

ABB accelerates transformation

Stage 2 of Next Level Strategy

London, United Kingdom, September 9, 2015: Capital Markets Day

- Unlocking additional value through realignment of unique power & automation offering
- New Power Grids division brings No. 1 power & automation offering to utilities, strategic portfolio review of this division initiated
- New Electrification Products division combines leading low- and medium-voltage offering
- Continuing focus on profitable organic growth complemented by value-creating M&A
- \$1 bn white-collar productivity savings by end of 2017 in addition to ongoing cost measures
- \$2 bn cash released from working capital by end of 2017
- Revenue growth target (3-6%) aligned to new market realities, all other targets confirmed
- Share buyback program continued

Today ABB launched the second stage of its Next Level strategy with a divisional realignment aimed at driving organic growth by delivering more customer value in a better, more focused way from its combined power & automation offering. The company intends to drive \$1 billion in white-collar cost savings, free up \$2 billion in cash and become more active in value-creating acquisitions.

“We are now accelerating to Stage 2 of our Next Level strategy,” said CEO Ulrich Spiesshofer. “The actions we are announcing today will deliver additional value in a more focused way to customers through our unique power & automation offering. At the same time, we will become leaner, faster and more agile. This will drive the shift of our center of gravity towards higher growth, greater competitiveness and lower risk. With these actions, we address the rapidly changing market conditions and face the increased uncertainty in the world.

“We returned ABB to top-line and operational EPS growth¹ in Stage 1 of the Next Level strategy,” Spiesshofer said. “We turned around Power Systems, simplified the organization and built a framework to drive a new performance culture. With that foundation, we are ready for Stage 2.”

Effective January 1, 2016, ABB will operate in a streamlined set-up of four divisions. The new Power Grids division will focus on the changing needs of utility customers with ABB’s complete power & automation offering for transmission and distribution delivered from a single source—“power & automation for the grid. ABB’s leading offering to industry and transport & infrastructure—“power & automation for the site”—will be provided by three divisions. The new Electrification Products division will combine ABB’s leading low- and medium-voltage businesses. The Discrete Automation and Motion and Process Automation divisions will be further aligned, addressing customer needs and operational efficiency. As a result, ABB’s new divisional structure will be streamlined from 5 divisions to 4.

“Our new Power Grids division will be number one globally in supplying power & automation solutions for power grid customers, serving transmission and distribution utilities in the future as a single business,” Spiesshofer said. “We have initiated a strategic portfolio review of the Power Grids division to determine the best way to enhance its long-term success and create value for our customers and shareholders.

¹ Revenue growth is on a like-for-like basis. Operational EPS growth assumes constant exchange rates.

“The new Electrification Products division will provide our customers with one of the broadest low-voltage and medium-voltage offerings, driving value from our growing network of channel partners around the world,” he said.

ABB will accelerate the implementation of its previously-announced 1,000-day programs to drive white-collar productivity and working capital management. The company expects to deliver approximately \$1 billion in structural cost savings by the end of 2017, in addition to the ongoing program aimed at reducing costs by the equivalent of 3-5 percent of cost of sales every year. Improved working capital management is expected to free up at least \$2 billion in cash by the end of 2017 for investment in high-return capital expenditure, research and development, disciplined acquisitions and shareholder returns.

The company is continuing its current two-year, \$4-billion share buyback program.

Peter Voser, chairman of ABB's Board of Directors, said “the Board is pleased with ABB's progress addressing operational performance, business complexity and the performance culture within the Next Level strategy. In Stage 2, we are focused on strategically transforming the business, delivering strong financial results and unlocking the value for shareholders.”

Next Level Stage 2

Implementation of Stage 2 of ABB's Next Level strategy continues through the three focus areas of profitable growth, relentless execution and business-led collaboration.

Profitable growth

Organic growth remains the key focus of ABB's efforts to accelerate sustainable value creation and is driven through the framework of penetration, innovation and expansion (PIE). ABB is well positioned in attractive customer markets—utilities, industry and transport & infrastructure—where it can combine its leading power & automation portfolio to deliver greater customer value. The market for ABB's offering in these segments totals more than \$600 billion a year and is now expected to grow 2.5-4.5 percent a year in the period from 2015 to 2020, influenced mainly by more moderate emerging markets growth and the slower development of oil and gas.

Technology innovation remains a cornerstone of ABB's competitive position and a key driver of profitable organic growth. The company aims to continue strong investments into R&D of \$1.5 billion a year, or close to 4 percent of revenues.

Focus areas include environmentally friendly solutions for high-efficiency power transmission, such as switchgear that uses insulating gas with significantly lower greenhouse gas impact. Another core area is the Internet of Things, Services and People that enable Web-based automation and control solutions to improve productivity and quality. The company is also pioneering disruptive technology in areas like combining artificial intelligence and 3-D printing with robotics solutions by teaming with innovative partners and providing seed capital through ABB Technology Ventures.

Complementing the ongoing focus on driving organic growth, ABB will increase its focus on value-creating acquisitions that support the shift in center of gravity and partnerships to accelerate growth in attractive segments.

Shifting the center of gravity, the divisional realignment will allow ABB to effectively tap growth opportunities by aligning the businesses better to the specific market dynamics.

The Power Grids division will be fully focused on meeting the power & automation technology challenges of power grid utilities, such as the integration of renewable energies, growing network complexity, grid automation, and the development of smart grids and microgrids.

Delivering a broad transmission and distribution offering from a single integrated source will support ABB's organic growth ambitions by providing better customer service while enabling cost and productivity improvements to secure the targeted operational EBITA margins.

The new division will be the No. 1 supplier of power & automation solutions to power grid customers and comprise ABB's AC (alternating current) grid, DC (direct current) grid and grid automation activities, as well as the company's transformer and high-voltage product businesses. On a pro forma basis, the Power Grids division had revenues in 2014 of approximately \$12.6 billion, operational EBITA of approximately \$600 million and an operational EBITA margin of 4.7 percent. The business employs approximately 39,000 people.

The Electrification Products division will include ABB's medium-voltage products business as well as the breakers & switches, control products, building products, low-voltage systems and Thomas & Betts activities. This combination opens new growth opportunities by taking one of the industry's most complete ranges of low- and medium-voltage products, solutions and services to a broader customer base through multiple common sales channels. On a pro forma basis, the Electrification Products division had 2014 revenues of approximately \$10.6 billion, operational EBITA of approximately \$1.7 billion and an operational EBITA margin of 16.3 percent, with approximately 42,000 employees.

All of ABB's control solutions will be integrated into the Process Automation division and delivered across the company's various end markets through focused front end customer interfaces. This includes the transfer of the DCS (distributed control system) business for power generation from the Power Systems division as well as the PLC (programmable logic controller) business from the Discrete Automation and Motion division.

Relentless execution

In Stage 2 of the Next Level strategy, ABB aims to close the gap in its operating performance compared with its best-in-class peers. The goal is to further transform towards a leading operating model with business processes more focused on customer needs, compensation tied more closely to performance and the development of a true performance culture.

This is being supported through focused 1,000-day programs to drive white-collar productivity—becoming lean for growth—and working capital management to provide cash for growth.

ABB's white-collar productivity program is aimed at making the company leaner, faster and more customer focused. Productivity improvements include the rapid expansion of regional shared services and the streamlining of global operations and head office functions, with business units moving closer to key markets. The company aims to achieve cost savings at a run rate of \$1 billion a year by the end of 2017, in addition to the ongoing program to reduce costs equivalent to 3-5 percent of cost of sales each year.

The cost of the program is estimated at approximately \$1.2 billion, of which approximately \$850 million to \$900 million is restructuring and related costs and approximately \$350 million is program implementation costs. ABB expects to book restructuring and related costs of \$300 million to \$600 million in 2015 (primarily in the fourth quarter) and approximately \$150 million to \$300 million in 2016 and \$50 million to \$250 million in 2017. Of the program implementation costs, approximately \$75 million is expected to be taken in 2015, \$200 million in 2016 and \$75 million in 2017.

The first priority on the 1,000-days program for working capital will be to step up efforts to improve inventory management through the entire value chain, from product design through manufacturing and logistics. Measures will also be taken to reduce excess work-in-progress in large projects. The company's ambition is to increase the number of inventory turns in line with industry benchmarks. The program is expected to free up at least \$2 billion in working capital by the end of 2017.

Business-led collaboration

The divisional realignment is aimed at improving customer focus and increasing agility to support the achievement of ABB's 2015-2020 targets.

To drive this transformation, the following changes are being made to the Executive Committee effective Jan. 1, 2016:

Claudio Facchin, currently President of the Power Systems division, will assume responsibility for the new Power Grids division.

Tarak Mehta, currently President of the Low Voltage Products division, will assume responsibility for the new Electrification Products division.

Bernhard Jucker, currently President of the Power Products division, will assume new responsibilities as President of the Europe region and chairman of the newly-created Divisional Transformation Team.

Veli-Matti Reinikkala, currently President of the Europe region, will retire after 22 years with the company.

Targeted capital allocation

ABB maintains its capital allocation priorities, focused on 1) funding organic growth, research and development and capital expenditure at attractive cash returns on invested capital (CROI); 2) paying a steadily rising sustainable dividend; 3) investing in value-creating acquisitions; and 4) returning additional cash to shareholders.

"We have a strong financial foundation to support the execution of Next Level, with clear capital allocation priorities and our continued disciplined approach," said CFO Eric Elzvik. "Our capital expenditure program is funding high-return investments that promote the shift in the center of gravity, drive productivity improvements and support our 1,000-day programs. We plan to maintain our research and development investments near 4 percent of revenues to secure innovation leadership and continue to strengthen our market positions.

"With good progress made on the Power Systems turnaround and the integration of our previous acquisitions progressing well, we are ready to allocate more of our capital to value-creating M&A, and we'll continue to return cash to shareholders through dividends and our share buyback program."

The company has returned \$3.5 billion to shareholders since the last Capital Markets Day in 2014, including \$1.7 billion in tax-efficient distributions of capital contribution reserves and nominal share value. ABB is continuing its previously-announced two-year \$4-billion share buyback. As of the end of August, the company has repurchased approximately 78 million shares for a total of approximately \$1.8 billion.

Updated 2015-20 financial targets

The company is aligning its 2015-2020 revenue growth target with reduced macroeconomic expectations while keeping its ambition relative to the market. The average annual revenue growth rate target over the period from 2015 to 2020 is now 3-6 percent³ (previously 4-7 percent). Driving factors for this change include the expected continuation of lower oil prices, signs of slowing industrial production growth and forecasted emerging market growth below the levels expected in 2014.

The company reaffirms all of its other targets for profitability, operational earnings per share (EPS) growth CAGR, free cash flow conversion and return on invested capital:

ABB Next Level – 2015-20 targets ²	
Revenue growth ³	3-6%
Operational EBITA % ⁴	11-16%
Operational EPS growth CAGR ⁵	10-15%
Free cash flow (FCF) conversion to net income	>90%
CROI %	Mid-teens

To reflect the new divisional structure, the 2015-2020 divisional operational EBITA margin target corridors have been set as follows:

Current operational EBITA margin corridors	
Discrete Automation and Motion	14-19%
Low Voltage Products	15-19%
Process Automation	11-15%
Power Products	12-16%
Power Systems	7-11%
ABB	11-16%

Operational EBITA margin corridors (as of January 1, 2016)	
Electrification Products	15-19%
Discrete Automation and Motion	14-19%
Process Automation	11-15%
Power Grids	8-12% ¹
ABB	11-16%

¹ The margin target for Power Grids is effective as of Jan. 1, 2016, after concluding the 'step change' program

Outlook

Management confirms the outlook provided at the end of the second quarter.

² For definitions refer to "Supplemental Financial Information" under "Capital Markets Day 2015" – "More information" on our website at www.abb.com/investorrelations

³ Average annual revenue growth on a like-for-like basis, over six years, base year 2014.

⁴ Target is on a full-year basis

⁵ CAGR = Compound Annual Growth Rate. Base year is 2014 and target assumes constant exchange rates.

More information

The Capital Markets Day 2015 press release and presentation slides are available on the ABB News Center at www.abb.com/news and on the Investor Relations homepage at www.abb.com/investorrelations.

ABB will host a press conference and investor meeting in London, UK, starting at 08:30 a.m. and 11:00 a.m. British Summer Time (BST), respectively. Details of the event can be found at www.abb.com/investorrelations. The event will be webcast live at www.abb.com/cmd2015. The recorded sessions will be available for 12 months on our website.

Investor calendar 2015

Third-quarter 2015 results	October 21, 2015
Fourth-quarter 2015 results	February 3, 2016

ABB (www.abb.com) is a leader in power & automation technologies that enable utility, industry, and transport and infrastructure customers to improve their performance while lowering environmental impact. The ABB Group of companies operates in approximately 100 countries and employs about 140,000 people.

Important notice about forward-looking information

This press release includes forward-looking information and statements as well as other statements concerning the outlook for our business, including those in the "Updated 2015-2020 financial targets" and in the Outlook sections of this release. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance, including global economic conditions, the economic conditions of the regions and industries that are major markets for ABB Ltd. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects," "believes," "estimates," "targets," "aims to," "plans," "is likely" or similar expressions. However, there are many risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking information and statements made in this press release and which could affect our ability to achieve any or all of our stated targets. The important factors that could cause such differences include, among others, business risks associated with the volatile global economic environment and political conditions, costs associated with compliance activities, raw materials availability and prices, market acceptance of new products and services, changes in governmental regulations and currency exchange rates and such other factors as may be discussed from time to time in ABB Ltd's filings with the U.S. Securities and Exchange Commission, including its Annual Reports on Form 20-F. Although ABB Ltd believes that its expectations reflected in any such forward-looking statement are based upon reasonable assumptions, it can give no assurance that those expectations will be achieved.

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