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Press and IR Release

Schaeffler generates positive operating earnings in the 1st half of 2020 despite significant decline in revenue

HERZOGENAURACH, *2020-08-04*.

- Revenue for 1st half of 2020 down 21.8 percent at constant currency due to coronavirus pandemic (prior year: 0.8 percent), second quarter shows gradual recovery, Greater China growth at 3 percent in 1st half of 2020
- Operating earnings (EBIT before special items) positive at 65 million euros (prior year: 556 million euros), solid results for Automotive Aftermarket and Industrial divisions
- Free cash flow before cash in- and outflows for M&A activities of -148 million euros better than in prior year (-229 million euros)
- Counter measures and focus on managing capital and costs paying off, liquidity position remains strong
- Good order intake at all three divisions, two new E-Mobility orders totaling 1.1 billion euros

Global automotive and industrial supplier Schaeffler presented its interim report for the first half of 2020 today. The Schaeffler Group's revenue for the first six months amounts to 5,574 million euros (prior year: 7,226 million euros). As a result of lower demand due to the coronavirus pandemic, revenue for the period decreased considerably at constant currency, falling by 21.8 percent; the decline for the second quarter amounted to 34.5 percent. This decrease was driven by revenue declines at all three divisions, with the 26.8 percent constant-currency drop in Automotive OEM division revenue for the first half of 2020 by far the largest. The impact of the pandemic on the four regions varied. The Greater China region reported constant-currency revenue growth of 3.0 percent for the reporting period due to the recovery emerging there in the second quarter. The remaining three regions experienced considerable revenue decreases for the first six months. Over the course of the month of June, business recovered noticeably across all divisions and regions.

The Schaeffler Group earned 65 million euros (prior year: 556 million euros) in EBIT before special items in the first six months of 2020. This represents an EBIT margin before special items of 1.2 percent (prior year: 7.7 percent). The deterioration compared to the prior year was primarily attributable to the decrease in gross margin as a result of the volume-related revenue declines.

EBIT for the reporting period was adversely affected by 288 million euros (prior year: 73 million euros) in special items. These included an impairment of goodwill allocated to the Automotive OEM division by EUR 249 million recognized in the first quarter. Special items additionally comprise 39 million euros in expenses incurred to expand the programs RACE (Automotive OEM division) and FIT (Industrial division), especially in connection with reducing headcount. Including these special items, EBIT amounted to -223 million euros (prior year: +483 million euros).

Automotive OEM revenue down 26.8 percent, robust order volumes with large share of E-Mobility

Automotive OEM division revenue for the first half of 2020 amounted to 3,264 million euros (prior year: 4,517 million euros). At constant currency, revenue decreased considerably from the prior year, falling by 26.8 percent mainly driven by volumes. During the reporting period, global automobile production was significantly affected by temporary production shutdowns due to the coronavirus pandemic and declined by approximately 33 percent in the first six months of 2020. Automotive OEM division outperformance was approximately 6 percentage points on that basis. Order intake for the first six months was good given the difficult environment, totaling 4.6 billion euros. The resulting book-to-bill ratio, which represents the ratio of order intake to revenue, amounted to 1.4x in the first six months (prior year 1.8x). During the reporting period, the E-Mobility business division won two contracts to supply electric axle drives to global premium manufacturers; the contracts total approximately 1.1 billion euros in volume.

Regional revenue trends varied widely. In the Europe region, revenue fell by 36.0 percent at constant currency. The Americas region reported 32.6 percent less revenue at constant currency. The constant-currency revenue decline in the Greater China region was 2.2 percent. Following very weak demand in the first quarter, the automotive sector there began to recover significantly in April, resulting in additional revenue in the second quarter. In the Asia/Pacific region, revenue for the first half of 2020 was down 24.9 percent at constant currency. Within the four business divisions (BD), only the actuators and electric axle product groups (both E-Mobility BD) and the thermal management module product group (Engine Systems BD) generated revenue growth.

The Schaeffler Group reported -179 million euros (prior year: +221 million euros) in EBIT before special items for the first six months of 2020. This resulted in an EBIT margin before special items for the period of -5.5 percent, considerably less than the +4.9 percent EBIT margin reported in the prior year.

Automotive Aftermarket revenue down 14.8 percent, EBIT margin at 13.8 percent

The Automotive Aftermarket division reported a volume-driven drop in revenue for the first six months of 14.8 percent at constant currency to 747 million euros (prior year: 904 million euros). Following a considerable increase over the prior year, especially in Independent Aftermarket business in the Europe region, in the first two months of the year, revenue declined considerably in all regions over the remaining course of the reporting period. Global order intake improved over the course of the second quarter, closing in on the prior year average. Additionally, the digital repair shop portal REPXPERT experienced a considerable increase in activity during the second quarter.

At constant currency, revenue declined by 13.3 percent in the Europe region, 19.5 percent in the Americas region, 12.3 percent in the Greater China region, and 27.0 percent in Asia/Pacific. Greater China started to recover early in the second quarter.

These developments resulted in EBIT before special items of 103 million euros (prior year: 141 million euros). This represents an EBIT margin before special items of 13.8 percent (prior year: 15.6 percent).

Industrial division revenue down 12.8 percent, strong growth in Greater China mainly driven by the wind business

Industrial division revenue for the first half of 2020 amounted to 1,562 million euros (prior year: 1,804 million euros). At constant currency, revenue declined by 12.8 percent. The Europe, Americas, and Asia/Pacific regions experienced considerable crisis-related declines in revenue for the first six months of 2020. In contrast, a double-digit growth rate was reported by the Greater China region, where particularly the wind sector cluster continued to expand considerably. The power transmission sector cluster contributed to growth as well. The Industrial division's order intake has stabilized toward mid-year. The division won key customer orders for new products in the second quarter, including orders in the growing robotics sector and for linear technology products. In addition, the condition monitoring system OPTIME developed specifically for simple retrofitting of existing industrial equipment was brought to the point of marketability. It was launched in the market in July.

The Greater China region's constant-currency revenue growth amounted to 17.6 percent, while revenue was down 23.4 percent in the Asia/Pacific region, 20.6 percent in Europe, and 16.8 percent in the Americas region.

The Industrial division generated 141 million euros (prior year: 194 million euros) in EBIT before special items for the first half of 2020, representing an EBIT margin before special items of 9.0 percent (prior year: 10.8 percent).

Free cash flow before cash in- and outflows for M&A activities ahead of prior year

Net income (loss) attributable to shareholders before special items decreased considerably during the first half of 2020 compared to the prior year period, amounting to -76 million euros (prior year: +324 million euros). Net income (loss) was -353 million euros (prior year: +273 million euros). Earnings per common non-voting share were -0.52 euros (prior year: +0.42 euros).

Free cash flow before cash in- and outflows for M&A activities for the first half of 2020 of -148 million euros exceeded that of the comparable prior year period (-229 million euros). Capital expenditures (capex) on property, plant and equipment and intangible assets for the first six months of 300 million euros were considerably below the prior year level (594 million euros), representing a capex ratio of 5.4 percent of revenue (prior year: 8.2 percent).

Klaus Rosenfeld, CEO of Schaeffler AG, stated: “Due to proactive management we have been able to generate a better Free Cash-flow in the first half of 2020 than in the previous year. The strict discipline with respect to capital and costs exercised in recent months has paid off. We will maintain this discipline in the second half of 2020 as well.”

The group’s net financial debt increased to 3,002 million euros as at June 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 approximately 160 percent (December 31, 2019: 86.6 percent). The net debt to EBITDA ratio before special items was 1.8x as at the end of June 2020 (December 31, 2019: 1.2x).

The group employed a workforce of 84,223 as at June 30, 2020 (December 31, 2019: 87,748), representing a decline in the number of employees by 4 percent or 3,525 jobs in the first half of 2020.

Divisional programs and cost reduction measures proving effective, strong liquidity position

The programs initiated at the three divisions in the spring of 2019 – RACE (Automotive OEM), 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 mitigate the financial impact of the coronavirus pandemic during the reporting period. These include temporary measures such as introducing and expanding short-time work, using up vacation days and hours in time accounts, imposing hiring freezes, and closure days at our plants. The company had already expanded the voluntary severance scheme from 1,300 to 1,900 planned job cuts in the first quarter.

The Schaeffler Group has approximately 2.4 billion euros in available liquidity in the form of cash and lines of credit, representing approximately 19 percent of revenue for the last twelve months.

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. The further course of the pandemic and its economic implications can currently still not 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.

Klaus Rosenfeld said: "Thanks to the consistent implementation of counter measures and the solid earnings contributed by our Automotive Aftermarket and Industrial divisions we have so far weathered the crisis better than anticipated. The upturn in demand in June is an indication that – following the low point in April – things are gradually improving. Nevertheless, uncertainty as to when we will return to pre-crisis levels remains high. For us that means we have to continue to act with great foresight and discipline."

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

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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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