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Press and IR Release

Schaeffler reports strong 3rd quarter 2020

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- Third-quarter revenue slightly below prior year quarter (down 2.6 percent)
- Third-quarter EBIT margin before special items of 9.4 percent significantly improved from first six months (1.2 percent) and ahead of prior year quarter (9.1 percent)
- Recovery in 3rd quarter primarily driven by the two Automotive divisions; Industrial division revenue trend improved slightly compared to first half of 2020
- Free cash flow before cash in- and outflows for M&A activities of 333 million euros slightly below prior year quarter (362 million euros)
- New full-year guidance for 2020 issued, uncertainty remains high in 4th quarter

Global automotive and industrial supplier Schaeffler presented its interim report for the first nine months of 2020 today. The Schaeffler Group generated 8,971 million euros in revenue during the period (prior year: 10,839 million euros). As a result of lower demand due to the coronavirus pandemic, revenue for the period decreased considerably at constant currency, falling by 15.4 percent; in the third quarter, demand improved primarily due to the recovery at the two Automotive divisions, reducing the decline from the third quarter of the prior year to only 2.6 percent. The revenue decrease during the reporting period was driven by volume-related revenue declines at all three divisions. The impact of the pandemic on the four regions varied. The Greater China region reported constant-currency revenue growth of 8.1 percent for the reporting period due to the recovery emerging there in the second quarter; its third-quarter growth rate from the prior year quarter was 16.5 percent. The remaining three regions each experienced a considerable constant-currency revenue decrease for the first nine months, amounting to 22.6 percent in the Europe region, 18.4 percent in Americas, and 19.3 percent in Asia/ Pacific.

The Schaeffler Group earned 385 million euros in EBIT before special items in the first nine months of 2020, considerably less than in the prior year (883 million euros). This represents an EBIT margin before special items of 4.3 percent (prior year: 8.1 percent).

EBIT for the reporting period was adversely affected by 798 million euros (prior year: 88 million euros) in special items. These included an impairment of goodwill allocated to the Automotive Technologies division by 249 million euros recognized in the first quarter. Special items also comprise 549 million euros in expenses incurred to expand the programs RACE (Automotive Technologies division), GRIP (Automotive Aftermarket division), and FIT (Industrial division), especially in connection with downsizing the workforce to adjust excess structural capacity as communicated in September. Including these special items, EBIT amounted to -413 million euros (prior year: 795 million euros).

Strong Q3 results, break-even operating earnings at Automotive Technologies

The Automotive Technologies division generated 5,429 million euros in revenue (prior year: 6,772 million euros) in the first nine months of 2020. At constant currency, revenue decreased considerably from the prior year, falling by 18.2 percent mainly driven by volumes. Following a slump in global automobile production in the first half of 2020 as a result of the coronavirus pandemic, the third quarter saw demand recover considerably, especially in the Greater China and Americas regions. Since global automobile production declined by 23 percent during the reporting period, Automotive Technologies division outperformance for the same period was approximately 5 percentage points.

The significant decline in revenue in the first nine months of 2020 affected all regions except Greater China. In the Europe region, revenue fell by 27.7 percent at constant currency. The Americas region reported 20.7 percent less revenue at constant currency, and the decline in Asia/Pacific amounted to 20.1 percent. The Greater China region increased its revenue by 4.1 percent at constant currency. Following a slight decline in revenue of 2.2 percent at constant currency in the first half of 2020, this region’s revenue was up 14.2 percent at constant currency in the third quarter, driven by a considerable recovery of demand.

Within the four business divisions (BDs), all of which experienced falling revenue, revenue growth was reported by the wet double clutches product group – primarily driven by strong demand in Greater China – and the electric axle drives product group in Europe (both E-Mobility BD).

The division broke even in the first nine months, generating EBIT before special items of 0 million euros (prior year: 379 million euros). This resulted in an EBIT margin before special items of 0 percent for the same period, considerably less than the 5.6 percent reported in the prior year.

Automotive Aftermarket down 9.7 percent, EBIT margin at 15.7 percent

The Automotive Aftermarket division reported a volume-driven constant-currency drop in revenue of 9.7 percent to 1,203 million euros for the first nine months of 2020 (prior year: 1,386 million euros). Having declined by 14.8 percent at constant currency in the first six months, mainly due to the coronavirus pandemic, revenue for the third quarter fell only slightly short of the prior year level (down 0.2 percent at constant currency).

At constant currency, revenue declined by 9.7 percent in the Europe region, 9.1 percent in the Americas region, 8.0 percent in the Greater China region, and 17.8 percent in Asia/Pacific. In the third quarter, clear recovery tendencies emerged in the Europe, Americas, and Asia/Pacific regions, largely attributable to the Independent Aftermarket business. The recovery that had started in Greater China early in the second quarter persisted into the third quarter as well.

Based on the revenue trends outlined above, EBIT before special items for the reporting period amounted to 189 million euros (prior year: 228 million euros). This represents an EBIT margin before special items of 15.7 percent (prior year: 16.4 percent).

Industrial division down 11.3 percent, wind business in Greater China continues to grow

The Industrial division generated 2,338 million euros in revenue (prior year: 2,681 million euros) in the first nine months of 2020. At constant currency, revenue declined by 11.3 percent driven by volumes, primarily due to the coronavirus pandemic. Demand proved somewhat more robust in the third quarter than in the first half of the year. The Europe, Americas, and Asia/Pacific regions experienced considerable crisis-related revenue decreases during the reporting period. In contrast, a double-digit growth rate was reported by the Greater China region, where particularly the wind and power transmission sector clusters continued to expand considerably.

The Greater China region's constant-currency revenue growth amounted to 20.2 percent, while revenue was down by a considerable 21.5 percent in the Europe region, 15.5 percent in Americas, and 17.5 percent in the Asia/Pacific region.

The Industrial division generated 195 million euros (prior year: 277 million euros) in EBIT before special items for the first nine months of 2020, representing an EBIT margin before special items of 8.4 percent (prior year: 10.3 percent).

Free cash flow ahead of prior year

Net income (loss) attributable to shareholders before special items decreased considerably during the first nine months of 2020 compared to the prior year period, amounting to 139 million euros (prior year: 547 million euros). Net income (loss) was -525 million euros (prior year: 485 million euros), resulting in earnings per common non-voting share of -0.78 euros (prior year: 0.73 euros).

Free cash flow before cash in- and outflows for M&A activities for the first nine months of 185 million euros exceeded that of the comparable prior year period (133 million euros). Capital expenditures (capex) on property, plant and equipment and intangible assets for the reporting period of 481 million euros were considerably below the prior year level (823 million euros), representing a capex ratio of 5.4 percent of revenue (prior year: 7.6 percent).

Dr. Klaus Patzak, CFO of Schaeffler AG, said: “At 333 million euros, the Schaeffler Group generated strong free cash flow in the third quarter. The amount of 185 million euros for the reporting period is ahead of prior year. Along with the upturn in business, the measures initiated as early as last year to improve free cash flow are making a positive impact, especially the focus on capital expenditures and the improvement of working capital.”

The group’s net financial debt increased to 2,688 million euros as at September 30, 2020 (December 31, 2019: 2,526 million euros). The gearing ratio, i.e. the ratio of net financial debt to shareholders’ equity, rose considerably to 169.9 percent (December 31, 2019: 86.6 percent). The net debt to EBITDA ratio before special items was 1.6x as at the end of September 2020 (December 31, 2019: 1.2x).

The Schaeffler Group had approximately 2,771 million euros in available liquidity as at September 30, 2020, representing approximately 22 percent of revenue for the last twelve months.

The group employed a workforce of 83,711 as at September 30, 2020 (December 31, 2019: 87,748), representing a decline in the number of employees by 4.6 percent or 4,037 jobs in the reporting period.

Transformation accelerated, full-year guidance for 2020 issued

The programs initiated at the three divisions in the spring of 2019 – RACE (Automotive Technologies), GRIP (Automotive Aftermarket), and FIT (Industrial) – are making the intended impact. The structural and efficiency measures initiated in this context have helped reduce cost of sales. Additionally, the Schaeffler Group initiated or continued measures to offset the financial impact of the coronavirus pandemic during the reporting period. These measures include introducing and expanding short-time work, using up hours in time accounts, imposing hiring freezes, and temporarily closing plants. The company had already expanded the voluntary severance scheme from 1,300 to 1,900 planned job cuts in the first quarter.

In September, the Schaeffler Group communicated a comprehensive package of measures setting out structural adjustments in Europe, focusing on Germany, and containing plans to reduce the workforce by 4,400 jobs. Along with downsizing excess structural capacity and consolidating locations, the package of measures also aims to strengthen the company's competitiveness and expand local capabilities.

On November 9, 2020, the Board of Managing Directors of Schaeffler AG agreed on new full-year guidance for 2020 based on the most current information concerning the course of business in the fourth quarter. On March 24, 2020, the Board of Managing Directors had suspended the full-year guidance for 2020 published on March 10, 2020, and, due to the exceptional uncertainty related to the coronavirus pandemic, had recently been anticipating results below prior year levels.

The new guidance is based on the assumption that the sales markets relevant to the Schaeffler Group will continue to recover in the fourth quarter of 2020 and, specifically, that the coronavirus pandemic will not result in any significant new adverse implications for the company's results of operations. Nevertheless, the environment remains marked by volatility and uncertainty.

The Schaeffler Group expects its full-year revenue to grow by -13.0 to -11.5 percent at constant currency in 2020. In addition, the company expects to generate a full-year EBIT margin before special items of 4.5 to 5.5 percent in 2020. The Schaeffler Group also anticipates between 500 to 600 million euros in free cash flow before cash in- and outflows for M&A activities for 2020.

The key figures for the three divisions are as follows:

Table Division

Klaus Rosenfeld, CEO of Schaeffler AG, stated: "The third quarter has seen a considerable recovery compared to the first six months; this is illustrated especially by our improved EBIT margin, and also by our strong free cash flow. Particularly the two Automotive divisions benefited from the upturn in demand, allowing them to help stabilize the Schaeffler Group's earnings. However, given the persistently high uncertainty regarding the further course of the coronavirus pandemic and also with a view to new lockdown measures in certain markets, it would be premature to assume that the crisis is over. Therefore, we have to remain vigilant and consistently continue to implement the measures adopted to strengthen the Schaeffler Group's competitiveness and ability to realize future opportunities."

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

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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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