ABB: progress in challenging markets

Zurich, Switzerland, April 20, 2016: First-quarter highlights

- Profitability and cash flow up through execution of Next Level strategy
- Base orders steady[1 2], total orders -7% reflect challenging Q1 2015 comparison
- Revenues -2% on lower short-cycle volumes and timing of order backlog
- Operational EBITA margin[2] up 0.9 percentage points to 12.0%
- Power Grids in target margin corridor; strategic portfolio review of Power Grids on track
- Operational earnings per share[2] +3%[3]
- Cash flow from operating activities up approximately $200 million
- Financials impacted by currency translation due to appreciation of US dollar

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"In the first quarter, we improved our margin and increased cash flow," said CEO Ulrich Spiesshofer. "Our steady base order performance and book–to-bill ratio of 1.17x demonstrate that our focus on organic growth and the new market-oriented organization are yielding results in these challenging markets."

"Our strategic initiatives are driving enhanced productivity and capital management," he said. "We continue relentless execution and capacity adjustments, for example in Discrete Automation and Motion, where we have improved margins sequentially. Furthermore, the newly formed Power Grids and Electrification Products divisions started within the target margin corridor."

"The strategic portfolio review of our Power Grids division is on track and we will report on it during our Capital Markets Day on October 4, 2016."

"With our solid financial position and a leaner, more market-oriented organization, ABB is well positioned to weather continuing market headwinds and to drive profitable growth for the long term," he added.

Key Figures

			Change	
($ in millions, unless otherwise indicated)	Q1 2016	Q1 2015	US$	Comparable[2]
Orders	9,253	10,404	-11%	-7%
Revenues	7,903	8,555	-8%	-2%
Operational EBITA[4]	943	949	-1%	+2%
% of operational revenues[2]	12.0%	11.1%	+0.9pts	
Net income	500	564	-11%	
Basic EPS ($)	0.23	0.25	-9%[3]	
Operational EPS[2] ($)	0.28	0.28	+1%[3]	+3%[3]
Cash flow from operating activities	252	53	+199	

Short-term outlook

Macroeconomic and geopolitical developments are signaling a mixed picture with continued uncertainty. Some macroeconomic signs in the US remain positive and growth in China is expected to continue, although at a slower pace than in 2015. The market remains impacted by modest growth in Europe and geopolitical tensions in various parts of the world. Oil prices and foreign exchange translation effects are expected to continue to influence the company's results.

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[1] Growth rates for orders, revenues and order backlog are on a comparable basis (local currency adjusted for acquisitions and divestitures), previously referred to as 'like-for-like'. US$ growth rates are presented in Key Figures table
[2] For a reconciliation of non-GAAP measures, see "Supplemental Reconciliations and Definitions" in the attached Q1 2016 Financial Information
[3] EPS growth rates are computed using unrounded amounts. Comparable operational earnings per share is in constant currency (2014 exchange rates and not adjusted for changes in the business portfolio)
[4] For a reconciliation of Operational EBITA to income from continuing operations before taxes see Note 12 to the Interim Consolidated Financial Information (unaudited)

Q1 2016 Group Results

Market overview

Demand in ABB's three major customer sectors reflects ongoing macroeconomic uncertainties and challenges. Utilities remained cautious but continued to make selective investments to foster grid integration of renewable energy and to enhance energy security. Continued focus on the integration of renewables, enhanced power exchange and security of supply are driving the need for HVDC interconnections, an area where ABB is a technology pioneer with an unparalleled track record. Demand from industrial customers was subdued, mainly driven by the process industries. Low oil prices resulted in continued restraint of spending by oil and gas customers in the quarter. However, the need to increase productivity by minimizing downtime and optimizing the efficiency of industrial facilities continued to be an important demand driver. The transport & infrastructure market was mixed, with continuing demand for solutions to increase energy efficiency to improve operational reliability and support infrastructure projects. Demand for datacenter energy solutions remains strong.

Regional overview

Demand in Europe was driven by the construction markets as well as by the integration of renewable energy. Industrial demand was stable and demand for specialty vessels was strong. Demand in the Americas was subdued due to a lower level of industrial activity, mainly related to oil and gas and mining and minerals. Construction and utility demand was mixed in the region. The US was slower as industrial demand year over year, especially related to large projects, was down, although short cycle demand showed some improvement on a sequential basis. Asia, Middle East and Africa (AMEA) saw some signs of positive demand as China invested in large grid interconnections for renewables and India continued to grow.

Orders

Total orders were 7 percent lower (11 percent in US dollars) compared with the first quarter of 2015, reflecting the significant large orders booked in the same period in 2015. The stronger US dollar versus the prior year period resulted in a negative translation impact on reported orders of 4 percent.

For utility customers, for example, ABB won $300 million of orders in China to supply advanced converter transformers for two long-distance ultra-high-voltage direct current (UHVDC) transmission links setting a new world record by enabling 10GW of power to be transmitted at 800kV. ABB also won a $250 million order to deliver a 220-kilovolt (kV) high-voltage submarine cable system to Danish company DONG Energy as well as a $140 million order from Energinet.dk in Denmark and 50Hertz Transmission in Germany for a high-voltage direct current (HVDC) converter station.

For industry customers, for example, ABB won an order for 250 robots to build Mercedes's new GLC line of sports utility vehicles at Valmet Automotive in Finland. The company also won a five-year contract to deliver marine integrated solutions and services to Shell's Prelude, the world's first floating liquefied natural gas (FLNG) facility.

For transport & infrastructure customers, for example, ABB won system orders for specialty vessels specifically in cruise ships as well as in electric and hybrid ferries. The company also won a SCADA order to help manage the power network at Dubai International Airport. ABB will upgrade the control system at the airport by providing advanced automation of the power distribution network.

Base orders (below $15 million) were flat (down 5 percent in US dollars) compared with the first quarter of 2015. At the division level, third-party base order growth in Power Grids offset declines in Electrification Products, Discrete Automation and Motion and Process Automation. Large orders ($15 million and above) were 30 percent lower (32 percent in US dollars) compared with the same quarter of 2015. Large orders were lower in all divisions, reflecting the high level recorded in the same quarter last year. Large orders represented 17 percent of total orders compared with 23 percent a year earlier.

Total orders declined 7 percent (10 percent in US dollars) in Europe, reflecting the higher level of large orders that were booked in the region in the same period a year ago. Base orders were up 6 percent (1 percent in US dollars) in the region as a result of positive demand from Germany, Sweden, Denmark and Turkey. Total orders in the Americas declined 13 percent (18 percent in US dollars) due to soft short cycle demand, which was also reflected in the base order decline of 10 percent (14 percent in US dollars). Total orders in AMEA were down 2 percent (7 percent in US dollars) reflecting the lower level of large orders for the quarter, while base orders grew 3 percent (down 2 percent in US dollars). Total orders in China developed positively in the quarter, while base orders were slightly down.

Service orders increased 5 percent (down 1 percent in US dollars) compared with the first quarter last year and represented 17 percent of total orders compared with 15 percent a year ago.

The book-to-bill[2] ratio in the first quarter was 1.17x compared with 1.22x in the same quarter a year earlier. The order backlog at the end of March 2016 amounted to $26 billion, an increase of 4 percent (2 percent in US dollars) compared with the end of the first quarter in 2015.

Revenues

Revenues in the first quarter declined 2 percent (8 percent in US dollars). Revenues were flat in Electrification Products while lower in the other divisions. This decline was primarily due to execution timing of the order backlog and the lower short-cycle volumes due to weak demand in process industries as well as in many parts of the distribution channels.

The stronger US dollar versus the prior year period resulted in a negative currency translation impact on revenues of 5 percent; exiting certain businesses had a negative impact on revenues of around 1 percent.

Total service revenues increased 4 percent (down 1 percent in US dollars) and were 18 percent of total revenues compared with 17 percent a year ago.

Operational EBITA

Operational EBITA improved 2 percent on a comparable basis (down 1 percent in US dollars). The operational EBITA margin increased 0.9 percentage points to 12.0 percent, reflecting the turnaround in Power Grids, ongoing Group-wide productivity and cost savings measures, as well as the positive impact from a cumulative elimination of certain intercompany insurance reserves.

Operational EPS and net income

Operational EPS was $0.28, an increase of 3 percent in constant currency (1 percent in US dollars) compared with the same period a year earlier. Net income decreased to $500 million from $564 million and basic earnings per share was $0.23 compared with $0.25 for the same quarter of 2015. The reductions were mainly due to restructuring and related expenses as well as changes in foreign exchange and commodity timing differences.

Cash flow

Cash flow from operating activities improved by approximately $200 million to $252 million, primarily driven by stronger working capital management and lower income tax payments.

Shareholder returns

ABB announced a $4 billion share buyback program in September 2014 in line with the Next Level strategy to accelerate sustainable value creation. During the first quarter of 2016, ABB purchased 27.7 million shares under the program with a buyback value of approximately $500 million. Since the program was announced, the company has purchased a total of approximately 134 million shares with a buyback value of approximately $2.7 billion.

Stage 2 of Next Level strategy

ABB continues to execute its Next Level strategy along the three focus areas of profitable growth, relentless execution and business-led collaboration. Stage 2 of the Next Level Strategy was announced in September 2015 and comprises a significant set of actions to accelerate the transformation. The first quarter of 2016 continues to show positive results.

Profitable growth

In line with shifting its center of gravity, ABB realigned its organizational structure and is driving towards higher growth, strengthened competitiveness and lower risk. ABB continued to drive profitable growth by focusing on the framework of penetration, innovation and expansion (PIE). The strategic portfolio review of the Power Grids division is well on track and we will report on it during ABB's Capital Markets Day on October 4, 2016.

In the first quarter, with regard to profitable growth, ABB continued to strengthen its competiveness by focusing on digitalized offerings "for the grid" and "for the site". In this context, ABB has been selected to participate in the "Future Intelligent Transmission Network Substation" project of SP Energy Networks, a UK network operator.

As part of the UKs first digital substation, ABB will upgrade an existing substation in Scotland with Intelligent Electronic Devices, allowing for interconnectivity between the power equipment using fiber optics instead of traditional copper cables. The digital communications technology with integrated information technology will improve system visibility, diagnostics and operations, resulting in increased reliability and safety.

At the Hannover Messe on April 25, ABB will be unveiling its smart sensing solution, which enables remote condition monitoring for low voltage motors through its concept of the Internet of Things, Services and People (IoTSP). The smart sensor accurately measures parameters like temperature or vibrations and sends the data via smartphone to a cloud-based secure server. Software from ABB analyzes the data and recommends predictive maintenance measures. The smart sensor will reduce unplanned downtime by up to 70 percent, extend motor lifetime by up to 30 percent and improve the energy efficiency by up to 10 percent - a measurable added value recovering its costs within one year.

ABB continued to drive expansion into new high-growth markets and launched its Dynamic AC concept - a new electrical power system for cruise ships that helps reduce annual fuel consumption by up to 6 percent.

ABB's strong focus on organic growth and the new market-oriented organization are continuing to yield positive results. ABB's systematic approach for driving organic growth through penetration is seen in Europe's underlying order development (i.e. excluding Nordlink). This stringent process entails detailed heat maps to identify opportunities followed by distinct action plans, which are then executed by the market oriented organization. Better account and channel management, combined with clear incentives are showing results.

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, in addition to the ongoing program to reduce costs equivalent to 3-5 percent of cost of sales each year.

ABB's white-collar productivity (WCP) program focuses on three structural pillars: lean business functions, global shared services and market-oriented complexity reduction. Leaner business functions are evidenced in marketing and sales as implementation of salesforce.com and planned consolidation of the related back office is leading to productivity gains. ABB is also strengthening its capabilities and doubling capacity at its global engineering center in Chennai, India, to enable load and scope expansion. The ramp up of the two global shared service centers is well on track. Bangalore, India, and Krakow, Poland, were identified as global shared service center locations and key management positions were filled in the quarter. Transfer of activities has started from Singapore, Australia and the Gulf region to the Bangalore global shared service center.

Furthermore, ABB successfully implemented the new divisional realignment and simplified the divisional management structure at regional and country level to reduce market-oriented complexity. The work streams are on track to deliver approximately $400 million of gross cost savings in 2016 and the company aims to achieve a $1 billion run rate by the end of 2017 in gross cost savings.

"As shown in Q1, our focused 1,000 day execution programs are working," said CFO Eric Elzvik. "We continue to deliver on cost reduction from the white collar productivity program and improving on working capital, at the same time as transforming ABB to become leaner, faster and more agile with enhanced customer service."

Through the 1,000 day working capital program, ABB is driving value chain excellence from product design through manufacturing and logistics as well as reducing unbilled receivables in large projects. For example, reducing inventories while improving customer service requires ABB's processes to become faster, more agile and more rigorous. The program is on track to free up at least $2 billion in cash by the end of 2017.

Business-led collaboration

ABB continued to drive its transformation, which delivers an improved customer focus and an increased agility to support the achievement of its 2015-2020 targets. The streamlined organization with the realigned divisional structure started operations in January 2016. In order to drive sales productivity and collaboration across the Group, Salesforce.com was rolled out further as a common sales platform and is now operational in 86 countries.

In addition, ABB has appointed Pasquale Abruzzese as Head of Quality and Operational Excellence for the ABB Group, effective June 2016. He is currently the Chief Operations Officer at Philips International. Before joining Philips, Pasquale spent 13 years at Honeywell, where he was instrumental in the development and global implementation of the Operating System, a world class standardized approach, which has been recognized as a key factor in the organization's performance turnaround.

Outlook

Macroeconomic and geopolitical developments are signaling a mixed picture. Some macroeconomic signs in the US remain positive and growth in China is expected to continue, although at a slower pace than in 2015. The market remains impacted by modest growth in Europe and geopolitical tensions in various parts of the world.

The long-term demand outlook in ABB's three major customer sectors—utilities, industry and transport & infrastructure—remains positive. Key drivers are the big shift in the electricity value chain, industrial productivity improvements through the Internet of Things, Services and People (IoTSP), as well as rapid urbanization and the need for energy efficiency in transport & infrastructure.

ABB is well positioned to tap these opportunities for long-term profitable growth with its strong market presence, broad geographic and business scope, technology leadership and financial strength.

Q1 Divisional Performance

($ in millions, unless otherwise indicated)	Orders	Change US$	Change Comparable	Revenues	Change US$	Change Comparable	Operational EBITA %	Change
Electrification Products	2,327	-9%	-4%	2,125	-5%	0%	15.0%	-0.2pts
Discrete Automation & Motion	2,317	-10%	-6%	2,079	-8%	-5%	13.2%	-1.0pts
Process Automation	1,784	-21%	-17%	1,621	-8%	-3%	12.0%	-0.3pts
Power Grids	3,307	-12%	-8%	2,518	-9%	-2%	8.0%	+2.1pts
Corporate & other (incl. inter-division elimination)	-482			-440				
ABB Group	9,253	-11%	-7%	7,903	-8%	-2%	12.0%	+0.9pts

Electrification Products

Order declines in the US, China and Brazil were partially offset by good growth in Europe, where we are deriving the first benefits from the combination of low-voltage and medium-voltage sales channels. The medium voltage products business was affected by weaker industrial demand. Revenues were steady and operational EBITA margin was impacted by unfavorable mix. Actions to address capacity and geographic shift in demand were implemented in the quarter.

Discrete Automation and Motion

Total orders were lower in the quarter primarily due to a decline in large orders and weaker demand in sectors such as oil and gas, and minerals and mining. Strong order development for robotics solutions in Europe could not compensate for lower orders in key markets such as the US and China. Revenues were lower due to short-cycle business as well as the timing of the order backlog. Operational EBITA margin decreased compared with the same period last year as a result of lower volumes and capacity utilization. Initial results of implemented capacity adjustments and productivity measures started to positively drive division profitability, as Q1 margin was better than Q4 2015.

Process Automation

Total orders declined for the quarter on a comparable basis due to the substantial large order decline resulting from lower spending in process industries, primarily in oil and gas and related sectors. Revenues were lower as a steady performance in service revenues and the marine business only partially offset the decrease in discretionary spending in the oil and gas sector. Operational EBITA margin was lower in the quarter due to an unfavorable mix, which was partly offset by cost out and productivity measures.

Power Grids

The division booked $3.3 billion of orders during the quarter; third party base orders increased 9 percent (3 percent in US dollars). Solid large order intake in the quarter could not completely compensate the exceptionally large Nordlink HVDC order from Q1 2015. Revenues were slightly lower reflecting the timing of the order backlog. The operational EBITA margin of 8 percent was significantly higher than in the first quarter of 2015 as a result of ongoing 'step change' efforts, improvements in project margins and continued cost out measures. Steady project execution and focus on receivables collection also resulted in improved cash flow from operating activities.

More information

The Q1 2016 results 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 today starting at 9:00 a.m. Central European Time (CET) (8:00 a.m. BST, 3:00 a.m. EDT). The event will be accessible by conference call. UK callers should dial +44 203 059 58 62. From Sweden, the number is +46 85 051 00 31, and from the rest of Europe, +41 58 310 50 00. Callers from the US and Canada should dial +1 866 291 41 66 (toll free) or +1 631 570 56 13 (long distance tariff). Lines will be open 10-15 minutes before the start of the conference. A podcast of the media conference will be available for one week afterwards. The podcast will be accessible here.

A conference call for analysts and investors is scheduled to begin today at 3:00 p.m. CET (2:00 p.m. BST, 9:00 a.m. EDT). UK callers should dial +44 203 059 58 62. From Sweden, the number is +46 85 051 00 31, and from the rest of Europe, +41 58 310 50 00. Callers from the US and Canada should dial +1 866 291 41 66 (toll-free) or +1 631 570 56 13 (long distance tariff). Callers are requested to phone in 10 minutes before the start of the call. The call will also be accessible on the ABB website and a recorded session will be available as a podcast one hour after the end of the conference call and can be downloaded from our website.

Investor calendar 2016

Annual General Meeting (Zurich, Switzerland)	April 21, 2016
Second-quarter 2016 results	July 21, 2016
Capital Markets Day (Zurich, Switzerland)	October 4, 2016
Third-quarter 2016 results	October 27, 2016

ABB (www.abb.com) is a leading global technology company in power and automation that enables utility, industry, and transport & infrastructure customers to improve their performance while lowering environmental impact. The ABB Group of companies operates in roughly 100 countries and employs about 135,000 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 Short-term outlook, Stage 2 of Next Level strategy and 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,” “plans,” “aims,” “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.

Zurich, April 20, 2016
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