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Press and IR Release

Schaeffler reports robust earnings and strong free cash flow for 1st quarter 2020

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- Revenue down 9.2 percent at constant-currency due to the coronavirus crisis – EBIT margin before special items at 6.5 percent (prior year 7.5 percent)
- Automotive Aftermarket and Industrial divisions improve EBIT margins, significant decline at Automotive OEM
- Strong free cash flow before cash in- and outflows for M&A activities
- Good liquidity position, countermeasures, and high-quality balance sheet strengthen crisis management
- Specific guidance for 2020 currently still not possible

Global automotive and industrial supplier Schaeffler presented its interim report for the first three months of 2020 today. The Schaeffler Group's revenue for the reporting period amounts to 3,282 million euros (prior year: 3,622 million euros). At constant currency, revenue for the period decreased by 9.2 percent, mainly driven by volumes. Revenue declined in all four regions during the first quarter. The decrease at constant currency amounted to 11.2 percent in the Greater China region, 10.4 percent in Europe, 9.3 percent in Asia/Pacific, and 6 percent in the Americas region.

The Schaeffler Group generated 215 million euros (prior year: 272 million euros) in EBIT before special items for the first three months, representing an EBIT margin before special items of 6.5 percent (prior year: 7.5 percent). The decline from the prior year was primarily attributable to the decrease in gross margin. The margin decrease was mainly driven by the adverse impact of volumes on fixed costs.

EBIT for the reporting period was adversely affected by 302 million euros (prior year: 42 million euros) in special items. These included an impairment of goodwill allocated to the Automotive OEM division by EUR 249 million, since the coronavirus pandemic has led to increased uncertainty regarding the development of Schaeffler Group's business going forward. Special items additionally comprise 53 million euros in expenses incurred to expand the programs RACE and FIT, especially in connection with reducing headcount. The resulting EBIT amounted to 88 million euros (prior year: +230 million euros).

Automotive OEM revenue down 12 percent, Q1 outperformance 11 percentage points

The Automotive OEM division generated 2,008 million euros in revenue (prior year: 2,285 million euros) for the first three months. At constant currency, revenue decreased by 12 percent from the prior year, mainly driven by volumes. The drop in revenue was primarily caused by the impact of the coronavirus pandemic, which considerably weakened automotive sector demand, lowering Automotive OEM division demand as well. Global automobile production for the first quarter was significantly affected by temporary production shutdowns and declined by 23 percent in the first three months of 2020. Automotive OEM division outperformance was a considerable 11 percentage points on that basis.

As a result of the coronavirus crisis, revenue declined in all four regions. In the Europe region, revenue fell by 13.5 percent at constant currency. The Americas region reported 5.2 percent less revenue at constant currency. The constant-currency revenue decline in the Greater China region was 22.8 percent. In the Asia/ Pacific region, revenue was down 7.3 percent at constant currency.

The Schaeffler Group earned 50 million euros (prior year: 113 million euros) in EBIT before special items in the first quarter. This resulted in an EBIT margin before special items of 2.5 percent for the period, significantly less than the 4.9 percent EBIT margin reported in the prior year. The decline was primarily attributable to the lower gross margin that resulted from the adverse impact of volumes on fixed costs.

Automotive Aftermarket revenue up 1.5 percent, EBIT margin at 17.1 percent (adjusted)

The Automotive Aftermarket division reported an increase in revenue for the reporting period of 1.5 percent at constant currency to 446 million euros (prior year: 443 million euros) as a result of considerable revenue growth in the Europe region, the region generating the highest revenue by far. The favorable revenue trend in Europe more than offset the revenue decline in the remaining three regions. The additional 5.6 percent in revenue in Europe, at constant currency, was primarily attributable to the encouraging performance of the Independent Aftermarket business (IAM) in the Central and Eastern Europe subregion. In the Western Europe subregion, measures to contain the coronavirus significantly weakened the Independent Aftermarket business. The revenue increase in Europe contrasted with a 4.7 percent decline in revenue in the Americas region, largely driven by the decline in IAM business revenue in the South America subregion. The OES business (Original Equipment Service) in the U.S., on the other hand, grew – its revenue rose considerably due to increased requirements. The Greater China region saw its revenue fall sharply by 24.9 percent at constant currency, while revenue in the Asia/Pacific region was down 9.9 percent.

These developments resulted in EBIT before special items of 76 million euros (prior year: 69 million euros), representing an EBIT margin before special items of 17.1

percent (prior year: 15.5 percent). The improvement over the prior year is primarily attributable to the increased gross margin and improved functional cost structure. The division's gross margin rose as a result of higher sales volumes and benefited from a change in product mix.

Industrial division revenue down 7.5 percent, EBIT margin at 10.7 percent (adjusted)

The Industrial division generated 828 million euros (prior year: 893 million euros) in revenue in the first quarter in a challenging market environment. At constant currency, revenue declined by 7.5 percent. Especially the Europe, Americas, and Asia/Pacific regions reported considerable crisis-related declines in revenue for the first quarter of 2020. In contrast, a double-digit growth rate was reported by the Greater China region, where particularly the wind sector cluster expanded considerably. The power transmission and raw materials sector clusters contributed to growth as well. The region's constant-currency revenue growth amounted to 21.4 percent, while revenue was down 15 percent in the Europe region, 14.1 percent in Asia/Pacific, and 9.5 percent in the Americas region.

The Industrial division generated approximately 88 million euros (prior year: 90 million euros) in EBIT before special items for the first quarter, representing an EBIT margin before special items of 10.7 percent (prior year: 10.1 percent). The favorable margin trend benefited from the stable gross margin, among other things. The adverse impact of volumes on fixed costs was more than offset, in part by the favorable impact of pricing.

Strong free cash flow before cash in- and outflows for M&A activities

Net income attributable to shareholders before special items decreased considerably during the first quarter of 2020 compared to the prior year period, amounting to 103 million euros (prior year: 169 million euros). Net income (loss) was -184 million euros (prior year: +137 million euros). Earnings per common non-voting share were -0.27 euros (prior year: +0.21 euros).

Free cash flow before cash in- and outflows for M&A activities for the first quarter of 137 million euros was considerably ahead of the prior year reporting period (235 million euros). Capital expenditures (capex) on property, plant and equipment and intangible assets for the first three months of 164 million euros were considerably below the prior year level (373 million euros), representing a capex ratio of 5.0 percent of revenue (prior year: 10.3 percent).

The group's net financial debt declined to 2,414 million euros as at March 31, 2020. The gearing ratio, i.e. the ratio of net financial debt to shareholders' equity, rose slightly to 93.8 percent (December 31, 2019: 86.6 percent).

The group employed a total of 86,548 people at the reporting date (December 31, 2019: 87,748), a decline of 1.4 percent.

Good liquidity position, countermeasures, and high-quality balance sheet strengthen crisis management

The impairment of goodwill in the Automotive OEM division reduces the risk of further impairments in the balance sheet. By taking this conservative approach to valuation, the Schaeffler Group has responded to the increase in uncertainty regarding the division's future course of business as a consequence of the coronavirus pandemic, thus improving the quality of its balance sheet.

Additionally, the Schaeffler Group continued or initiated measures to further lower the group's costs during the reporting period, partly in response to the coronavirus crisis, such as introducing short-time work, using up vacation days and hours in time accounts, imposing hiring freezes, scaling down trade show participation, cutting the marketing budget, and temporarily closing plants. The Board of Managing Directors also decided to increase the number of jobs to be included in the voluntary severance scheme in Europe from 1,300 to 1,900.

Furthermore, the Schaeffler Group has additionally bolstered its liquidity position by issuing a Green Schuldschein totaling approximately 350 million euros as communicated on April 9, 2020. "The Schaeffler Group has a very comfortable liquidity position. We had already increased end of last year the existing Revolving Credit Facility from 1.5 billion euros to now 1.8 billion euros and obtained further new bilateral lines of credit totaling 200 million euros back in mid-December 2019. Our next significant maturities are not due until 2022," said Dietmar Heinrich, CFO of Schaeffler AG.

Specific guidance for 2020 currently still not possible

On March 24, 2020, the Board of Managing Directors of Schaeffler AG suspended the full-year guidance for 2020 for the Schaeffler Group and its divisions that had been published on March 10, 2020, due to the worldwide spread of the coronavirus pandemic and the resulting implications for the company's results of operations. Currently, neither the further course of the pandemic nor its economic implications can be reliably estimated. The Schaeffler Group currently expects its revenue growth at constant currency, EBIT margin before special items, and free cash flow before cash inflows and outflows for M&A activities for the full year 2020 to be below the corresponding prior year level.

"The coronavirus pandemic confronts us with unprecedented challenges. Our results for the first quarter of 2020 are robust. The positive development of our free cash flow is particularly encouraging. We are reaping the benefits of having started to proactively manage our capital expenditures and working capital last year. Combined with our comfortable liquidity position and the high quality of our balance sheet, we are confident that we will successfully overcome the current crisis. The second quarter will be difficult. We will continue to consistently carry out the countermeasures we have put in place," stated Klaus Rosenfeld, CEO of Schaeffler AG.

Forward-looking statements and projections
Certain statements in this press release are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should not place any undue reliance on forward-looking statements which speak only as of the date of this press release. Statements contained in this press release regarding past trends or events should not be taken as representation that such trends or events will continue in the future. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Schaeffler, or persons acting on its behalf, may issue.

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Schaeffler Group – We pioneer motion The Schaeffler Group has been driving forward groundbreaking inventions and developments in the field of motion technology for over 75 years. With innovative technologies, products, and services for electric mobility, CO_2-efficient drives, chassis solutions, Industry 4.0, digitalization, and renewable energies, the company is a reliable partner for making motion more efficient, intelligent, and sustainable – over the entire life cycle. The motion technology company manufactures high-precision components and systems for drive train and chassis applications as well as rolling and plain bearing solutions for a large number of industrial applications. The Schaeffler Group generated sales of EUR 15.8 billion in 2022. With around 84,000 employees, the Schaeffler Group is one of the world's largest family-owned companies. With more than 1,250 patent applications in 2022, Schaeffler is Germany's fourth most innovative company according to the DPMA (German Patent and Trademark Office).

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