Press Conference SPS IPC Drives 2014

**Phoenix Contact 4.0 – continuity for future**

### Roland Bent

### Executive Vice President, Phoenix Contact GmbH & Co KG, Blomberg

November 25, 2014

Ladies and gentlemen,

Welcome to the Phoenix Contact press conference on the occasion of SPS IPC Drives 2014.

On 1 January 2015, when Frank Stührenberg becomes Chief Executive Officer, Phoenix Contact will be led by a non-partner for the first time in the company’s 90-year history. Klaus Eisert has served as CEO for over 40 years. At the beginning of the year, he will hand over his responsibilities as Chief Executive Officer of Phoenix Contact to Frank Stührenberg and go on to serve as chairman of the advisory board. This advisory board will be the link between salaried management and the family partners. By choosing long-time sales chief Frank Stührenberg as the future Chief Executive Officer of the Phoenix Contact Group, the managing partners are cultivating a deep tradition of continuity, which is the basis for the company’s future development.

Frank Stührenberg, born in 1963, studied economics with a specialization in business IT at the University of Paderborn. He joined Phoenix Contact in 1992. In 2001, he became a Member of the Management Board and in 2005, he and four other Executive Vice Presidents, who still serve in this capacity, were appointed to the Executive Board. As CEO, Stührenberg will also remain in charge of Global Sales. Our company has already gone through three stages: the foundation phase, the development phase and the internationalization phase. In 2015, Phoenix Contact will be entering a fourth phase of development: the future.

The managing partners made this important decision in 2014, yet another successful year of growth for the company. The latest sales growth figures in Euro stand at a solid eight percent. This is one of the first clear signs of the positive effects of our massive investments in products and structures in recent years. We are expecting between seven and eight percent growth in revenues worldwide by the end of the year. In absolute terms, growth will be about 120 million Euro; Phoenix Contact’s worldwide sales should total about 1.75 billion Euro. If we take into account our growth of over ten percent in local currencies, which is the best indicator of actual market performance, Phoenix Contact can report yet another year of significant growth at above-average levels for the market.

What is especially pleasing is that this overall growth is spread out relatively evenly across the globe. As always, Phoenix Contact’s most important market is Germany, our home market. Here is where we are starting to see the clearest evidence of our successful structural investments in a more differentiated market approach that focuses on three segments: device connection technology, industrial components and electronics as well as control system and industry solutions. With eight-percent growth in sales in Germany, we are far above average for the market. This growth was not the result of any specific individual effects. In the rest of Europe, we recorded ten-percent growth. In China, market performance was satisfactory, with nine-percent growth in the local currency. Here, the significant double-digit growth rates of the past can no longer be expected in the future. The US market has also developed very favorably. With over ten-percent growth in the local currency, the US is a growth engine once again, reinforcing its number-two position in Phoenix Contact’s country ranking.

On the whole, market performance was very positive. This does not hide the fact that 2014 was a year of many uncertainties at the global economic level. These uncertainties were triggered by geopolitical situations such as the Ukraine crisis and elements of uncertainty in the international financial sector, which was affected by high levels of government debt in the Euro zone. Despite all this uncertainty, Phoenix Contact continued to take forward-looking actions for structural development in 2014. In Germany alone, some 250 people were hired as we continue to develop and expand our sales structures in all business areas as well as our technological expertise.

**New innovation center in the US underpins regional presence**

By opening a new 10,000 square-meter manufacturing and engineering center in the US, we have set the stage for increased regional presence in this important growth market. The Regional Business Unit building houses development, product and solution management teams for the regional and global market as well as the accompanying production facilities. In total, the innovation center in the United States has 130 engineers who generate almost 30 percent of the local revenue in the US with approximately 120 production employees. This regional innovation expertise has existed for ten years. The goal here is to spot technology trends and customer requirements early on, and respond quickly and flexibly with the right products. This strategy has been a success, as proven by our growth and the fact the American customers view us as local partners.

**Global market coverage offers local customer proximity**

Ever since Phoenix Contact went global over than thirty years ago, fifty dedicated sales companies have been established worldwide. These companies cover all global industrial markets and major emerging markets. All told, the markets in which Phoenix Contact now has its own subsidiaries represent approximately 90 percent of worldwide gross domestic product. A company could easily be satisfied with this. But pursuing a growth strategy means identifying opportunities early on and making investments that can lead to success in the future, even though they might involve a degree of risk at first. In terms of markets, this would apply to what were once called ‘developing countries.’ The continent of Africa and large areas of Central and South America have great potential for the future. Phoenix Contact’s activities in Africa are mainly restricted to the South African market at the present time. As part of the company’s strategy for the future, we are currently moving forward with our program for the development of new market activities in North and West Africa as well as in the southern sub-Saharan region. These future markets will be developed by established local companies in France, Dubai and South Africa. The relatively untapped markets in Brazil, Argentina and Chile and in Central and South America, where Phoenix Contact already has several sales offices and subsidiaries, will also be developed in the long term. As the first step, a new organization was founded in Colombia in 2014.

**Inspiring innovations are the leitmotif**

“We create progress with innovative and inspiring solutions.” This is Phoenix Contact’s mission statement. It is the standard by which we measure ourselves again and again. It means that we must continually make large investments in research and development, technologies and products. In 2014, Phoenix Contact once again invested around seven percent of its global revenues in R & D activities. In absolute terms, this is a total of around 100 million Euro.

Our deep-rooted culture of innovation was recognized when we received the ‘Top 100 – Top Innovator 2014’ award. This award ranks Phoenix Contact among the best of Germany’s top innovators. We were voted the best in the categories ‘Involvement of upper management in innovation projects,’ ‘Innovation strategy,’ ‘Innovative processes and Organization’ and ‘Innovation marketing.’

As further evidence of the company’s positive development, sales have tripled since 2000. This growth is based on a business philosophy that values continuity in strategy and management structures. The result is a company that is a reliable partner in which customers can trust. But continuity does not mean standing still. On the contrary, continuity at Phoenix Contact means sustainable development of the company, its expertise and its markets. This is based on the three pillars of success: 1) Ongoing development and expansion of processes and production expertise, 2) development of the product range and innovation, and 3) a central focus on the customer’s needs and the expansion of market presence. The company’s leaders have built up the company on these pillars in more than nine decades. These ninety years can be organized into three eras:

**The foundation phase, 1923 - 1960**

Phoenix Contact was founded in Essen in 1923 by businessman Hugo Knümann. In 1928, through close collaboration with RWE, a key customer, the first modular terminal blocks were developed. This laid the foundation for the company’s future technological focus. In 1949, inventor and passionate engineer Josef Eisert joined the company and generated important momentum for further development. In 1953, after the death of Hugo Knümann, Josef Eisert became CEO of Phoenix Contact and shaped our terminal block technology over the next two decades. Initially, the company’s product range was developed and expanded through engineering expertise. This was continually augmented by in-house manufacturing and process know-how after the first production plant was built in Blomberg in 1957.

**The development phase, 1961 - 2000**

In 1961, Klaus Eisert, Josef Eisert’s first son, joined the company. He started out in sales and marketing, focusing on products. His brothers Jörg (+ 1979) and Gerd (+2001) joined in the coming years. After Josef Eisert passed away in 1975, Klaus Eisert became Chief Executive Officer. During the company’s development phase, the international sales network was expanded and the product range was greatly extended. From 1980 to 2000, 30 distinct sales companies were established. The Chinese subsidiary was founded in 1994 and the Russian branch in 2001. Today, the company has 50 subsidiaries around the world.

The massive expansion of our product range started in the 1970s when the terminal block range was expanded to include printed circuit boards. Today, Phoenix Contact is a world leader in what we call device connection technology. In the 1980s, products became more electronic. For example, surge voltage protection and interface technology were added. In the mid-1980, the Interbus fieldbus system was developed, laying the groundwork for automation technology. The electronics site Phoenix Contact Electronics, which now has 1500 employees, was launched in 1996. The driving force behind the ‘electronification’ of Phoenix Contact was Wolfgang Blome, whose work in management from 1991 to 1998 paved the way for our future in automation. As far back as the ‘PC in Automation’ conference in Paris in 1998, Phoenix Contact had already foreseen the merger of IT and automation, so-called IT-powered automation, which is the basis for today’s Internet of Things.

**The rise to global player status, 2001 - 2014**

In 2001, department heads Roland Bent, Dr. Gunther Olesch, Frank Stührenberg and Dr. Heinz Wesch were appointed to the Management Board. Together with Chief Executive Officer Klaus Eisert and Dr. Martin Heubeck, who joined the board later, they made up the new corporate management team. In 2003, the team developed and implemented a new corporate structure. In this reorganization, a functional structure was replaced with a highly localized, division-based structure. The company was divided into five core business units. They represent the expertise to further develop and produce the product range. With this structure, the company grew in the coming years by an average two-digit growth rate. In 2007, the billion Euro milestone was reached, three years earlier than expected. In 2005, a new management structure was created from the expanded Management Board. It consists of five salaried Executive Vice Presidents who are responsible for the areas of marketing and product development, sales, technology, human resources and IT, and finance. As Chief Executive Officer, Klaus Eisert represents managing partners but has no direct operational responsibilities. In 2005, international development sites were established in the US and China, yet another move toward global player status. At the same time, Phoenix Contact’s M&A strategy was developed during these years. The goal of the strategy is to close technological gaps. Companies like KW-Software, Coninvers, Sütron, Innominate and Aptronic became members of the Phoenix Contact Group and extended the company’s range of technology and expertise. Phoenix Contact Power Supplies GmbH was established in Paderborn in 2014. One year earlier, Phoenix Contact E-Mobility GmbH was launched in Schieder, laying the groundwork for a new field of business. In 2010, the Executive Board had already defined the company’s current strategy for the future. It establishes the basic framework for entering the fourth phase of Phoenix Contact’s development.

During the first three eras, the company was continually headed by a managing partner. When the current Chief Executive Officer passes the baton to Frank Stührenberg, who has headed the sales division for over ten years, the company will enter the fourth phase of its development.

**Phase 4 : Solutions for the future**

The company’s explicit goal is to continue the successful growth strategy of the last decade into the future. On the one hand, this means expanding our successful product-related business. On the other hand, the growing needs of customers must be met, and we must serve them by providing solutions for increasingly complex applications. Phoenix Contact’s business model for components will be augmented with a strong pillar based on system expertise and solution know-how. ‘Solutions for the future’ means offering products and systematic solutions that make a lasting contribution to future challenges such as power and water infrastructure, transportation and urban planning. It also means proving ourselves to be reliable partners to customers, who have specific needs for the future.

This trusting partnership is based on a deep understanding of the processes and requirements of customers as well as the ability to provide products and solutions for special applications. The foundation for this is a new market-oriented corporate structure that was introduced in 2011. Phoenix Contact’s services are geared toward three market segments that provide the framework for the new corporate structure and its processes. This results in more intensive networking with customers, their processes and requirements. The three market segments of device technology, industrial components and electronics and control systems and industrial solutions have their own sales structure and a corresponding product organization model. With this organization, five business units were divided into twelve units that are organized into four divisions. Since 2011, this organizational structure has been implemented worldwide at all of our key sites. In the coming decade, it will be the basis for our business strategies. Strong decentralization has been a key element of the organizational changes in the last 15 years. This has unleashed the business strengths of all our organizational units. They have played an important role in the company’s strong dynamic growth. To implement a focused strategy for the future, a growing and decentralized company like ours must consolidate individual activities. To consolidate all these strengths and reach a common goal, we have developed a well-coordinated strategy for all areas of the company in the last two years. This strategy will define how the company develops over the next decade. At the heart of this market strategy is a business model that involves a balanced expansion of component-related business in addition to system and solution business in the three market segments and selected target industries. Global presence in growth markets will be expanded and our business success will be ensured through coordinated processes. To reach this goal, all market and brand activities will be centralized. This business plan is the strategic and organizational framework for Phoenix Contact’s transition into the future as a formerly owner-operated company. The current management lineup has been active for over ten years without any changes in their governance responsibilities for specific areas. All members of the Executive Board have been with the company for many years and have played an influential role in designing Phoenix Contact’s strategy and development path.

This strategy, the continuity of the Executive Board and the continuity of the shareholder structure will ensure the continuity of the company in the future.

**The road to digitalization is already taken**

The corporate strategy also offers a lot of freedom and options for a differentiated implementation of new goals. The key here is to be fast, flexible and agile in the way we respond to changing economic and technological environments. The increasing digitalization of our society and even our industry is an important megatrend. The ability to anticipate this trend and integrate it into the company’s strategies and technologies is becoming a decisive factor in the competitive arena. The Internet of Things (known as Industry 4.0 in Germany), which refers to the digitalization of industry, involves much more than just the use of new technologies in factories and administrative processes. Digitalization of the industry also means overcoming previous departmental boundaries in organizations, cross-domain collaboration in enterprises, new forms of work, and above all, the ability to integrate the company and its products into the digital supply chain of customers and the market. Digitalization will bring about disruptive changes in technologies and business models, winners and losers.

In the last ten years, digitalization brought networking, constant access to information and new business models. These changes are inevitable and will also affect industrial environments. The question is not whether the fourth industrial revolution will come, but how companies shape and make the most of this shift. Phoenix Contact is not only facing these challenges but is also among the architects of this change. We have a clear plan for evolving into a digital company. For this reason, we have launched extensive technological and organizational activities in recent years in order to prepare the company for the coming change. Phoenix Contact is actively involved in research networks such as the ‘It’s OWL’ Leading-Edge Cluster. Phoenix Contact employees are members of working groups, steering committees and the management board of the Industry 4.0 platform of the industry associations /ZVEI, VDMA, Bitkom). Our current range of technology covers the core competencies that will bring ‘Industry 4.0’ to the shop floor. At the end of the 1990s, we already recognized a new trend: IT and automation technology were beginning to merge. In response, we developed a corresponding range of products for ‘IT-powered automation.’ Network technology, security and safety, wireless, software, Web and PC technology are the core competencies of the company and are constantly being developed. An important technological advancement is the use of cloud technologies.

**Proficloud technology for simple and efficient solutions**

Thanks to our cloud-based Profinet technology, Phoenix Contact was nominated for the Hermes Award for the third time at the 2014 Hanover Trade Show. Proficloud technology represents a major advancement in the automation of simple networked systems. The central idea is to combine Profinet technology with the almost limitless possibilities of cloud technology. Our cloud-based Profinet technology is designed to make things simple and efficient for users while meeting security requirements. Users can configure the automation network in the familiar development environment for their control system as if it were a conventional Profinet network. From an engineering perspective, the network can even be the type of globally distributed network for which a complex VPN network would normally have been required in the past. In the future, all that will be needed is a connection to the Internet and thus to Proficloud. At this year’s SPS/IPC/Drives, we will unveil an application that transmits process data via the cloud. This data can come from conventional Profinet devices in the automation environment, but it can also be sent to and from devices such as a smart watch or virtual devices such as Internet services. In Proficloud, these Internet services are integrated into the automation system as virtual Profinet devices. Notifications such as error messages from the system are then displayed on the operator’s mobile device, and the operator can even respond using voice control functions. In addition to such futuristic applications, Proficloud allows for simple monitoring of distributed systems such as those found in water and waste water management environments. It also provides simple tools for remote diagnosis and maintenance of globally distributed production systems.

**Phoenix Contact Software GmbH consolidates software expertise**

Even before the current discussion about the Internet of Things, it was clear that software was becoming an important differentiating factor for automation technology and mechanical engineering. This was one reason why Phoenix Contact decided to fully incorporate KW-Software GmbH into the Phoenix Contact Group as far back as 2001. Ever since then, software has become more and more important. Software is the basis of intelligent automation devices, it is at the heart of engineering processes and it is ultimately what will make the Internet of Things possible. This expertise is an integral part of Phoenix Contact’s development resources. It shall be aligned in a more focused and systematic way so that the Phoenix Contact brand is more strongly associated with software. For this purpose, our long-time subsidiary KW-Software will be renamed Phoenix Contact Software GmbH on 1 January 2015. All the software activities of the Phoenix Contact Group will be consolidated in this company. The former KW-Software team will be significantly reinforced by the software developers from Phoenix Contact Electronics. The new company will be headed by the current Managing Director of KW-Software, Andreas Orzelski, as well as Detlef Kuschke, Director Research & Development in the Business Unit Control Systems at Phoenix Contact Electronics.

The Phoenix Contact Software company will continue to develop the ILC61131 core technology as well as programs for safety und Profinet. The company is already working on important issues such as integration of cyber security, the OPC UA standard for exchanging files and services as well as cloud or app technologies. The result will be the next generation of Phoenix Contact software for the Internet of Things. By organizing close interaction between control technology and the industry solutions division, our software and control systems hardware will meet the specific needs of our target industries. Phoenix Contact Software GmbH will also continue to be a competent and reliable partner for OEM customers in the area of control and safety software as well as Profinet network technology. The company's headquarters is in Lemgo at the Centrum Industrial IT (CIIT), which is the science-to-business center on the campus of the OWL University of Applied Sciences. By sharing a roof with the IT Industrial Institute (InIT) and the Fraunhofer Application Center for Industrial Automation (IOSB INA), an excellent framework for close collaboration is provided.

**Phoenix Contact Connectors Technology GmbH offers connectors expertise**

Another step toward strategic consolidation of the company's activities and strengthening of the brand was made in the ‘device connection technology’ market segment.

In 2002, Coninvers GmbH in Herrenberg was fully acquired by Phoenix Contact and has been the company’s competence center for industrial round plug connectors ever since. In the new corporate structure introduced in 2011, this company was assigned to the Business Unit Industrial Field Connectors business unit. As a result, Coninvers now has access to Phoenix Contact’s global production and development sites. The company’s expertise includes M6 to M54 industrial round plug connectors as well as custom cabling and solutions.

To achieve better integration in this business area and strengthen our brand identity, we implemented organizational measures for improved integration and also decided to rename the company. Therefore Coninvers GmbH was renamed Phoenix Contact Connectors Technology, without any change in legal status.

**Outlook**

2015 will mark the beginning of a new era in the history of Phoenix Contact. We have a clear growth strategy that aims to continue our proven methods of success: innovation and technology, customer focus and production and process expertise. As we expand our expertise in systems and solutions, this strategy will provide a framework for continuous dynamic growth. The new organizational structure creates space for further growth, a strong focus on the needs of the market and customers, as well as the competence we need for our service and solutions business. The key prerequisites here are excellent processes, a global presence and a high degree of flexibility and agility so that we can respond to increasingly rapid changes in the market and technology.

With these prerequisites in place, Phoenix Contact is extremely well prepared for the challenges and opportunities that the future of the industry will bring.