

Investor Relations Release

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New Mercedes-Benz strategy announced - targeting structurally higher profitability

- **New Mercedes-Benz strategy for the car business unveiled today at a virtual investor and analyst conference.**
- **The new strategy will enhance the Mercedes-Benz brand's luxury status, raise the product portfolio's positioning and mix, pursue significant growth for sub-brands AMG, Maybach, G and EQ and accelerate the development of electric drive and car software.**
- **Mercedes-Benz confirms its full commitment to electrification across all products and segments, unveils new dedicated electric architectures, and announces multiple new electric product launches.**
- **Four all-new electric vehicles on new large EVA architecture set for launch from 2021.**
- **New electric products coming for AMG, Maybach and G.**
- **New »Electric first« MMA platform in development for compact and medium sized cars.**
- **Expanded cost reduction plans unveiled that will drive down capex, R&D and fixed costs in absolute terms and will improve the industrial footprint.**
- **Financial ambitions sharpened: lowering break-even point, targeting higher profitability and strong cash conversion rate.**

Stuttgart (Germany) – Mercedes-Benz has announced a new strategic course that will pursue profitable growth in the luxury segment and target leadership in electric drive and car software. “In recent years we have done many things right: design, product engineering, brand rejuvenation, sales growth. As a result, we have put Mercedes back on top again. But we have not yet lived up to our full potential in terms of turning volume success into profit growth. That’s why we have refocused and are launching our new strategy. We intend to build the world’s most desirable cars. It’s about leveraging our strengths as a luxury brand to grow economic value and enhancing the mix and positioning of our product portfolio. We will unlock the full potential of our unique sub-brands – AMG, Maybach, G and EQ. Our strategy is designed to avoid non-core activities to focus on winning where it matters: dedicated electric vehicles and proprietary car software. We will take action on structural costs, target strong and sustained profitability,” said **Ola Källenius, Chairman of the Board of Management of Daimler AG and Mercedes-Benz AG** at a virtual investor and analyst conference titled »Mercedes-Benz Strategy Update« on October 6, 2020. **Källenius** also said “with this new strategy we are announcing our clear commitment to the full electrification of our product portfolio and our determination to ensure the business is fully carbon-neutral, in line with our Ambition 2039 target.”

The new Mercedes-Benz strategy is a comprehensive program that has been designed to power the company forward technologically and financially. It has six pillars:

Think and act like a luxury brand

Luxury has always been part of the soul of Mercedes-Benz. Going forward, the brand will see a renewed focus on luxury, making it an integral part of all products, customer interactions and digital technologies. Mercedes-Benz will reshape its product portfolio, brand communications and its sales network to deliver a true luxury experience - a luxury experience that will be electric, software-driven and sustainable.

Focus on profitable growth

Mercedes-Benz will take actions to improve and recalibrate its market strategy. These will focus on optimizing the balance between volume, price and channel mix to ensure improved contribution margins from the current and future portfolio. Mercedes-Benz will also focus its product development resources and capital on the most profitable parts of the market and the segments in which it competes, in order to ensure structurally higher profitability.

Expand customer base by growing sub-brands

Mercedes-Benz is the most valuable luxury car brand in the world, according to Interbrand. It will remain the guiding star. But Mercedes-Benz also has extraordinary sub-brands: AMG, Maybach, G and EQ. The new strategy will take them to the next level - accelerating their development, with clear and targeted plans to unlock their potential and drive substantial incremental EBIT growth.

AMG is set for the next level with high-performance electrification, starting in 2021. Its links with Formula 1 will also intensify next year, to reflect its identity as Mercedes' high performance sub-brand. Maybach will pursue global opportunities, doubling in size and going electric. The demand for the legendary G is ahead of current capacity. The legend will grow, and will electrify. With the EQ brand, Mercedes-Benz will address a new audience with progressive high-technology products, built on dedicated electric architectures.

Embrace customers and grow recurrent revenues

Mercedes-Benz is committed to fostering life-long relationships with its customers. The aim is for customers to love owning a Mercedes-Benz and to be so satisfied by the relationship that they stay with the brand for a long-time, ideally forever. Now, Mercedes-Benz will aim for even stronger loyalty, higher repeat purchases and rapid growth in recurrent revenues - from services and parts and also increasingly from Over-the-Air (OTA) updates and subscription services. The growing number of connected cars provides very significant revenue opportunities in the future, as the Mercedes-Benz fleet will reach 20 million fully connected vehicles in total by 2025.

Lead in electric drive and car software

Mercedes-Benz is aiming to take the lead in electric drive and car software with ambitious product development targets and the accelerated introduction of new technology. As part of

its »Electric First« strategy, Mercedes-Benz has announced four all-new electric vehicles based on its upcoming large-car Electric Vehicle Architecture (EVA). The EQS luxury sedan is the first representative of this new dedicated architecture and will reach the market in 2021 with an electric range of more than 700 km (WLTP). It will be followed by the EQE, the EQS-SUV and the EQE-SUV. In addition, AMG, Maybach and G will go electric. From 2025, multiple further models will be added to the electric vehicles portfolio on the second all-new dedicated electric platform, the Mercedes-Benz Modular Architecture (MMA) designed for compact and medium-sized cars.

Mercedes-Benz will shift even more of its product development resources and expertise to electric drive, and will invest in new technologies and concepts to accelerate electric range and efficiency. The next generation of eMotors are developed in house and will feature sophisticated inverter and high voltage technology. The company is making huge strides in battery technology - with in-house battery R&D complimented by close partnerships with key strategic partners CATL, Farasis and Sila Nano. New materials and production processes will increase range, reduce charging time and cost.

Mercedes-Benz also announced an exciting next step in electric vehicle development today, with the Vision EQXX technology program. The aim is to build an electric vehicle with spectacular efficiency and range. Mercedes-Benz has tasked its engineering group with pushing the boundaries of electric range and efficiency with a cross-functional, multi-disciplinary team based in Stuttgart, supported by specialists from the Mercedes-Benz F1 HPP group in the UK, who bring expertise in eMotors plus motorsport-inspired development speed. While Vision EQXX is a technology program, it is expected to result in innovations that will quickly make their way into series production cars.

In the area of car software, Mercedes-Benz has announced its own proprietary MB.OS operating system. This will be developed in-house and is scheduled for launch in 2024. It will allow Mercedes-Benz to centralize the control of all the vehicles' domains and also its consumer interfaces. Proprietary software development will allow greater speed and more frequent updates, and will be designed around scalable architectures that will control future development costs.

“At Mercedes-Benz, we strive for nothing less than taking the lead in electric drive and car software. We will do this with an intelligent electric platform strategy and a proprietary software development approach,” said **Markus Schäfer, Member of the Board of Management of Daimler AG and Mercedes-Benz AG, responsible for Daimler Group Research and Mercedes-Benz Cars COO**. “We are going to do it the Mercedes way, bringing a true luxury experience to the world of electric and connected cars. We will leverage in-house technology development and strategic partnerships to deliver superb products. And from 2025 on, we are targeting strong contribution margins for all new architectures thanks to high commonality and controlled investment, and ongoing falls in the cost of battery systems. While we will expand the electrified portfolio towards a share of more than 50% of global sales by 2030, our investments in combustion engine development will decline quickly and the number of combustion engine variants will fall by 70% by 2030.”

Lower cost base and improve industrial footprint

Mercedes-Benz will improve its profitability and cash generation and take actions to prepare for the future and to accelerate the transition to electric drive. 2020's events have confirmed

that the company's break-even point is too high and, with the transformational challenges ahead, further actions will be needed. Mercedes-Benz will therefore take significant new steps to reduce the cost base and improve the industrial footprint in the period to 2025.

Fixed costs will be cut by more than 20% by 2025 in absolute terms compared to the 2019 baseline, via reduced spending, capacity adjustments and lower personnel costs. Capex and R&D expenditure are also set to decrease by more than 20% by 2025 compared to 2019. Variable costs will be reduced by 1% net per annum compared to the level of 2019 during the period until 2025, including increased and prolonged savings targets for material costs. This target excludes the effects of a higher xEV mix.

The new Mercedes-Benz strategy and its financial ambitions

With its refocused approach, the new Mercedes-Benz strategy should deliver an improvement in commercial performance via better mix and pricing, an improved product portfolio and growth in recurrent revenues. These developments, when combined with the substantial actions on costs and industrial footprint, should drive a structurally higher level of profitability. By 2025, Mercedes-Benz AG is aiming for a return on sales (RoS) level within a mid to high single-digit range, even under unfavorable market conditions. The company's ambition is to achieve a double-digit margin in a strong market environment.

“We are set for profitable growth. Additionally we have initiated comprehensive measures to bring down the breakeven point in order to right-size our company and our operations. All measures together are designed to make our business weatherproof, address the challenges of the transformation and lead to solid profitability levels even in rough weather, with significant upside in favorable market conditions,” said **Harald Wilhelm, Member of the Board of Management of Daimler AG, responsible for Finance & Controlling/Daimler Mobility, and of Mercedes-Benz AG, responsible for Finance & Controlling.**

“The foundation of our new strategy is our highly qualified and motivated team. All of us at Mercedes-Benz are determined to deliver on our ambitions. We will build the world's most desirable cars. That's our mission, that's what we want to deliver to our customers. We will make a leap forward in technology. We will invest where we can win, grow more intelligently, and reshape our industrial footprint. As a result, we will be able to improve profitability and lift shareholder value,” said **Källenius.**

Additional information will be available at: <https://media.mercedes-benz.com/mbsu>

This document contains forward-looking statements that reflect our current views about future events. The words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” “may,” “can,” “could,” “plan,” “project,” “should” and similar expressions are used to identify forward-looking statements. These statements are subject to many risks and uncertainties, including an adverse development of global economic conditions, in particular a decline of demand in our most important markets; a deterioration of our refinancing possibilities on the credit and financial markets; events of force majeure including natural disasters, pandemics, acts of terrorism, political unrest, armed conflicts, industrial accidents and their effects on our sales, purchasing, production or financial services activities; changes in currency exchange rates and tariff regulations; a shift in consumer preferences towards smaller, lower-margin vehicles; a possible lack of acceptance of our products or services which limits our ability to achieve prices and adequately utilize our production capacities; price increases for fuel or raw materials; disruption of production due to shortages of materials, labor strikes or supplier insolvencies; a decline in resale prices of used vehicles; the effective implementation of cost-reduction and efficiency-optimization measures; the business outlook for companies in which we hold a significant equity interest; the successful implementation of strategic cooperations and joint ventures; changes in laws, regulations and government policies, particularly those relating to vehicle emissions, fuel economy and safety; the resolution of pending government investigations or of investigations requested by governments and the conclusion of pending or threatened future legal proceedings; and other risks and uncertainties, some of which we describe under the heading “Risk and Opportunity Report” in the current Annual Report or latest interim report. If any of these risks and uncertainties materializes or if the assumptions underlying any of our forward-looking statements prove to be incorrect, the actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements since they are based solely on the circumstances at the date of publication.

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