Carlyle Group for 1.4 billion euros to

strengthen its ContiTech plastics and rubber division. Fitch Ratings said at the time that the deal won't affect the credit-reporting company's view of Continental's debt.

The purchase of Fairlawn, Ohio-based Veyance, a maker of hoses and conveyor belts, will increase the share of revenue that Continental generates outside the car industry to 32% from 28%. Continental plans further acquisitions to raise the non-automotive proportion of sales to 40%, the company said in March 2014.

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