

Capital Market Themes 12/2020:

Current Discussion Points

Vienna, 15 December 2020

Themes of Specific Investor Interest

- **Equity market VALUATION:** *exuberant or „nowhere else to invest“?*
 - winners and losers of the pandemic
 - rotation around the US presidential elections, new vaccine
 - focus on growth vs value, yield through shareholder return
- **Secular trends ACCELERATED** through the pandemic?
 - digitalisation, ecommerce, demographics, climate change
 - volatility & risk perception, lower interest rates for longer
 - social responsibility – flexible workplace, education, motivation
- **Long-lasting DISRUPTIONS** and economic impact from pandemic?
 - „glocalisation“ – trade war, shifting alliances, local protectionism
 - higher corporate & public debt, capital structure, distribution
 - higher health and old-age risk premium (pension schemes)

Accelerate Transformation

Accelerate efficiency and transformation, while reducing costs

Euro 0.3 billion absolute reduction in cost base by 2023¹

By 2023

Technology

- **IT legacy decommissioning**
ca. 30% legacy systems decommissioned²
- **Move to the Cloud**
>90% of systems moved to the cloud²

Simpler processes

- **Automation and digitization**
70% to 90% straight-through processing^{2,3}
- **Product simplification**
Reducing number of products²
e.g. ca. -80% of P&C products in Spain

Organization & Office space consolidation

- **Organizational redesign**
Delaying, redefining roles & responsibilities
- **Optimization of real estate**
Consolidation of office spaces
Moving to one roof policy in major locations

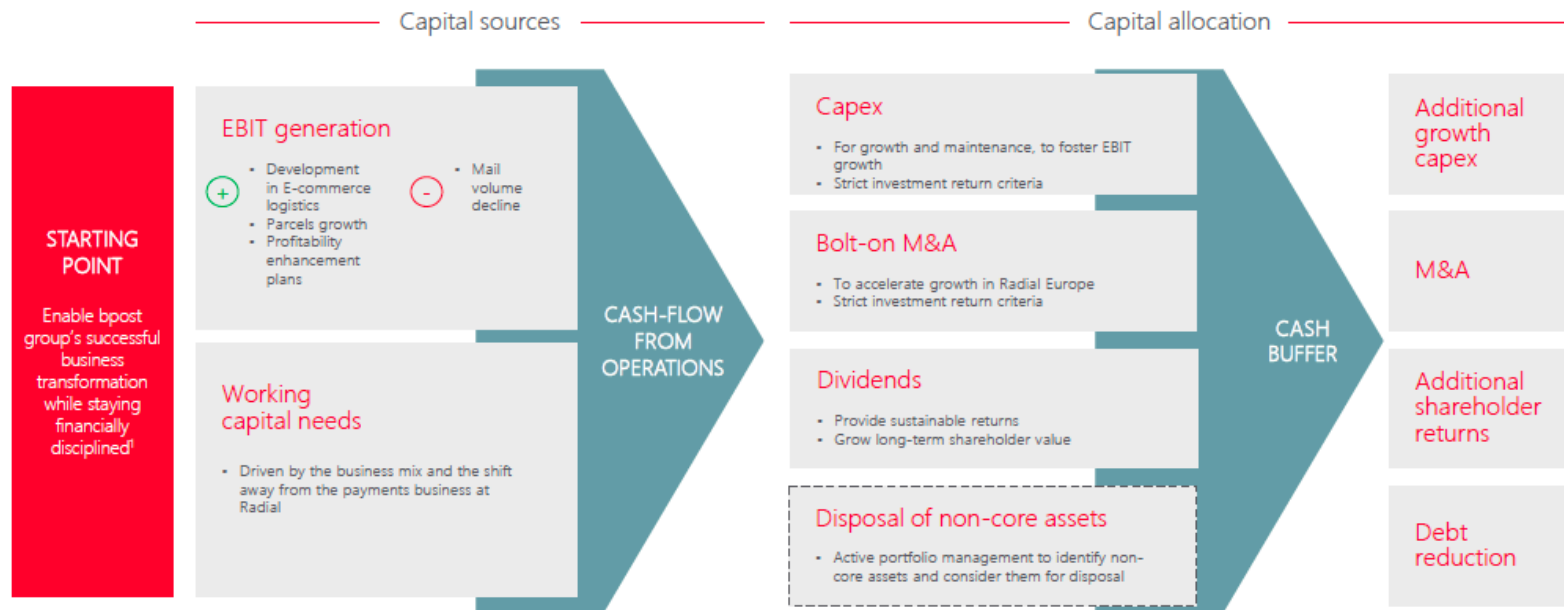
Self-help Measures Against Exogenous Shock

- **Significant COST MEASURES**
 - „discreet“ and ad-hoc (travel, marketing, entertainment)
 - long-lasting and „sustainable“ (personnel, office, digital)
 - run-out of state subsidies, short-term work, tax preferences
- **Accelerated OPERATIONAL EXCELLENCE**
 - automation & robotics, data analytics, IT infrastructure
 - optimisation of supply chains, sales, procurement and WCM
 - FTE reduction, outsourcing, temporary labour
- **Refinancing and build-up of CASH RESERVES**
 - implications for consolidation and/or bolt-on M&A
- **CAPITAL ALLOCATION to enable business transformation**

Capital Allocation

The capital allocation should enable our business transformation

To ultimately deliver durable shareholder value while being sustainable from a cash flow perspective and strive for investment grade



¹ Financial discipline is reflected in our striving for an investment grade rating, based on internal cash generation

What remains after the pandemic?

- **Moment of genuine RECKONING**
 - disruptions truly tested companies' resilience and flexibility
 - accelerated transformation of business models
 - exponentially higher risk sensitivity & ESG awareness
- **Stress test for long-term FINANCIAL VIABILITY**
 - implications of higher debt and leverage
 - newly defined financial framework & capital allocation priorities
 - relentless drive for more efficiency and operational excellence
- **Newly embedded SOCIAL RESPONSIBILITY**
 - less product-driven, more customer centricity and solutions
 - technical skills and digital culture – education & qualification
 - flexible engagement across generations, diversity and mobility

Social Responsibility

2018-2020 → 2021-2025 →

Munich Re Group Ambition 2025

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