



# ANNUAL REPORT 2019

tesa SE, Norderstedt

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# CORPORATE GOVERNANCE

## **Corporate Governance at tesa**

tesa welcomes and supports the German Corporate Governance code. The declaration of compliance of Beiersdorf AG is available permanently at [www.Beiersdorf.com](http://www.Beiersdorf.com).

## **Audit Opinion**

The consolidated financial statement of the tesa Group, prepared in accordance with International Financial Reporting Standards (IFRS), was audited by the audit firm Ernst & Young GmbH, which issued its certification without any reservations.

# FOREWORD

## Ladies and Gentlemen,

We can look back on 2019 as a very challenging fiscal year, in which tesa was once again able to strengthen its innovative power in technology and its close proximity to customers in industry and trade worldwide. The tesa Group generated nominal sales of €1,378.7 million in 2019. This corresponds to an increase of €35.9 million (+2.7%) compared to the previous year. The operating result (EBIT, excluding special factors) rose compared to 2018 (€210.3 million) to €211.6 million (+0.6%). The return on sales excluding special factors was 15.3% (2018: 15.7%). Taking into account special factors, the EBIT margin came to 13.9% (2018: 15.7%). All regions and business segments contributed to this positive performance. We once again achieved particularly strong growth in Asia, primarily through the project business with innovative products for customers from the electronics industry. In the Automotive segment, another important pillar within the Direct Industries division, tesa was not able to avoid the global economic slowdown. However, it was still able to hold up well compared to the market environment. The Direct Industries division's share of total sales was almost 60%. The Trade Markets division, which includes applications for end consumers, professional craftsmen and the industrial trade business, contributed around 40% of total sales in the reporting year.

Like many other multinational companies, tesa is facing major challenges, such as increasingly volatile and disruptive markets, tremendous innovative pressure, rapidly evolving and high customer expectations, digital transformation and intense competition for the best minds.

Drive, team spirit, technological excellence and customer proximity: All of this is deeply rooted in the "tesa DNA" and will continue to be a key success factor for the future development of our company. Even though customers have always been the focus of our activities, it is becoming increasingly challenging to provide them with the best possible support, and thus strengthen and expand our market position. We therefore want to become faster, more innovative and more sustainable in all areas and across borders and intensify our focus on our customers. That is why our mission as defined in our new tesa strategy 2025 is:

"We create adhesive solutions that improve the work, products and lives of our customers."

Beyond organic growth, we also want to bring growth and technological expertise into the Group through corporate acquisitions in the future. We take a systematic approach to seeking out, identifying and acquiring suitable target companies. The three companies acquired in 2018, the Twinlock division of Polymount based in the Netherlands, FormFormForm Ltd. in London and Functional Coatings located in the northeastern United States, could be integrated with more synergy into the tesa Group in the past reporting year.

With economic, social and political changes going on around the world, 2020 will once again bring uncertainties, making forecasts more difficult. However, in the past we have consistently demonstrated that we are quite able to respond quickly to changing market conditions thanks to the high flexibility of our organization. We therefore believe that our strategy is a sound one for the long term. Given our economic strength, innovative drive and many years of experience in working closely with a wide range of different customer industries, we feel we are ideally positioned to tackle future challenges and ensure continued positive business development.

Special thanks go to all employees worldwide, who once again shaped tesa's success in 2019 through their tremendous commitment, thereby demonstrating their passion for our brand and company. I would also like to thank our customers and business partners as well as our shareholder Beiersdorf for their trusting cooperation.



Dr. Norman Goldberg  
Chairman of the Executive Board

# MANAGEMENT REPORT

## I. Business Parameters

### General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group and operates in more than 100 countries with 4,926 employees. tesa SE is a wholly owned subsidiary of Beiersdorf Aktiengesellschaft and the direct or indirect parent company of the 63 tesa affiliates (previous year: 64).

During the fiscal year, tesa liquidated the company Heromelt Adhesives, LLC in Newburyport, MA (USA), thereby reducing the number of affiliates.

### Regions and Major Locations

tesa operates worldwide with the main focus on Europe, followed by the business regions of Africa/Asia/Australia and the Americas. In addition to tesa SE, the affiliates in China, the United States, Italy and Singapore are among the largest single companies in the tesa Group. The tesa Group has production facilities in Europe (Germany and Italy), the Americas (USA) and Asia (China). The company headquarters, which include an integrated research and technology center, are located in Norderstedt, near Hamburg, Germany.

### Direct Industries Division

In the **Direct Industries** division, tesa supplies industrial customers – particularly from the electronics, printing and paper, building and construction, and automotive industries – with specialized system solutions via direct channels. The company’s strategic focus is predominantly on developing and expanding profitable lines of business in technologically advanced fields of application. System solutions from tesa are used to optimize and enhance the efficiency of production processes, as customized protection and packaging systems, and as fastening solutions in construction-related applications.

tesa’s range of products also include solutions for the digital networking of brand products from **tesa scribos GmbH**. The current focus is on the tesa® 360 Data Analytics software solution. This data analysis module enables trademark holders to collect and holistically evaluate data using their networked products. This results in new insights with regard to areas such as forgery protection, customer behavior and supply chain processes.

Another innovative business segment is being handled by **tesa Labtec GmbH**. This tesa affiliate develops and manufactures medicated patches called transdermal therapeutic systems as well as buccal films (medicated films that deliver the active ingredient via the oral mucous membrane) for the pharmaceuticals industry.

### Trade Markets Division

The **Trade Markets** division encompasses those markets in which tesa supplies end customers with market-driven products via retail partners or retail-like channels rather than directly. In addition to product ranges for private consumers and craftsmen, they also include adhesive tapes that are intended for commercial customers and marketed primarily via technical retailers.

In the **General Industrial Markets** business segment, tesa offers a wide range of products for diverse applications in various industrial sectors, including product ranges for assembly and repair, tapes to secure items during transportation, and adhesive solutions for the packaging industry.

In the **Consumer & Craftsmen** segment, whose business is focused on Europe and Latin America, tesa markets innovative product solutions intended for various applications, including for daily use in offices, the home, and in crafts. Under the tesa umbrella brand, DIY stores and superstores as well as paper goods and stationery shops offer end consumers a broad assortment of more than 300 innovative products in the **Consumer** segment. In the **Craftsmen** business segment, tesa concentrates on customized product ranges for professional craftsmen and on developing and implementing marketing concepts geared toward the specific needs of this target group.

## Strategy

Reliable quality, excellent service, a high degree of innovation and the use of superior technologies are key elements of the philosophy behind the tesa brand and tesa's success. tesa's activities focus on developing effective and efficient solutions for its customers and markets.

The company centers on the following areas when developing its innovative, market-driven product systems under the tesa® brand:

- comprehensive knowledge of customer needs, production processes, market requirements and industry trends,
- comprehensive knowledge of the wishes and needs of end customers and the expectations of partners in the retail trade, so that we can meet their requirements efficiently and offer high sales productivity per unit area, and
- ongoing staff training and continuous improvement of the business processes to enable efficient and rapid implementation.

tesa emphasizes the following goals when managing its business activities at the international level:

- expanding the global structures in its industrial business segment with the aim of offering its customers uniform global solutions with consistently high quality levels, all with outstanding service,
- expanding the international structures in its retail consumer business, with a focus on Europe, especially Eastern Europe, and Latin America in order to supply partners in the retail trade with internationally effective and market-driven product ranges, and
- implementing harmonized global quality standards while incorporating environmentally friendly technological components.

In developing its business, tesa focuses on organic growth based on the existing customer groups and product ranges. Expanding the innovation portfolio and successfully launching new products on the market are particular areas of concentration.

Acquisition of stakes in other companies and of new affiliates is another integral element of the tesa growth strategy. tesa systematically seeks out and identifies possible target companies in two categories:

- **Scale:** Acquisitions that boost market share in the relevant markets, thereby enhancing tesa's growth dynamic

- **Scope:** Acquisitions that bolster tesa's competitiveness on a lasting basis through forward-looking technologies and supplementary expertise

## Value Management and Control System

The objective of the tesa Group is to expand its market share through sustained growth while at the same time boosting its earnings base. In these activities, tesa SE is integrated into the management system for the entire group. tesa focuses on continuous, profitable growth in sales volume, with an eye to increasing its earning power over the long term. The benchmarks for this are the operating result (EBIT) combined with the return on sales (ROS) and return on capital employed (ROCE). Active cost management and the highly efficient use of resources are aimed at generating returns that are internationally competitive.

## Economic Environment

As expected, the pace of growth of the global economy continued to slow over the course of 2019 and is slightly below the previous year's level. An economic slowdown was evident in most industrialized countries as well as in growth markets. Despite intermittent easing, the principle drivers of the slowdown in growth were the various international trade conflicts, particularly between the US and China, as well as significantly weaker growth rates in the eurozone and parts of Asia. General political and economic uncertainty, due to geopolitical conflicts as well as with regard to the long-term impact of the departure of Great Britain from the EU (Brexit) and the future political direction of the US, continued to have a negative effect on economic development.

Economic growth in Europe lost momentum in 2019 and the recovery in the eurozone weakened noticeably. Positive domestic demand, stimulated by the positive development in the labor market and the continued low level of interest rates, provided renewed economic support. Compared to the previous year, the European export-dependent economy was significantly dampened by weak global demand as well as the related negative development of industrial production. Aside from the global trade

conflicts, political uncertainty stemming from spreading anti-European movements as well as the protracted exit negotiations with Great Britain weighed on the European economy.

Economic development in Germany unexpectedly lost considerable momentum compared to the previous year. The main cause of this was the steady downward trend in incoming orders for German industrial production since the beginning of the year. Robust business activity in the service sector as well as private consumption, propped up by continued good conditions in the labor market and wage increases, are brightening the overall economic picture somewhat in Germany.

In the US, economic momentum in 2019 eased slightly compared to the previous year. In particular, reduced investments, primarily influenced by rising uncertainty due to the trade conflict with China as well as lower exports, had a negative impact on economic performance. By contrast, good labor market conditions and private consumer spending provided economic support.

In Japan, economic growth was slightly above the previous year's level, with the investment confidence of companies continuing to provide positive support. However, growth was restrained by weakening domestic demand due to an increase in the value-added tax as well as lower exports to China.

Cooling economic growth predominated in growth markets over the course of 2019. In China, the level of growth was slightly below that of previous years. Economic activity was particularly propped up by government infrastructure programs and government-directed lending. However, these measures were unable to compensate for declining production, especially in the automotive sector, and weaker construction activity. After rapid growth in the previous year, economic growth slowed significantly in India as a result of weak domestic demand as well as lower investments. Economic development in the Middle East continued to be hampered by general political uncertainties. Despite good developments in Malaysia, the Philippines and Indonesia, a mixed picture was evident in the emerging countries of Southeast Asia, influenced in particular by the slowdown in Thailand as well as lower export demand. After a slight economic recovery in the previous year, economic growth in Brazil was below the previous year's level. The deterioration of global economic activity, poor climatic

conditions, the recession in Argentina and lagging structural reforms had a negative impact on Brazil's economic growth. In Russia, economic growth was subdued in 2019 compared to the previous year, driven in particular by muted consumption after the increase in value-added tax at the beginning of the year. In addition, the high growth rates for investments in past years diminished over the course of the year. Ongoing international sanctions continued to weigh on the Russian economy.

## Sales Market Development

The 2019 fiscal year was characterized by the trade dispute between the US and China, the structural crisis in the automotive industry and the ongoing discussion about Brexit. The automotive markets declined sharply in this challenging environment. Other industrial markets, such as technical retail trade, displayed weaker growth compared to previous years. Only construction and retail fully maintained the growth path of previous years.

China's automotive market, which is regarded as the growth engine of the worldwide automotive industry, plummeted in the past fiscal year. After 20 years of continuous growth, passenger vehicle sales fell by 8% (approximately 2 million units) from the previous year. In addition, the climate debate and the discussion about alternative drive technologies led to a degree of uncertainty and consumer reticence in industrialized countries. Worldwide automotive production declined by around 5% from the previous year. Along with China, Germany was also particularly strongly affected with a drop in automotive production of around 7% from the previous year. Only Eastern Europe was not affected by this development and was able to grow slightly compared to the previous year.

In the consumer electronics sector, the smartphone market was able to recover somewhat in the past fiscal year after two years with stagnating or slightly sinking demand. The driver for this was the model change of almost all well-known manufacturers, which stimulated demand. The major players were able to expand their market shares or maintain them at the previous year's level. The tablet market also grew in 2019 by around 2%. The market leader was able to continue to expand its market share in this area. In 2019, the wearables segment (mainly fitness trackers and

smart watches) built on the positive development of the previous year. Along with devices (wearables) worn on the wrist, hearables (e.g., in-ear headphones) saw extremely dynamic growth.

The traditional paper and printing industry maintained its downward trend as a result of the ongoing digitization. By contrast, the packaging industry benefited from increasing numbers in the online mail order business worldwide and displayed solid growth. In the construction industry, the positive development of previous years continued. Prefabricated solutions, including adhesive tape applications, were increasingly used.

Technical retail trade reflected the economic slowdown in the industrial markets and was only slightly above the previous year worldwide.

Traditional retail in Europe was able to grow again as a result of the positive trend in purchasing power. Eastern Europe in particular displayed strong growth in all sales channels. The online business with consumers maintained the expansion path of previous years with high double-digit growth.

## Procurement Market Development

Given the general global economic development in the past fiscal year, the procurement markets were characterized by declining demand, especially in the automotive sector. Particularly in the raw materials market, this situation has led to falling prices or, as in the case of natural rubber, to prices that have remained constant at a low level.

In keeping with its strategy, tesa was able to expand the supplier base again in 2019 by qualifying additional suppliers and in the process reduce the risks for the Group's business.

By shifting the focus to the qualification of new and local suppliers, tesa was also able to improve delivery reliability further and strengthen the local supply of plants in Asia and the US. This allows tesa to meet the increasing market demand for greater flexibility and short delivery times.

In order to strengthen its own innovative capacity, tesa, together with research and development, further intensified its cooperation with suppliers in 2019. By doing this, the company aims to promote the exchange of ideas and joint development of innovations.

For 2020, tesa expects prices in the raw material markets to remain largely stable at the current low level. By adjusting capacities, it is expected that the prices of materials like acrylics will rise again slightly. By qualifying new suppliers and, if necessary, phasing out suppliers who currently work for tesa, the company believes it is well positioned to ensure global supply as market requirements grow, while simultaneously purchasing on a competitive basis.

In 2020, tesa will continue to focus on developing alternative sources of raw materials and strive to expand the supplier base, especially in the growth markets of Asia and North America. The objective here is to secure the company's competitiveness, supply reliability and innovative capacity in the future as well.

## Research and Development

In the area of research and development, tesa continued to focus on technologies for structural adhesion in 2019. This involves technologies for adhesive solutions with particularly high bonding power and long-term resistance, which could previously be achieved only with mechanical connection technologies, such as screws, rivets and welds. Together with leading innovators from the global automotive industry, tesa has developed high-strength, resistant connection solutions for car bodies and interiors, which also meet strict requirements for quality assurance and efficient processing methods. Another focus was the structural bonding of various high-quality, heat-sensitive surfaces at room temperature. The main application area is the assembly of electronic devices such as mobile phones. Initial new technologies have been successfully tested with selected innovation leaders.

Development work on structural bonding is being conducted by tesa's global research and development network at its locations in Germany, China and North America, thereby ensuring optimal cooperation with leading innovators and customers. This work has been supported by the European Union via the European Regional Development Fund (ERDF).

As part of its work on processes and products that are particularly environment and resource friendly, tesa has developed sustainable adhesive solutions for de-

manding packaging, which are designed to protect high-quality and heavy electronic devices during transport. The key element involves adhesive tapes made from renewable raw materials as well as recycled and biodegradable components.

During the reporting year, tesa made further advances in extrusion technology, which eliminates the use of solvents so that special adhesive tapes can now be manufactured flexibly and in an environmentally friendly manner with smaller batch sizes. This opens up new areas of application in the global automotive, electronics and construction industries. By means of this manufacturing process, high-quality adhesive layers can be produced solvent free and without the drying and treatment of water required when processing adhesive dispersions.

Particularly high safety standards apply to many applications involving railroads, aircraft interiors and increasingly also for battery-powered automobiles. Specifically for these requirements, tesa is developing components for flame-resistant and flame-retardant adhesive tapes, which even help extinguish flames. Through the combination of new technologies and cooperation with international research institutes, it was possible to produce prototypes that are also very environmentally compatible.

Sensor technology and sensors are a rapidly growing field, in which adhesive tapes also play an important role. There are increasingly powerful and affordable sensors that are capable of collecting more and more data from all areas of life. The preparation and use of data frequently occurs via the internet. tesa has developed a series of double-sided adhesive tapes with new adhesive layers, which allow these sensors to be attached simply and reliably on various surfaces, including human skin.

With the acquisition in 2018 of US-based company Functional Coatings, LLC, tesa has expanded its technology portfolio. The focus here is on special adhesive tapes used for insulation in modern building shells. During the reporting year, new technologies and prototypes were successfully developed for the intelligent management of heat and moisture in modern building designs with high wood content, which make an effective contribution to sustainable construction.

Additional information on research and development at tesa can be found at <https://www.tesa.com/en/about-tesa/facts-figures/research-development>.

## Responsibility<sup>1</sup>

Growth and economic success at tesa are inseparably linked with corporate responsibility. Consequently, climate protection, the responsible use of resources and occupational safety are firmly anchored in the business processes. In addition, civic involvement is an integral part of the corporate culture.

### Protecting the Climate and the Environment

Environmental impact at tesa arises mainly from the use of energy at production sites. As a result, tesa puts particular focus on protecting the climate and reducing CO<sub>2</sub> emissions. To manage environmental performance effectively, all locations that have significant environmental impact use environmental management systems. Seven production facilities and tesa's headquarters have an environmental management system certified under ISO 14001. The company headquarters and the locations with the highest CO<sub>2</sub> emissions (Hamburg and Offenburg) also have an energy management system certified under ISO 50001. The energy management systems provide the foundation for further increasing energy efficiency at the sites.

In order to improve its environmental footprint, tesa has been setting ambitious Group-wide targets with its environmental program since 2001. The current targets apply to the period from 2016 through 2020. During this period, tesa plans to lower the specific CO<sub>2</sub> emissions per ton of final product (location based) by a further 10% compared to the reference year 2015. One strategic approach is the use of technologies that conserve energy and resources such as efficient production of the company's own energy through cogeneration and procuring electricity from renewable sources. During the reporting period, tesa succeeded in reducing CO<sub>2</sub> emissions per ton of final product by 9.8% as compared to 2015 (location-based method).

tesa's waste and raw materials management activities are geared toward minimizing production-related losses of the raw materials used, making efficient use of materials and recycling wherever possible. Almost all non-hazardous waste and hazardous waste containing solvents are recycled. By 2020, tesa aims to reduce the specific waste generated per ton of final product by another two percentage

<sup>1</sup> This section was not part of the review of the Management Report.



points compared with the reference year 2015. As of the date of this report, the tesa Group was on target across the board.

## Occupational Safety

To prevent occupational accidents and occupational health risks from the outset, tesa focuses on prevention and on raising employee awareness. The strategic goal is to reduce the number of accidents to zero.

The company's occupational health and safety management activities focus on the production plants, where the risks of accidents and adverse health effects are greater than at the office locations. tesa employs in-house safety specialists at all locations that are certified under ISO 14001. These specialists are familiar with tesa's global occupational health and safety guidelines and with local conditions.

The frequency of accidents > 3 days at tesa stood at 1.6 per million hours worked worldwide in 2019, significantly below the German industry average (BG RCI, the statutory accident insurance and prevention institution for the raw materials and chemicals industries) of 11.7.

## Corporate Citizenship

Beyond its core business, tesa also aims to make a positive contribution to society. The tesa corporate citizenship strategy concentrates on three strategic key fields: social commitment and involvement, support for education, and environmental protection. At the project level, these are divided into the four pillars "tesa helps," "tesa donates" (social), "tesa supports" (education) and "tesa protects" (environment).

In 2019, as in the past, tesa supported a wide range of projects around the world:

- "tesa helps" provides neighborly assistance and supports social institutions at the tesa sites worldwide. Besides making donations, employees participate in various projects for social and charitable institutions.
- For example, employees in Belgium support the organization D'Broej, which operates eight youth facilities in Brussels. These centers offer disadvantaged children and youth help with homework, the time and space for personal development, and the chance to participate in sports and other leisure activities.
- "tesa donates" supports the work of selected institutions with in-kind or monetary donations. For example, employ-

ees donate the cent amounts from their monthly salary, which are matched by tesa. In 2019, it was thus possible to assist the Die Kleinen Riesen Norderstedt e.V. with a donation of more than € 8,500.00.

- As a technology company, tesa is very aware of the fundamental importance of education and qualified young people. It has therefore partnered with the Initiative für Naturwissenschaft & Technik ([NAT]; Science & Technology Initiative) as part of "tesa supports." In 2019, tesa again offered students from various Hamburg high schools the opportunity to gain insight into the daily work of scientists during three STEM project days.
- The tesa plant in Suzhou, China, has been involved in the "tesa Sunshine Education Assistance" program for more than ten years. This aims to improve the elementary school education of the children of migrant workers. A total of about 710 children have already received an annual scholarship ("tesa Sunshine Scholarship").

More detailed information is available in the annual sustainability report, which is accessible at <https://www.tesa.com/en/about-tesa/responsibility>.

## Employees<sup>2</sup>

The qualifications and engagement of tesa employees are instrumental in ensuring the economic success, quality and sustainability of tesa's business. As a result, tesa's attractiveness as an employer is an essential prerequisite for the company's lasting positive development. As a worldwide technology leader in the technical adhesive tape and adhesive system solution segment, tesa needs to recruit highly qualified employees and secure their loyalty to the company in the long term.

The number of employees stood at 4,926 at the end of the fiscal year (previous year: 4,917).

In 2019, tesa continued to invest in the training of its employees and created additional attractive development opportunities.

The new "X perience" career path model was launched in 2019 at all sites worldwide. The aim is to create a uniform understanding of appropriate development and career steps throughout the company and motivate employees to include cross-functional as well as international or functional job rotation options in their individual career planning.

<sup>2</sup> This section was not part of the review of the Management Report.

tesa supported this for the first time through an X-Change Day: On this action day, various departments presented their respective job offerings to interested employees.

Managers' ability to offer employees a motivating working environment and promote the development of their talents is crucial to tesa's success as a business and its attractiveness as an employer. With this in mind, tesa further expanded and internationalized the Leadership Program in 2019. Essential Leadership Training is geared toward new managers at tesa and is now in use worldwide. The goal is to communicate the same understanding of employee management to all managers around the world. Advanced Leadership Training is available to managers who have been in a position of management responsibility for a longer period of time. In this form of training, managers have the opportunity to tackle especially tough leadership challenges and develop new solutions with guidance from a trainer. Furthermore, in 2019 tesa began to design a new Management Development Program (MDP), which helps executives and managers to expand their skill sets.

In the area of knowledge sharing, tesa is increasingly utilizing e-learning formats. This enables employees to learn new things anytime, anywhere, while supporting the general trend toward more flexibility in the workplace. E-learning courses are already in use for topics like compliance, occupational safety, research and development, and the tesa Supply Network. In the future, employees will have access to all continuing education options at tesa at any time via a digital "learning hub." In 2019, pilot projects were successfully completed in four regions.

Alongside leadership, development options and performance-driven pay, factors such as occupational safety and health promotion increasingly affect employee loyalty and attractiveness as an employer. In both areas, the focus at tesa is on prevention: Investments in technical safety, occupational safety and health measures and routine training activities, along with a worldwide campaign to raise awareness, helped to ensure that the rate of occupational accidents in 2019 was once again significantly below the industry average according to the statutory accident insurance and prevention institution (Berufsgenossenschaft). The occupational health management program "It's for you" and the tesa sport club established a new emphasis in this reporting year with a wide range of classes. From preventive health checks and back strength exercise programs to

physical therapy, employees have a wide range of interdisciplinary options to choose from.

## II. Results of Operations

### Results of operations in the tesa Group

	2018	2019	Change	
	in € million	in € million	in € million	in percent
Sales	1,342.8	1,378.7	+35.9	2.7
Costs of goods sold	-740.9	-763.9	-23.0	3.1
<b>Gross profit</b>	<b>601.9</b>	<b>614.8</b>	<b>+12.9</b>	<b>2.1</b>
Marketing and selling expenses	-271.8	-285.2	-13.4	4.9
Research and development expenses	-55.8	-58.9	-3.1	5.6
General and administrative expenses	-79.0	-76.9	+2.1	-2.7
Other operating income	73.3	57.8	-15.5	-21.1
Other operating expenses	-58.3	-40.0	+18.3	-31.4
<b>Operating result (EBIT, excluding special factors)</b>	<b>210.3</b>	<b>211.6</b>	<b>+1.3</b>	<b>0.6</b>
Special factors	0.0	-19.3	-19.3	-100.0
<b>Operating result (EBIT)</b>	<b>210.3</b>	<b>192.3</b>	<b>-18.0</b>	<b>-8.6</b>
Financial income	9.4	12.0	+2.6	27.7
Financial costs	-19.0	-18.0	+1.0	-5.3
<b>Financial result</b>	<b>-9.6</b>	<b>-6.0</b>	<b>+3.6</b>	<b>37.5</b>
<b>Profit before tax</b>	<b>200.7</b>	<b>186.3</b>	<b>-14.4</b>	<b>-7.2</b>
Taxes on income	-62.7	-57.0	+5.7	-9.1
<b>Profit after tax</b>	<b>138.0</b>	<b>129.3</b>	<b>-8.7</b>	<b>-6.3</b>

In the 2019 fiscal year, the tesa Group posted an operating result (EBIT, excluding special factors) of € 211.6 million, which was € 1.3 million higher than in the previous year. The operating result including special factors (EBIT) decreased to € 192.3 million (-8.6%). One-time expenses of € 19.3 million were incurred during the reporting year. They are mainly attributable to the “f4t – fit for tomorrow” cost savings program for tesa SE and its headquarters in Norderstedt, which was announced by the Executive Board of tesa SE in November 2019. This step is necessary in view of the ongoing deterioration of market conditions in key core markets for tesa.

While gross profit totaled € 614.8 million (+2.1%), the result from operating expenses and income excluding special factors changed -3.0% to € -403.2 million in 2019 (previous year: € -391.6 million).

The tesa Group completed the fiscal year with profit after tax of € 129.3 million (-6.3%). This was due to the lower operating result (€ -18.0 million), which was attributable to the special factors of the ongoing reorganization. At the same time, the financial result increased by € 3.6 million to € -6.0 million and the income tax burden decreased by € 5.7 million to € 57.0 million.

Sales increased by € 35.9 million to € 1,378.7 million. Taking into account a simultaneous increase of € 23.0 million in the cost of goods sold, the gross profit improved by 2.1% to € 614.8 million. The return on sales excluding special factors was 15.3% (previous year: 15.7%). Taking into account the special factors, the EBIT margin came to 13.9% (previous year: 15.7%).

Other operating income decreased by € 15.5 million to € 57.8 million. This development was driven primarily by lower income from fluctuations in currency exchange rates as well as lower gains on asset sales compared to the previous year.

Other operating expenses excluding special factors decreased in 2019 by € 18.3 million to € 40.0 million primarily due to lower expenses for administrative and consulting services in the headquarter functions as well as lower expenses from fluctuations in currency exchange rates.

Marketing and selling expenses rose by € 13.4 million to € 285.2 million, and research and development expenses increased by 5.6% to € 58.9 million. General and administrative expenses amounted to € 76.9 million, representing a slight decline from the previous year (€ -2.1 million).

The financial result improved from the previous year to € -6.0 million (by € 3.6 million).

In the 2019 fiscal year, taxes on income decreased by a total of € 5.7 million to € 57.0 million (previous year: € 62.7 million).

In keeping with forecasts from the previous year, a positive trend was seen in sales. The EBIT margin without one-time effects was slightly below the previous year, as indicated in the forecast.

On the whole, the tesa Group posted a solid performance in the past fiscal year. Targeted investments continued to be made in order to strengthen its market position in the long term.

## Business Development by Region

Despite a challenging market environment, tesa generated organic growth of 0.8% in 2019. The sales of companies acquired over the course of 2018 (+0.8 percentage points) as well as exchange rate effects (+1.1 percentage points) boosted sales by 1.9 percentage points. Nominal sales increased by 2.7% from € 1,342.8 million in the previous year to € 1,378.7 million.

### Europe

In Europe, organic sales growth declined by -0.4%. The business in the Trade Markets segment developed positively. By contrast, the Direct Industries segment saw a decline in sales, reflecting the weakness in the automotive market. In nominal terms, tesa's sales in Europe reached € 729.4 million (previous year: € 731.5 million). The share of Group sales declined to 52.9% (previous year: 54.5%).

### Americas

In the Americas, tesa's organic sales decreased by -2.1%. The Trade Markets division recorded slight sales growth. The performance of the Direct Industries division was weaker than in previous years as a result of declining sales in the automotive market in 2019. Sales in the region rose in nominal terms by 5.2% to € 227.6 million (previous year: € 216.4 million). The share of Group sales increased to 16.5% (previous year: 16.1%).

### Africa / Asia / Australia

In Asia, organic sales growth of 4.7% was achieved, boosted by the project business featuring products for the electronic industry. The weakness in the automotive sector was also noticeable in this region in 2019. Nominal sales in this region amounted to € 421.7 million, 6.8% higher than the previous year's sales of € 394.9 million. The share of Group sales increased to 30.6% (previous year: 29.4%).

## Business Development by Division

### Direct Industries

Organic sales in tesa's Direct Industries division decreased by 0.3%. While sales in Europe stagnated, tesa recorded lower sales in the Americas. tesa achieved growth in Asia, in part with higher sales in the project business with the electronics industry. Nominal sales increased by 2.5% to € 818.0 million (previous year: € 798.3 million). The Direct Industries division's share of total sales was 59.3% (previous year: 59.4%).

In the **Consumer Electronics** segment, tesa once again achieved significant sales growth in 2019 despite a stagnating market. tesa was able to expand its position as a leading provider of innovative products and solutions for the manufacture of smartphones, tablets and notebooks. The product range of electrically conductive adhesive tapes stimulated growth here. Beyond pure bonding, these special products perform the important task of diverting or insulating electrical voltage in electronic devices. The range of proven products also contributed to the positive performance. Due to tesa's industry prominence, it was possible to create new applications with these adhesive tapes and successfully introduce them to customers.

In 2019, the **automotive sector** was significantly impacted by the global sales and production crisis in the industry. Although tesa Automotive was not able to avoid this crisis, it still held up well overall relative to the market. This was buoyed by the current industry trends of electromobility, digitization and product line automation. The product portfolio in these areas is being continuously expanded. tesa is developing new application solutions ranging all the way to fully automated robot applications. One example is the automated closing of holes in vehicle bodies caused during production (hole covering). Particularly in the area of elec-

tromobility, demand is increasing to develop previously unknown applications and offer new prototypes at short notice. tesa is increasingly meeting this challenge with new agile work methods that facilitate rapid development in close interaction with customers.

In the **print and paper** segment, tesa continued to expand its activities in flexo printing. In addition, it was able to achieve further significant growth in the area of packaging and label printing, not least due to the Twinlock® brand self-adhesive printing sleeve business that was acquired in 2018 from the Netherlands-based company Polymount. Furthermore, the optimized EasySplice film product range for the printing of films provided additional stimulus.

In addition, tesa was also able to hold its own in 2019 in saturated markets through the systematic modernization of existing standard product ranges, such as the water-soluble splicing adhesive tapes used in paper production, as well as through its determined customer focus.

In the **pharmaceuticals** segment, tesa's focus in 2019 was on further stabilizing the business in terms of productivity, quality and output as well as expanding and strengthening market access. tesa was able to drive the development of product innovations as part of the approval process and further expand the portfolio of development projects. Furthermore, tesa has received orders for process development in the generic segment, thereby laying a solid foundation for further product launches in the years to come.

With **tesa scribos**, tesa supports international trademark holders in the process of digitizing their products. Customized product labels and software solutions are used to connect original products with the digital world. In order to meet rising demand for innovative customer interaction, tesa scribos has developed an innovative product marking with a hidden winning code. In the area of software solutions, the current focus is on tesa® 360 Ordering, a platform for volume control, as well as tesa® 360 Data Analytics, a data analysis module. The former creates a high degree of transparency for customers with numerous production facilities and/or suppliers. tesa® 360 Data Analytics ensures that all information can be evaluated holistically. It enables trademark holders to obtain reliable insights into areas such as customer behavior, market trends, supply chain management and protection against forgery.

The **Building Industry** segment also developed positively in 2019. The products based on ACX<sup>plus</sup> technology, which

are used in the manufacturing of windows and doors as well as in interior finishing, were a major contributor here. In Europe, tesa was able to complete additional projects involving the structural adhesion of facade elements. The introduction of adhesive tapes that can be removed after use without leaving any residue was received very positively in the market. Another focus involved sealing solutions for the construction and construction supply industries.

## Trade Markets

The Trade Markets division saw positive development, with organic growth of 2.5% in sales. Nominal sales increased by 3.0% to € 555.3 million (previous year: € 539.0 million). As a result, this division contributed a 40.3% share (previous year: 40.2%) of tesa's total sales during this reporting year.

In 2019, tesa further expanded and optimized its product range in the **industrial trade**. The development of new product categories contributed greatly to this. One example are special silicone adhesive tapes, which are primarily used for masking and design applications in the automotive and household appliances industries. tesa also launched a new solvent-free, temperature-resistant masking tape for automotive coatings on the market, thereby updating a series of classic tesa products within the product range. In order to support trade partners in terms of sales and make the tesa product range even more visible on the market, the company also focused on generating attractive digital content as well as digital marketing campaigns.

In the **General Industries** business segment, certain high-quality double-sided special tapes for the household appliance sector saw particularly positive development. New products that are used in air filters made important contributions.

In the **Consumer & Craftsmen** business with individual consumers and professional craftspeople, which is focused on Europe and Latin America, tesa posted further growth in 2019. Growth via digital sales channels in particular outperformed the market.

The very successful Europe-wide introduction of a new product range of bathroom accessories under the tesa® brand, which can be installed easily and quickly using innovative technology from the tesa affiliate nie wieder bohren GmbH, especially contributed to the positive development. The new brand campaign "Everyone deserves to feel at home," which raises awareness for numerous possibilities

to shape one's personal environment everywhere simply and individually with adhesive nails from tesa, stimulated sales. The business with adhesive tapes for craftspeople developed very positively during the reporting year.

Sales via digital channels once again saw double-digit growth. Among other initiatives, tesa tested its own online shops, with one of them at "tmall," an online marketplace in China.

### III. Financial Position

#### Cash flow statement

	2018	2019	Change
	in € million	in € million	in € million
<b>Cash and cash equivalents as of Jan. 1</b>	<b>167.0</b>	<b>199.0</b>	<b>32.0</b>
Gross cash flow	193.0	176.4	-16.6
Change in net current assets	-37.6	31.9	69.5
Net cash flow from operating activities	155.4	208.3	52.9
Net cash flow from investing activities	-45.9	-69.2	-23.3
<b>Free cash flow</b>	<b>109.5</b>	<b>139.1</b>	<b>29.6</b>
Net cash flow from financing activities	-79.1	-98.8	-19.7
Other changes	1.6	2.4	0.8
Net change in cash and cash equivalents	32.0	42.7	10.7
<b>Cash and cash equivalents as of Dec. 31</b>	<b>199.0</b>	<b>241.7</b>	<b>42.7</b>

**Cash flow from operating activities** increased by € 52.9 million, to € 208.3 million, as compared to the previous year. **Cash flow from investing activities** accounted for a net outflow of € 69.2 million. This development is primarily attributable to increased investments in property, plant and equipment (€ 64.5 million) as well as payments for granting loans (€ 13.0 million). The increase in investments in property, plant and equipment resulted mainly from facilities under construction for expanded production in Asia (see the section "Capital Expenditure"). **Free cash flow** increased by € 29.6 million to € 139.1 million.

The negative **cash flow from financing activities** was due in particular to a dividend payment of € 69.0 million to the shareholders.

The first-time application of IFRS 16 led to an increase in gross cash flow of € 19.3 million and negative cash flow from financing activities of € 19.3 million.

As of the end of the fiscal year, **cash and cash equivalents** had increased by a total of € 42.7 million to € 241.7 million.

## Key Financial Indicators

The **return on sales** excluding special factors from the ongoing reorganization amounted to 15.3% (previous year: 15.7%). The return on sales including special factors from the ongoing reorganization decreased from the previous year to an EBIT margin of 13.9% (previous year: 15.7%). Without taking into account write-downs on intangible assets and property, plant and equipment and special factors, profitability was 20.5% (previous year: 19.1%). Without taking into account write-downs on intangible assets and property, plant and equipment, the profitability with these special factors was 19.1% in 2019 (previous year: 19.1%).

The **EBIT return**, measured in terms of the available equity as of the beginning of the fiscal year, decreased in 2019 to 25.6% (previous year: 30.9%).

The **net profit**, measured against sales, decreased slightly from 10.3% in the previous year to 9.4%.

The **earnings per share** decreased from € 5.24 to € 5.11.

The capitalization of rights-of-use from leases as well as the recognition of leasing liabilities as a result of the first-time application of IFRS 16 increased **total assets** by € 66.4 million to € 1,520.6 million.

The **equity ratio** excluding special factors from the initial application of IFRS 16 amounted to 52.7%. The equity ratio with these special factors decreased by 3.5% from the previous year to 50.4% (previous year: 53.9%). The ratio of equity to non-current assets excluding special factors from the first-time application of IFRS 16 was 117.8%. The ratio of equity to non-current assets including special factors was 106.9% (previous year: 122.7%).

## Capital Expenditure

During the reporting year, tesa invested a total of € 64.5 million in intangible assets and property, plant and equipment. Of this amount, capital expenditure of € 34.7 million applied to sites in Germany.

The sum of € 5.9 million was invested in the rest of Europe, while € 7.2 million was invested in the Americas and € 16.7 million in the Africa / Asia / Australia region. In particular, capital expenditure in Asia relates to the extension and expansion of production capacities for the Direct Industries division.

The year 2019 was mainly characterized by expenditure for technology and capacity expansion in strategic large-scale projects, some of which have now been completed. In addition, tesa continued to make relevant investments to modernize the global IT infrastructure and system landscape, which will continue in the years to come.

Capital expenditure for productivity, replacements, and capacity expansions at the production sites worldwide totaled € 46.5 million.

## IV. Balance Sheet Structure

### Balance sheet structure of the tesa Group

	2018	2019	Change	
	in € million	in € million	in € million	in percent
<b>Assets</b>				
Non-current assets	611.4	716.7	105.3	17.2
Inventories	287.2	259.9	-27.3	-9.5
Other current assets	295.7	302.3	6.6	2.2
Cash and cash equivalents	199.0	241.7	42.7	21.5
<b>Total</b>	<b>1,393.3</b>	<b>1,520.6</b>	<b>127.3</b>	<b>9.1</b>

	in € million	in € million	in € million	in percent
	<b>Equity and liabilities</b>			
Equity	750.4	766.1	15.7	2.1
Non-current provisions	297.2	354.4	57.2	19.2
Non-current liabilities	29.5	70.7	41.2	139.7
Current provisions	105.6	109.2	3.6	3.4
Current liabilities	210.6	220.2	9.6	4.6
<b>Total</b>	<b>1,393.3</b>	<b>1,520.6</b>	<b>127.3</b>	<b>9.1</b>

Total assets increased from the previous year by 9.1% to € 1,520.6 million. On the assets side, this was primarily the result of an increase in non-current assets (+ € 105.3 million) caused by the first-time application of IFRS 16. In addition, cash and cash equivalents rose by € 42.7 million.

The development on the liabilities side was also primarily due to the first-time application of IFRS 16.

Non-current assets increased by € 105.3 million to € 716.7 million. The capitalization of rights-of-use from leases in accordance with IFRS 16 extended the statement of financial position by € 66.4 million.

Inventories decreased by 9.5% from the previous year to € 259.9 million.

Cash and cash equivalents increased by € 42.7 million to € 241.7 million. Please see the remarks concerning the financial position for further information.

The recognition of leasing liabilities in accordance with IFRS 16 increased current liabilities by € 17.5 million (total increase in current liabilities of € 9.6 million) and non-current liabilities by € 48.1 million (total increase in non-current liabilities of € 41.2 million).

The increase in non-current provisions was primarily attributable to the increase in provisions for pensions and similar obligations, reflecting the reduction in the interest rate.

The change in equity was mainly attributable to the net profit after tax of € 129.3 million, the dividend payment to shareholders of € 69.0 million and the interest rate change for pensions of € 43.5 million.

Current provisions were at the same level as the previous year and are the result of circumstances of an operational nature involving future accruals.



## V. Risk Report

As part of its global activities, tesa is faced with a wide variety of risks that are inseparably linked to its corporate activities. Risk management, which is a component of the overall planning, controlling, and reporting systems, is aimed at consistently leveraging opportunities to add value and at reducing identified risks to a level manageable for the organization or avoiding them altogether. tesa systematically records, analyzes and monitors global risks using its planning and reporting system – both at a centralized level at tesa SE and locally in the regions.

Management of operational risks is largely decentralized, with centralized monitoring. tesa centrally monitors any overarching international risks associated with production and safety standards, legal violations, brand management, financing, and value development within the Group. Goal-driven controlling and regular strategy reviews make sure that opportunities and risks are favorably balanced. Beiersdorf Aktiengesellschaft's internal audit department monitors compliance with the internal controlling system and ensures the integrity of the business processes.

With respect to market risks, tesa regards itself as exposed to both procurement and sales risks. Price and availability risks in the procurement markets are reduced by using supply contracts intended to ensure reliable planning, for example through extended terms and price escalation clauses. tesa reduces dependency on single suppliers by specifically developing alternative sources of procurement.

On the sales side, tesa is exposed to economic risks in the industrial sectors with which tesa generates a high proportion of its sales, especially in the automotive and electronics industries. tesa monitors market trends closely, both centrally and in the regions, in order to be able to intervene and control the risk at an early stage. Furthermore, tesa is exposed to the risk of losing individual customers completely and to a default risk on receivables. However, its broad sales base and diversification mean that tesa does not have single customers that account for such a high share of sales or receivables that their default could threaten the company's existence. The company additionally takes out trade credit insurance to a feasible extent, via the tesa sales organizations, for specific customers identified as posing an elevated risk due to their company profile or the scope of the receivables.

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard

to the quality and safety of our products. They are thus subject to a comprehensive, end-to-end quality assurance system throughout the entire procurement, production and distribution process. tesa ensures the development of and compliance with the necessary processes by means of periodic internal and external audits in accordance with international standards. The company is fully certified in accordance with ISO 9001 and, where necessary, under IATF 16949, as well as ISO 14001, 45001 and 50001. Occupational health and safety and environmental risks are mitigated by process control checks, and they are also ensured through external certification. tesa has established appropriate provisions for covering the financial impact of liability risks and any potential loss or damage events by taking out insurance within the scope possible and in accordance with economic considerations.

The possibility of the complete failure of one or more production units cannot be excluded and poses a potential threat to the long-term supply capability of the company. tesa counters this risk with a preventive maintenance system, fire protection measures and appropriate in-depth employee training. As far as it is economically feasible, tesa is also insured against loss or damage that may be incurred despite these precautions.

Continuous innovation and intensive cooperation with customers with the aim of improving their production processes promote the long-term acceptance of tesa's products on the market. Innovative products help to counteract purely price-based competition and reduce the risk of the expansion of private labels in the end consumer business.

tesa reduces research and technology risks by maintaining proprietary basic research facilities and through regular exchange with research institutes. Ongoing market observation and cross-functional decision-making processes for assessing and selecting development projects ensure that development activities are market oriented.

Technological expertise and maintenance of the tesa® brand as a guarantee of quality and innovation are of particular significance. The legal position associated with this is protected and maintained centrally in cooperation with the operating regions.

tesa manages financial risks via active treasury management on the basis of globally applicable guidelines in the area of corporate treasury.

The overriding goal is to safeguard the financial power of the Group and be able to meet financial obligations at all

times. Within the scope of financial management, tesa ensures the solvency of the Group on a continuous basis, controls the risks related to financial instruments, and optimizes cash management for the entire Group.

Legal violations can harm tesa's good reputation and lead to penalties, sanctions, claims for damages, legal costs, and other burdensome effects. tesa minimizes the risks associated with legal violations with a risk-oriented compliance organization. The company's compliance activities and programs currently focus on the subjects of anti-trust law, the fight against corruption, and data protection. tesa strives to minimize risks systematically through guidelines, processes and training programs geared toward the relevant risks. This is also supported by a mandatory global Code of Conduct.

tesa hedges 75% of the currency risk for freely convertible currencies, where this is economically feasible. The hedges entered into in line with this policy are handled centrally at Beiersdorf Aktiengesellschaft. Potential risks associated with the investment of liquid funds are fundamentally mitigated by the use of counterparty limits across the Group, as managed by Beiersdorf. The development of exchange rate risks is monitored regularly.

Because of its very low volume of bank loans, both interest rate risk and liquidity risk are of minor importance for tesa.

As a matter of principle, hedges are used solely to hedge operational activities or financial transactions that are necessary for the business.

tesa constantly monitors the availability, reliability and efficiency of its IT systems and adapts them to state-of-the-art technology. To limit risks involved in mobile data communication and in the use of cloud applications, tesa monitors the effectiveness of the measures taken and maintains emergency plans. Technical and organizational measures rule out unauthorized access and data loss to the greatest possible extent.

Performance-based compensation systems help tesa acquire and retain qualified specialists and management personnel, as do focused further education and training programs and the ongoing recruitment and development of young professionals and junior managers.

From today's viewpoint, no other specific risks can be identified for the coming twelve months that could endanger tesa's continued existence, either individually or in their totality.

## VI. Outlook

Geopolitical risks and their effects on overall economic development will have a lasting impact on tesa's business in 2020, continuing a trend seen in previous years. The global slowdown in the automotive market and rather cautious expectations in the electronics industry for the coming year mean that tesa needs to be somewhat careful regarding its growth expectations.

Overall, tesa expects a stable development in Europe, although the political environment – such as the development of tariffs in the US, uncertainty regarding the long-term consequences of Great Britain's departure from the EU (Brexit) and the political situation in Turkey – may have a negative impact on the markets.

In North America, tesa anticipates a return to more positive impetus from the automotive industry. Continued positive development is expected in Latin America after good growth in 2019.

The outlook for development in Asia depends in large measure on the development of the Chinese economy. tesa expects moderate growth in Asia in 2020, in which it will participate through both the automotive sector and once again in the electronics industry. The increasing pressure on prices will probably dampen sales growth somewhat in both areas. The business with the electronics industry in Asia remains attractive, although the project-oriented nature of this business continues to pose a significant risk of fluctuations.

The year 2019 was characterized by relatively moderate volatility in currency exchange rates. The slight weakening of the euro over the course of 2019 is not expected to have any material impact on the development of tesa's business in 2020. Classic financial instruments are used to hedge against these risks.

tesa will continue to invest in innovative technologies at its production sites worldwide in the future. The capital expenditure volume will again exceed total write-downs. Financing for capital expenditures in 2020 has been secured.

Growth is expected to outperform the market slightly in the coming year. This applies to the business with both consumers and industrial customers. Based on continued investment in research and development, and thus in innovative products, tesa expects to strengthen its market position.

tesa anticipates slightly positive sales growth in 2020. The operating EBIT margin excluding special factors is expected to remain at the same level as in the previous year.

## **VII. Report by the Executive Board Regarding Dealings with Affiliated Companies**

In accordance with Section 312 of the Aktiengesetz (German Stock Corporation Act), the Executive Board has issued a report regarding dealings with affiliated companies which contains the following concluding declaration: “According to the circumstances known to us at the time the transactions were executed, or measures were implemented or omitted, tesa SE received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures.”

Norderstedt, February 21, 2020  
Executive Board



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Both versions are available online at [www.tesa.com](http://www.tesa.com) and [www.tesa.de](http://www.tesa.de).  
Printed copies can also be obtained from the Corporate Communications department.

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