

# COMMENTED SLIDES / CEO CONFERENCE CALL - CAPITAL MARKET UPDATE

SCHAEFFLER



## Capital Market Update – Schaeffler AG

CEO Conference Call  
March 24, 2020  
Herzogenaurach

SCHAEFFLER

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### Company Representatives

Klaus Rosenfeld, Group CEO

Matthias Zink, CEO Automotive OEM

Michael Söding, CEO Automotive Aftermarket

Dr. Stefan Spindler, CEO Industrial

Susanne Sievers, Investor Relations Manager

### Conference Call (Active) Participants

Sascha Gommel, *Jefferies*

Victoria Greer, *Morgan Stanley*

Tim Rokossa, *Deutsche Bank*

Henning Cosman, *HSBC*

Kai Müller, *BofA Merrill Lynch*

### Operator

Dear, ladies and gentlemen, welcome to the CEO conference call of Schaeffler AG. At our customers' request, this conference will be recorded, and a replay will be available shortly after the call on the website. May I now hand you over to Susanne Sievers, Manager Investor Relations, who will lead you through this conference. Please go ahead.

### Susanne Sievers

Thank you very much, operator. Dear analysts, dear investors, thank you very much for your time today. Mr. Rosenfeld, CEO of the Schaeffler Group will lead you through this call. Please take a second to consider our disclaimer. Our forward-looking statements include a number of factors and uncertainties, and there are also some of these which are beyond our control.

Without further ado, I'll leave the floor to Mr. Rosenfeld. Klaus, the floor is yours.

### Klaus Rosenfeld

Thank you very much, Susanne. Ladies and gentlemen, thanks for joining this call. We want to be quick today and do all of this in a focused manner and don't waste your time. We have a little presentation for you that was uploaded into the system that we will now run through.

Agenda

- 1 Overview
- 2 Crisis management approach
- 3 Current business development
- 4 Strategy update and Roadmap 2024
- 5 Outlook and Conclusion

**Capital Market Update – Corona crises requires recalibration of priorities**

1 Since March 10, 2020 the Corona crisis has accelerated and turned into a global crisis, impacting all major economies

2 We have intensified our crisis management focusing on maximum containment and establishing a dedicated Global Task Force with 3 response teams

3 We are preparing the company for adverse conditions relying on our balance sheet strength and healthy liquidity situation

4 Our 'Roadmap 2024' has been finalized and is ready to go, a strategy update will be shared with the market later in the year

5 Given the current uncertainty, Guidance 2020 suspended, AGM 2020 postponed, Q1 figures will be released on May 6, 2020

Recalibrating priorities and full focus on crisis management

March 24, 2020

Capital Market Update

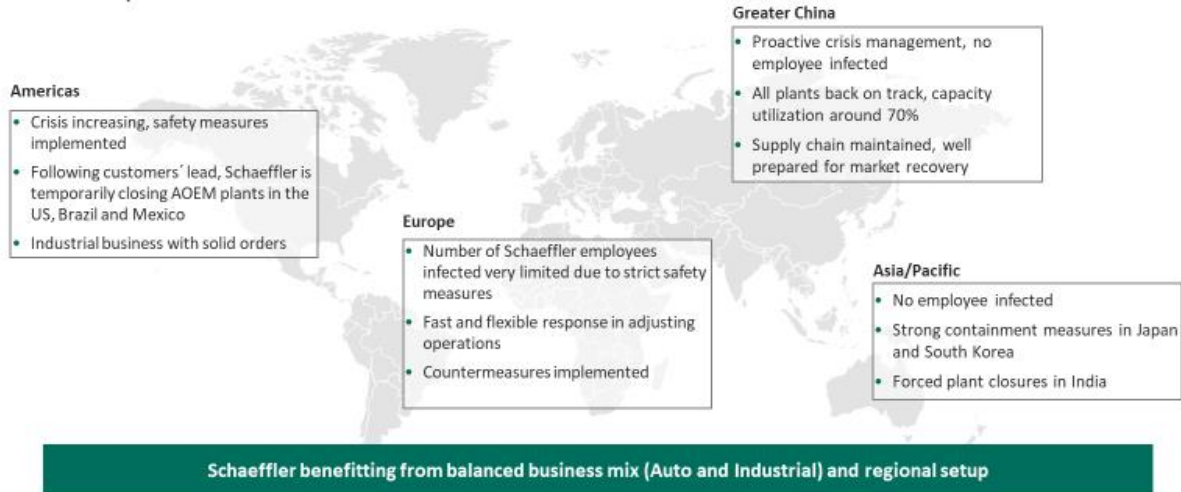
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Please go to page 4 immediately, where you have our key messages for today. You will not be surprised that the crisis requires us to recalibrate our priorities. The original timing for this call was designed for a strategy update was clearly not possible in this environment. The crisis has accelerated. It's a global crisis impacting all our major economies. We want to talk to you quickly about our crisis management approach and how we deal with this. We also want to focus quickly on how we are preparing the company for adverse conditions, relying on our balance sheet strength and healthy liquidity situation, and I want to spend one word on the Roadmap that we have finalized and that is ready to go as soon as the situation clears up.

You saw just a while ago that we launched an ad-hoc statement that we suspended our guidance for 2020, you already know that the AGM 2020 has been postponed and Q1 figures will be presented as planned on May 6<sup>th</sup>.

## Corona crisis has become global – Schaeffler with balanced business portfolio mix

### Global Footprint



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If you please go to page number 5. Here we have tried to summarize very quickly how we are impacted in our four regions. Let me stress upfront that we at Schaeffler are benefiting from the diversification that stems from our business mix. Clearly, Automotive is impacted differently than the variety of Industrial Sectors. And that is why I have quickly invited my three Board colleagues. They will give you a very brief overview on where their businesses are cruising, so that you can hear it directly from the horse's mouth.

On the regional setup, very quickly, proactive crisis management in China, you all know this. No one is infected so far, and no one infected to be expected, all plans back on track. Capacity utilization is slightly lower than on the 10<sup>th</sup> of March, because we are preparing for a weaker demand in the year to come. And what is very good, the supply chain has been maintained and we are preparing for a market recovery. In Asia-Pacific, no one infected. Strong containment measures in Japan and South Korea, and we are forced to close our four plants in India since the beginning of this week.

In Europe, we are blessed by the fact that our safety measures have always been strict, and we have only a very limited number of employees that cannot come to work. And in fact, these are all skiers. The majority are skiers from that have been in Austria. The fact that we let no one come back from holidays there, helped tremendously to safeguard the company.

Here in Europe, we have concentrated on a very fast and flexible response in adjusting our operations both in the plants and outside the plants, and we are seeing first impact from this. Countermeasures have been implemented. And as we have done in the past, we are ready to increase them if necessary.

In the Americas, the crisis is increasing. I think, you all follow that. The safety measures are implemented. And following our customers, Schaeffler is temporarily closing our Automotive OEM plants in the U.S., also in Brazil and in Mexico, while the Industrial business is holding up with a solid order intake. So, you see here again the diversification. The fact that we are Auto and Industrial, really helps us in this situation.

**Global Task Force with 3 dedicated response teams – Fast and flexible response****Global Task Force****Key aspects**

- ▶ Dedicated global Task Force led by CEO steering the organization, managing risks and responses and aligning all stakeholders
- ▶ Task Force consisting of **3 global response teams** with regional overlay and 3 key priorities
  - ▷ Protecting health of employees
  - ▷ Minimizing impact on customers and securing supply chains
  - ▷ Ensuring financial health and liquidity
- ▶ Fast and flexible response mode established across the whole organization
- ▶ Countermeasures in place focusing on location-specific ramp down, flexing cost base (i.e. short-time work) and additional cost containment measures
- ▶ Business continuity management and proactive planning of restart initiated

**Fast, flexible and situation-specific response ensuring business continuity and ability to ramp up operations when needed**

Please go to the next page, page number 6. Just a quick word on how we have organized our crisis management. We have setup a global Task Force under my leadership that basically consists of three dedicated response teams: Health & Safety, Customers & Suppliers, Finance & Liquidity. You know our key priorities, and I already mentioned that we have been fast and flexible in responding.

Let me quickly dwell a little bit on the countermeasures. They are implemented in the way that they are as location specific as possible. So, we have decided not to shut down the complete number of our plants. You know that we have 74 plants but have decided to go location-by-location. What really makes a difference, in particular, in Germany, is the availability of short-time work that the German government has put in place. We are using that as much as we can, and all the divisions, all the functions are asked to put in place additional cost containment measures.

We are clearly doing this in a tactical manner. This is not the time for structural changes. This is a time for technical measures to weather the crisis. And let me stress this, also at this point here, the business continuity management is one thing; on the other hand, already executed in China but also here in Europe. We are thinking through this crisis also with a proactive mindset and have already initiated restart activities and contingency plans for ramping up again when the situation would allow that.



So, what you can be rest assured the company is crisis-proven and we are – I think, have become – much better in a fast and flexible response also from the experience in the last years.

I would now hand over with your permission, quickly, to my colleague. So, I have Matthias, I have Michael, and also Stefan in the room. And, Matthias, if you would please start with Automotive, a very quick overview of where we are in your division.

**Business Development – Impact differs by divisions, diversification pays off**

<sup>1</sup> In % of Total Sales Schaeffler Group 2019  
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**Matthias Zink, CEO Automotive OEM**

Thank you, Klaus. A brief update on Automotive OEM. As Klaus has been elaborating, we are facing these major shutdowns of our customers of all the relevant OEMs in Europe and the Americas, since March 16th. So, meanwhile, nearly each and every OEM, especially in Europe as well and U.S., was giving several statements about timing and period from 10 days up to 20 days. That's what we have in firm. So, we have to see how this is going to continue.

What we did is, we very quickly, but as well really tailored the shutdown our activities as well to the minimum through the needs, respecting our supplies to Aftermarket and Industrial in addition. Business continuity was said by Klaus, so we continue to work on our big projects. I guess, you all or most of you remember these successful order intakes we had last year. So, those projects are going to continue as all these OEMs are challenged to get the transformation into E-Mobility and even autonomous driving done.

We expect for Q1 to outperform the market clearly, so we would as of now -- without doing that officially, but we would as of now give a corridor of 6% to 8% minus sales development versus a declining market. And for sure, seeing all these shutdowns actually, we expect the major impact or the biggest impact in Q2. But

once again, we don't have firm statements of all the OEMs. We are in very close contact to all the major ones, is that in the productive area or in R&D there.

### Michael Söding, CEO Automotive Aftermarket

Thank you, Matthias. Michael on the phone. For the Automotive Aftermarket, we saw increasing demand through Q1 to the very day. And if you may recall, last year we were reporting that many of our customers, both in OES as well as Independent Aftermarket channel were destocking. Meaning, that our sales to our distributors did not rightly reflect the demand on the markets. With that, it is no surprise that now distributors are building safety stocks again as they also expect some hiccups in the supply chain going forward.

We are thinking in that situation in three phases. So, there will be a ramp-up, ramp-down phase in the aftermarket; there will be a shutdown phase on a country-by-country, city-by-city, market by marketplace. But there will also be a ramp-up phase right after, and that is why we decided - and that goes in line with the statement of Matthias that the factories will stay open to replenish the aftermarket inventories, so that we are best prepared for any given demand, whenever it may come.

On top of that, politically, we are quite active and advocate on the guidance to define vehicle service and repair as essential service in the industry, which means even in curfew and shutdown periods, the possible and necessary business is supported. And you see both from the U.S. as well as Europe, lots of activity is on federal level to support this.

Looking forward, the demand in Q2 then definitely will be negative. We can't tell you when business will pick up again. But one thing is for certain, once it picks up, the individual mobility will be the first one to grow.

With that, I hand over to Stefan.

### Dr. Stefan Spindler, CEO Industrial

Michael, thank you very much. Let's come to the Industrial Division. The global demand on the Industrial side is still on a solid level. We definitely do see an impact

in respect to postponements, not cancellations, but postponements. And of course, we also see that some customers have challenges both on their demand side and also on the supply chain side. But the majority of our customers tells us that they want to maintain their operations because they – obviously, also on their customer side – they have an ongoing demand.

Q1 sales is expected to be without a major impact from the crisis. And of course, we are watching what happens very carefully. You never know what will be in 2 or 3 or 4 weeks. Therefore, short and mid-term development is carefully watched and managed.

As we have told you, we have setup a performance program, FIT. And we definitely carry on to work on FIT; meaning, productivity improvements, cost reduction and cash generation are key. But of course, we also want to be ready for the point in time when the market comes back. We want to have the right inventories, same as Automotive Aftermarket, and be prepared for the time after the crisis.

Thank you very much, Klaus.

**Robust balance sheet – Strong liquidity position**

**Balance Sheet**

- ▶ Strong balance sheet with limited goodwill<sup>1</sup> due to focused M&A Strategy
- ▶ As per February 2020, Net financial debt of EUR 2.4 bn, Leverage ratio<sup>2</sup> at 1.1
- ▶ As of March 24, 2020 Investment Grade Rating by Fitch, Moody's and S&P, with negative outlook from S&P and Fitch

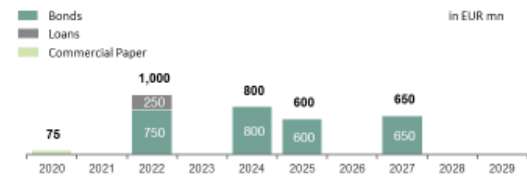
**Current Ratings Schaeffler Group**

	FitchRatings	MOODY'S	STANDARD & POOR'S
Corporate Rating	BBB-	Baa3	BBB- <sup>3</sup>
Outlook	negative	stable	negative
Bond Rating	BBB-	Baa3	BBB-

**Liquidity**

- ▶ Cash balance Schaeffler Group as per end of February 2020 EUR 684 mn (EUR 668 mn as per year end 2019)
- ▶ Committed unused credit lines of EUR 2 bn as per end of February 2020, available liquidity<sup>4</sup> 15% of Net Sales 2019
- ▶ Robust debt maturity profile, no redemption<sup>5</sup> in the next 24 months

**Maturity Profile**



**Robust creditworthiness and strong liquidity position supported by proven cash flow management**

<sup>1</sup> EUR 606 mn per year end 2019 <sup>2</sup> Leverage ratio as EBITDA adj. to Net Financial Debt <sup>3</sup> Rating based on combined Schaeffler Group and IHO Group metrics <sup>4</sup> Excluding restricted cash <sup>5</sup> Excluding Commercial Paper  
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**Klaus Rosenfeld, Group CEO**

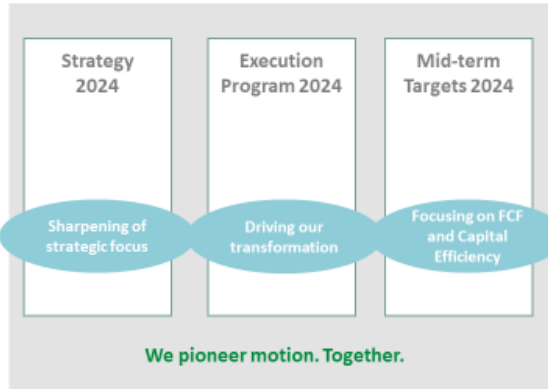
Stefan, thank you. We continue with page 8. That's probably the most interesting page for you, because it has some numbers for end of February. Our balance sheet is robust. You all know that we have only limited goodwill due to the fact that we always followed a very focused M&A strategy. That's a good thing.

As for end of February 2020, net financial debt stood at EUR 2.4 billion, and the leverage ratio, that is always a last 12 months driven ratio, has slightly decreased to 1.1x. The Schaeffler AG is rated by all three rating agencies on an investment grade level. As you see from the table with two negative outlooks from S&P and Fitch, the fact that Fitch confirmed the investment grade rating yesterday, which is negative outlook, we regard as something positive.

More interestingly on the liquidity side, I think you all know from the past that we have tools in place that allow us to look at our and manage our daily liquidity balances on a global basis. The cash balance for Schaeffler Group as for end of February 2020, stood at EUR 684 million, that is EUR 16 million more than year-end 2019. If you just think that through, that tells you that the free cash flow has developed positively in the first two months.

We have, as of end of February, unused committed credit lines of EUR 2 billion, and an available liquidity of 15% of net sales 2019, I think that tells you that our liquidity position is strong. On top of this, as you see from the little table there, the debt maturity profile is robust. We have no redemptions in the next 24 months, except for a little bit of commercial paper that will run off.

So, I think the company, financially and from a balance sheet point of view, is in a very robust stage. And the fact that we have done all the things that we did last year with a strong focus on cash flow and improvement in cash flow management, clearly helped us in this situation.

**Roadmap 2024 finalized – Ready to launch when market clears up****Roadmap 2024****Key aspects**

- ▶ 'Roadmap 2024' finalized and ready to go with 3 main building blocks:
  - ▷ 'Strategy 2024' with 5 five updated Focus Areas, key Growth Initiatives leveraging synergies across the value chain between Automotive and Industrial
  - ▷ Dedicated 'Execution Program 2024' with 3 divisional Sub-Programs (extending RACE, FIT and GRIP) and 4 cross-divisional Sub-Programs
  - ▷ 'Mid-term Targets 2024' to be adapted to more challenging environment
- ▶ Launch of 'Roadmap 2024' supported by new claim covering Automotive and Industrial business in a more comprehensive manner: **"We pioneer motion. Together."**

**Roadmap 2024 finalized and ready to go, launch as soon as crisis calms down**

Page 9, very quickly, only 30 seconds. Our Roadmap 2024 has been finalized and is ready to go. It has three main building blocks Strategy, Execution Program and Mid-term Targets. I think you will all agree that it would be not appropriate to talk about Mid-term Targets at the moment. We first need to review and see what the more challenging environment will bring. But what I would like to leave you with, all the work has been finalized. We would be ready to go. It's a strong team result with a much more articulated strategy, focus areas, growth initiatives, and clearly leveraging the synergies across the whole value chain between Auto and Industrial, with a new claim that is up for launch. "We pioneer motion. Together" that also reflects that.

## Summary key messages – Schaeffler well prepared to manage the crisis

- 1 Since March 10, 2020 the Corona crisis has accelerated and turned into a global crisis, impacting all major economies

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- 2 We have intensified our crisis management focusing on maximum containment and establishing a dedicated Global Task Force with 3 response teams

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- 3 We are preparing the company for adverse conditions relying on our balance sheet strength and healthy liquidity situation

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- 4 Our 'Roadmap 2024' has been finalized and is ready to go, a strategy update will be shared with the market later in the year

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- 5 Given the current uncertainty, Guidance 2020 suspended, AGM 2020 postponed, Q1 2020 figures will be released on May 6, 2020



Fast and flexible  
response is key

Let me come to the end here and reiterate this four, five key messages that we shared at the beginning. And I'm not going to read them again, but what I would like to emphasize there, the company is in a good fighting mode. We are crisis proven; we have shown this some years ago. We are used to acting forcefully, fast and flexible. That is key not only for ramping down but also for ramping up, and we are looking into the next time to come with a rather optimistic and fighting spirit mode. So, that's where we are.



**Capital Market Update – Key dates****Upcoming capital market communication**

Mar 24 <sup>th</sup>	Capital Market Update
Apr 17 <sup>th</sup>	AGM postponed
May 6 <sup>th</sup>	Q1 2020 Earnings Release
To come	New AGM if possible online
To come	Launch Roadmap 2024
Aug 4 <sup>th</sup>	H1 2020 Earnings Release
Nov 10 <sup>th</sup>	9M 2020 Earnings Release

You have a last page on page 11 with some key dates. The next date when we will report is the 6th of May, and we will go for a new AGM date probably thereafter, if possibly online. And ideally, the market has then cleared up and we can again then call for a Capital Market Strategy update where we would launch the Roadmap.

With this, I thank you for your attention and hand back to the operator for your questions.

Thank you very much.

## Q&A SESSION

**Sascha Gommel, Jefferies**

I appreciate that you had enough time to talk to us today. I think my first question is on your dividend portfolio. Do you still think you will go ahead with the proposal? Or in light of what's happening you will actually reduce or cut the dividend?

**Klaus Rosenfeld**

We have no plans to change our dividend proposal.

**Sascha Gommel, Jefferies**

Okay, understood, very clear. And then my second question is on working capital. It's obviously very difficult to get an understanding what's happening with capital because almost zero production on the OE side in Europe and North America is new. So I was wondering if you can talk a little bit of how you see this trend and how is that working capital evolving over the course of the second quarter?

**Klaus Rosenfeld**

Okay. If I understood your question, Sascha correctly, you are asking about some hints on the cash flow development in the next quarters and....

**Sascha Gommel, Jefferies**

More specifically, working capital actually.

**Klaus Rosenfeld**

Yes, and working capital. Again, this is not a very easy answer. At this moment in time, I think what you can say is, we will first focus on the tactical measures to compensate or mitigate the operating leverage impact and for that, it's absolutely critical that you bring down your operations where you have to bring them down as soon as possible, every day counts. On the contrary, you have to maintain the business that you have because it's foolish to cut business away that still brings positive results. That's the operational challenge. And I think our colleagues here, in particular Matthias, Stefan, together with Andreas [*IR note: Andreas Schick, COO*], are very experienced in doing that. So we are trying to maintain the profitability as much as we can. That's the main driver.

In having said this, it then becomes a supply chain game because we need to, on the one hand, make sure that we're not just building inventory for the sake of inventory. And that's clearly a part of this very consistent and well-managed run

down. On the other hand, you have to be able to deliver when it all comes back. And again, I can't give you a calculation how to best do this, but it's done location by location and business by business. And the fact that we are a management team that is very operational helps us here. The fact that we are a team that has now met every day on this at 1 o'clock for an hour and been very number focused also helps. So that's what I can say there.

If you then go to working capital, you have to separate the inventory side from the financial supply chain. The financial supply chain so far is well intact because we don't see any bigger concerns at the moment with overdues or anyone not paying, that, I think, is a positive thing. And on the payable side, so far, we have not been asked in an undue manner to extend payment terms there as well. So, the financial supply chain that Dietmar handles, from my point of view, is something that we can also adjust to very quickly. And then it comes to the fact how much of – how agile is the sort of operating supply chain in terms of inventory management. Here, you do certain things on purpose, Michael said it, he wants to be ready with his own inventory when the demand comes back. So, you can accept - you can expect that the working capital ratio goes up a little bit. But again, it should not overshoot in a way that we now sit on lots of inventories that we don't need. And the compensating factor in that is then Capex because it's obvious at the moment that we are going through all the projects, not only in the business side, but also with real estate, we're stopping things where we can stop. So what I would say is, yes, there will be a hit in terms of EBITDA, sort of capital - sorry, free cash flow from operations that the working capital ratio will go up slightly. And that we try to compensate this in the next quarters by an adjustment in Capex where possible.

### Sascha Gommel, Jefferies

That's very clear. And then my very last question, just to confirm, my understanding was that Aftermarket and Industrial, although that might be down, is still doing a decent level of business unlike the OE part. Is that the correct understanding? Also, for the second quarter at this point, obviously?

### Klaus Rosenfeld

I think that's very correct. And maybe I can just give you an indication here by the number of plants and how we are adjusting. We have 75 plants, as you know, 2 plants have left – have been sold by the end of the year. Of these 75 plants, we have 52 Automotive plants and 23 industrial plants. Of the 52 Automotive plants, 10 plants have been shutdown and 42 are running at lower capacity, but they're still running. And this number will increase in the next week because we are

shutting down, as I just indicated, our American plants, that's a forced shutdown, and Mexico and Brazil as well.

From the industrial side, only 2 plants cannot operate at the moment, and that's a forced shutdown in India, where basically the government has said we need to bring down all the plants.

So you can clearly say, as in this week, of the 75 plants, still 63 are operating. And next week, the number will decrease a little bit, but the impact at the moment, operationally, is clearly on the Automotive side.

And Michael said that he is still, at the moment, cruising, but there will be shutdowns and logistics as well. So I don't want to make this - paint it - to rosy, but I think we are following this very, very carefully and maintaining business continuity as we can.

**Michael Söding**

And that's why perhaps - with regard to the Aftermarket, the question is not only how much inventory I have, but where does it sit. And we are preparing ourselves in a way that we expect that these curfew modes will be done on a very local level, which means it may happen that we can't supply our customers out of the regular warehouse, which is why we bypass and try to set up the most flexible grid of possible supply chains.

**Klaus Rosenfeld**

Okay

**Sascha Gommel, Jefferies**

Understood. Thank you very much and thank you for taking this time today.

**Victoria Greer, Morgan Stanley**

Hi, there. Yes, thank you also from me for the update. It's very helpful to get a bit of insight into how you're managing this very unusual situation. And I wanted to ask please how you are dealing with employees where you have got plant closures? In Germany, I guess, you have got the option of the Kurzarbeit, which is somewhat helpful. But as you say, you want to be ready to ramp back up again. So yes, how - could you talk us through how you are dealing with paying employees and the relationship with employees while the plants are closed?

### Klaus Rosenfeld

Sure. Victoria, thanks for asking the question. And again, I would like to distinguish between Germany where we have the special tools that are not available across the globe. And let me also say here, China is not an issue at the moment and also Asia-Pacific except for India, it's not an issue.

In Germany, we are using as much as we can, the tools that have been provided, but also all the other flexibility instruments that were used also end of last year, like specific closure days we have the flex time that we can use, we will ask people to spend holidays, take their holidays now in the Easter period, and clearly, the short-term work is something that we will apply. And not only in the production areas, but also in the white color areas where that is possible. So that helps a lot here in Germany to mitigate the operating leverage impact and flex the cost base in the U.S, and that's probably where you are asking for. People don't have this type of social net that we have in Germany or in Europe, and here we will – at the moment, together with our regional CEO, Mark McGrath, we're thinking about what we can do to support our workers. The plants have been shut down, that also means that they don't come to work, but there are ways and we've done this in 2008 and 2009 as well to support them. That's something that has not been finalized, but it's a critical part of being a family-owned and family culture driven business, and it's part of this ramped up deliberation, we don't want to use our best people now for a crisis that could be over hopefully soon.

### Victoria Greer, Morgan Stanley

That's great. Thank you. And just thinking about Capex and then I guess also the proportion R&D, that I guess is more R than D for developing future products. How much flexibility do you have there in terms of delaying things? How much Capex and R&D change do you think is realistic in the current scenario? I know that will change a lot, right? That's very difficult - it's very difficult to say, but I guess for the - say one month or a six weeks shutdown, how much is realistic?

### Klaus Rosenfeld

Well, there's not an easy answer to the Capex side. But I think what I'll say is - what I can say is - the payment that are triggered - and that are agreed - will not be impacted. We're not going to stop now payments for Capex that has already been initiated, that would be wrong from my point of view. But when I look at our plan and what will be indicated in the 6% to 8% range, clearly geared towards the low end. If you see what we published for the 10<sup>th</sup> of March, there is still also below the 6% some maneuver room.

So again, I can't give you a number at the moment. But clearly you can at the moment also extend certain things, you can postpone certain things and that will give us some flexibility, not down to zero, but clearly for the year there's potential to bring it down compared to our plan in a – I wouldn't say a significant – but a solid number that would help us to support the cash flow prognosis that we are envisaging.

And in terms of R&D, also here, Matthias said it, we're not going to stop the big development projects and even if the large OEMs have shut down production, they have not shut down their development work. And therefore it's critical that we continue there, we have had big successes as you all know last year in E-Mobility and we're not going to jeopardize that now on the verge of such a crisis.

**Victoria Greer, Morgan Stanley**

That's really clear. Thanks very much. And thanks again for the time.

**Klaus Rosenfeld**

You're welcome.

**Tim Rokossa, Deutsche Bank**

Yes. Thank you very much. Good afternoon. And also a big thank you from my side. I was very skeptical what you could say today, but I find this extremely helpful and certainly, not many people have the courage to stand up right now and do talk about these impacts.

And when we think about your base case assumptions on an underlying basis, Klaus, you already touched on Q1 for Automotive OE. More broadly speaking rather than really giving us the number right now, what is your base case?

Will demand probably come back at some point? What are you planning for right now? Is this April, end of April, May, June, are we talking very end of H2 sort of development or what is the base case assumption really right now?

And then secondly, I'd just like to square what Michael and Matthias were saying. I fully get, and I think this will be somewhat of a second round fine-tuning for the limitations that you need people that service police cars and ambulances and you need people that produce the spare parts for those ambulances and police cars.

Which of your plans will now stay open in Europe for the next couple of years? Can you just give us a number or a rough indication of those?

And finally, this is probably for you Klaus, I couldn't - since it is still your specialty, you already touched on payables. Do you expect that you will have to support quite a few of your suppliers in the next couple of months, the smaller ones that don't necessarily immediately have liquidity and funding? Thank you.

### **Klaus Rosenfeld**

Let me start with - Tim, thank you for your three questions. Let me start with the last one with the supplier risk and then Andreas, that you have met, has implemented, what he calls the supplier control tower. And just to give you some idea as how that works. Its something we are doing on a weekly basis. We are differentiating via the regions, Asia-Pacific and Greater China and again Americas and Europe, and we are closely following which supplies have been shut down, which are in a partial shutdown or which still running on a regular basis.

If I tell you that from our 1,200 suppliers in Europe, only 3% have been shut down at the moment, of which a majority comes from Italy. And you see that 97% of the others are still running and some of them on a very regular basis. We are then doing or Andreas has been coordinating a risk score by supplier where he says these are the ABCD critical ones and these are the non-critical ones. So, we don't look only at the number, but also which of them are critical to us. And when do we need to watch out for any problem.

The fact that we have always been a company that does not rely on single sourcing, clearly helps us in this respect. And I can say, and it goes with a big thank you very much to Andreas and his team, we are definitely covered for the next two weeks. It goes hand-in-hand, this was what Matthias described, we still have customer data in the system that tell us what we should do, but that will to some extent be superseded by new information and that is also then the basis for our suppliers.

So, what I can say is we will do the best we can to understand on a week-by-week basis what's going on. And if there is help needed, we'll then decide on a case-by-case basis. But I cannot say that this at the moment brings any problem to the payable side. As I said, the financial supply chain is absolutely intact and we're not seeing any bigger request where someone says, we now need to stand up for something. But as the crisis move forward, that can change, but I cannot predict that on a longer basis.

Now, let me go to the base case assumption and also be a little bit more descriptive here. What we are doing is in this global task force, we always start with the health and safety situation and that starts with a global view on how infection rates in the different countries are developing. And that is also the way how we defined our base case, we have said, if the things in Europe developed somewhere close to the Chinese development then that's rather optimistic. So, we have planned a little bit cushion into this, because obviously the Chinese colleagues and the Chinese Government has reacted much more forceful. But the curves that you are seeing in terms of infection rates and how it then turns and starts to turn, and you saw all some positive figures in Germany, it's a critical way we look at this.

Our base case, at the moment is that we are preparing our countermeasures until end of April for Europe, and then we will see what's going to happen. If we need to extend, we will extend. And there again, the very solid liquidity and balance sheet situation helps us, but that's what we are trying to do. And in the U.S. that is certainly delayed. So the base case is not a global view in a sense that you have one date where it turns that you have it market-by-market, China being through it and Europe hopefully getting closer to the peak, also with some relief in Italy and then U.S. following through.

This having said, it's a basis for our planning and for our adjustment measures. But you have to take it sort of day-by-day and week-by-week and have your act together when it comes to putting in the right response. So that's what I can say at the moment. Don't expect miracles here, it's just the normal firefighting that we have been used to in 2009 as well.

And on the plants, maybe my colleagues - help me on this. As I said before, at the moment in Europe what has happened so far, - I'm going to talk about plants, I mean, operating plants. We have three plants that are closed, the rest is still operating. And the one is in Italy since this week. The other one - one here in Germany that will reopen, therefore we'll take another one of the next week. And then we have one plant in Eastern Europe that we decided to run down. So, for Europe, it's still very limited, all of them are industrial plants. And that tells you again, we are trying to run down location-specific and then in a very controlled manner.



### Micheal Söding

And Tim, you were asking which plants stay open according to certain part numbers. So what we want to bring across is the plant will not close before it has provided sufficient stock into the Automotive Aftermarket. We may assume some 20,000 part numbers that we have on stock.

And the point is emergency mode doesn't only mean that emergency cars are allowed to run. So there is people commuting obviously in the health sector, and if those people have a choice would they use public transportation or individual mobility? And for that, as we said, it is politically necessary to keep the sector open and to be prepared to do everything necessary. Plants will only shut down after warehouses have a decent availability.

### Klaus Rosenfeld

And let me finalize maybe with the statement, Tim, what is what is really important here that our Board – that my Board colleagues and myself – we take responsibility not only towards employees, but also towards customers and our suppliers and to some extent with this towards society in doing this in a very factual consistent manner. And we believe that we have to support our customers as much as we can to overcome this crisis together with us. And if we do that, we'll emerge, from our point of view, even stronger out of it when the things clear up.

### Tim Rokossa, Deutsche Bank

Thank you very much for the clarity. Much appreciate it.

### Henning Cosman, HSBC

Hi. Good afternoon and thanks again for making yourselves available, also to the other members of the Board. Maybe to Matthias first, since we have you on. I think some of your industry peers have been asked about the CO2 targets. Allegedly, some OEMs have asked for delays, even though yesterday Daimler said it wasn't them and BMW and VW have said that they are fighting to be on track in any case and don't expect the mix to change much. But maybe you could share your view, if you heard anything or if you have a view on this? That is my first question, please.

Secondly, maybe for you, Klaus, thank you for sharing your base scenario. I think again, we have heard from some other industry players recently and some of them were able to give us a bit of a feel again in the base case what made the volume decline that is digestible to reach a break-even EBIT level. That is for the Auto OE

business specifically. I don't know if that is something that you are willing to share, that you can share, or maybe give us a bit of a feel for an operating leverage on the downside. Any additional color in your planning around the base case would be great.

And then finally, as the third question, if I may, just maybe a bit of anecdotal sort of a story around how I need to think about this R&D for your significant order intake. Is it possible for these R&D engineers to work from home now? Or how does this really actually work? And maybe a comment if you can on the short time work as well in that context. I think BMW said they would be topping up the net shortfall to 93%. When companies like you now talk about making maximum use of short-term work, should we think that there is no top up and employees are basically expecting the 60% compensation. If you could just share a little bit of anecdotally, how things are working with the employees again. Thank you very much.

#### Klaus Rosenfeld

Matthias, you want to start with the first one, and maybe you could say something on our R&D guys working from home.

#### Matthias Zink

So, Henning first of all, thank you for the question. Maybe as the Automotive guy here, feedback on the CO2 targets – respectively fulfillment of those. And I just yesterday joined a VDA call on that topic. So I think there is no request to postpone, maybe individual ones. But all-in-all, I guess those milestones introducing the CO2 downs in the particular technical solutions will sustain.

And we personally, I believe that as well, that's my view as well, we should not postpone that one, because then we just postpone another problem with all these climate change discussions. That's not a short-term topic, that's a long-term one. And I guess it would be wrong to obsolete those targets just because of these for sure very big corona topic we have right now.

So, all I'm hearing from Daimler, Volkswagen, you name them, if we stick to those milestones we are committed to those, and we stay with those projects and milestones introducing the new technology.

And that goes with maybe your third question or at least the first part of it. So, our teams continue working there. We are creative, so we work in a mix of home-office and presence in the offices or on the test tracks. The team is extremely motivated

for sure because they won these interesting projects last year and so is the other side on the OEM. So if you listen to Källenius and all the CEOs there, they explicitly mentioned those projects, the E-Mobility, the Hybrid drive lines and that's why we as well continue to work over the R&D teams there under the circumstances or conditions Klaus will refer to.

### Klaus Rosenfeld

On the second part of the third question, what is crucial from my point of view is that, you all understand that short time work is very flexible. You can apply for five days, you can apply for three days, you can apply it more or less on an individual basis. You can extend it and the fact that the German Government and the agency has allowed for a very flexible approach here, it's a good thing, first observation.

Second observation, what is critical that you find a common frame, how to apply it across the organization. Because what people don't like, they all want to be treated in a fair and equal manner and clearly you need to be – have a differentiated approach location by location, but the framework needs to be fair. And what we are doing and what is always a discussion with workers council, are you topping up some part of the social security that falls away? In this case, it's easy because part of that gets reimbursed by the agency, so there's no real top-up situation from my point of view. I don't know what number you're referring to, is it 93%? It's a pretty complicated calculation when you look at this, but what is more important than the 93% from my point of view is that, you apply it consistently, you apply it very quickly. You encourage people to use it where it's possible, and that then make the best out of it.

In terms of pay, don't forget that the company pays upfront and that gets reimbursed normally with a month's payment term, but that will all help us in the second quarter from my point of view for Germany. And that goes back to your operating leverage question, the operating leverage is as the lower the better you can flex your cost base. And here again, please understand we're not publishing these numbers, but we are very well aware of the concept and the operating leverage in some of the Industrial businesses is very different than the one in Automotive. And therefore, again, what I said before, addressing the shortfalls quickly and being forceful in running things down without jeopardizing what still can run, that's the key to success. But please understand I cannot give you an operating leverage by division or by region or by business.

**Henning Cosman, HSBC**

Is it fair to say that you're still budgeting with positive EBIT in the automotive OE division in your best case?

**Klaus Rosenfeld**

Well, also here - I mean, we have said, we will come back with guidance as soon as it clears up. What I can tell you is, we have – also that is a learning from the last crisis – we have established a very agile forecasting model now, that helps us to reconcile very clearly the different demands that happen on a weekly basis, Matthias and I just gone through around last Friday and we are preparing for next Friday. But again, it would be premature to now share some numbers, but that helps us to adjust where necessary. And please understand, I cannot say more, that would not be appropriate.

**Henning Cosman, HSBC**

I understand. Thank you very much.

**Klaus Rosenfeld**

You're welcome.

**Kai Müller, BofA Merrill Lynch**

Hi. Thank you very much for taking your time to do the call. As a first one, coming back to Henning's question basically, when you think about your base case scenario and you obviously guided for a market scenario earlier this year, and you see what's happening in China right now, you say, you are back up and running, you ramped up production. How much of what it was lost from the shutdowns do you think will actually come back in China? And do you think in Europe there's a chance you recover some of that? Or is it basically production that's lost and also demand that's lost? And in that light, especially also what it means to your Aftermarket Industrial businesses? Because obviously the PMI has been very weak and consumer confidence, industrial confidence has been hitting lows. You'll basically increase inventories to be ready, isn't there a risk that's, that pickup might not come.

And just if I may squeeze one in, in terms of your flexibility on a cost base, Henning obviously tried to get the break-even point, if you - I understand you can't share that. But can you say how much of your cost base is fixed versus flexible and also maybe taking into consideration how much of your labor force you can put on Kurzarbeit et cetera.

## Klaus Rosenfeld

Okay, let me start with the second one. If I give you this detailed information about what is fixed and what is variable, you can basically calculate the operating leverage itself, so I'm not going to do that.

But in terms of short-time work, and maybe that helps you a little bit to map this out. We have still a significant number of people in Germany, slightly less than 30,000 people, of which, 13,000 people work outside factories. And what you can do here and with this short-time work is that you can apply the same rules like in the factories to the white-collar workers, whether they're in R&D or in sales, or in marketing, or elsewhere. And that gives the flexibility. So that's maybe the answer on this.

In the U.S. it's anyhow much easier because you can basically stop without payment, but the part-time - the short-term work is a great instrument not only for plants, but also for everything outside the plants.

In terms of the market scenario, let me - maybe I can give you a little bit more color here on the Chinese development. When we entered into the 10<sup>th</sup> of March, we thought that the end-market demand for cars in China will be stronger than what we're seeing at the moment. So maybe, Matthias, if you want to jump in, but we heard things like 80% down, the next month's minus 50% then going back to normal maybe in April and May, and then some of the things are recovered. But that's very difficult to predict at the moment. What we know is that this prediction from the 10<sup>th</sup> of March or from the weekend before is probably not true anymore, it will be slightly softer.

You have all these bazooka programs whatever they will take, but we have - we used for our base case here a more cautious scenario also for China, so it could well be that China even goes into a negative growth this year. So, as Matthias said, for the first quarter, six to eight is significantly impacted by the Chinese development, because the U.S. and Europe was not the case there. Is it possible to recover that elsewhere now? I don't really think so. I think for automotive OEM we have to - where we guided from minus two to zero, we have to adapt to the IHS numbers that are more in the minus 9 to minus 10 range and then see how much outperformance is possible. Again, I'm not going to say more, but the environment for automotive OEM is clearly difficult.

But let me stress here. Again, we're not Automotive only, we have a business in Industrial that is not only very profitable, but that also continues to hold up quite nicely. And I think that will make the difference when it comes to how to -- are we compensating and mitigating the impact here. And also, Michael said, yes, he has a stronger first quarter in terms of sales are expected and that will flip. Because we saw that in the crisis of 2009 that when things get worse and people also stopped doing certain things on the repair side.

So, I think what I can say is, it will be a decent first quarter. We need to prepare for a second quarter that will see significant headwind on the sales side. And therefore again, we're doing the utmost possible in compensating what we can compensate in the second quarter. I do hope that the third quarter will then go back to something that is in the black, and maybe the fourth quarter will then be a little bit shinier. But the full year, don't expect miracles, will be definitely negative for the whole Group. And we need to see how that then distributes across the different divisions and countries.

**Kai Müller, BofA Merrill Lynch**

Perfect. And on restructuring maybe, you're just continuing with your normal programs, but you don't add new ones, is that fair to understand?

**Klaus Rosenfeld**

Look, I mean we have been in a situation that is favorable for us, because from the 10<sup>th</sup> of March you know that we initiated another program just before year end. I can tell you that at least in Germany, no workers council, no employee representative would ever now negotiate a structural program like this. So this program is more or less geared up. And we stand by the numbers and collecting the 1,300 people that are part of this program by end of March. And it's a great situation here for us that this program is in place, people are accepting it, they - it runs according to plan. So that would also help us with all the other measures that we're implementing in 2019 to optimize our cost base.

**Kai Müller, BofA Merrill Lynch**

Perfect. Thank you very much.

**Klaus Rosenfeld**

You're welcome.

**Dr. Stefan Spindler**

Kai was asking something about the industrial distribution. Shall we -- shall I just say a few words?

**Klaus Rosenfeld**

Sure

**Dr. Stefan Spindler**

You were asking about the Industrial Aftermarket you said. We speak about Industrial Distribution and our distributors serve, don't forget that both the after-sales service but also the OEM business, mainly small and medium-sized OEMs. When we invest into inventory for that type of markets, we're mainly talking standard products. So, we avoid of course putting slower and no movers on inventory. And we believe that's the right thing to do that now. And of course, we have to manage it throughout the year. Now, whatever the development will be in the second half, we can then still further ramp up or down so that we jeopardize the year-end result.

**Klaus Rosenfeld**

Okay. Thanks, Stefan. Ladies and gentlemen, we would like to come to an end here. Thanks for your interest. Thanks for your questions, very helpful. But we need to go back to our trenches and make sure that we do the right things. Thanks for following Schaeffler, and good health to everybody of you. We are 100% convinced that with the right fighting spirit we will all get through this crisis and see better days hopefully in the second half. Thank you very much, and all the best to you personally. Bye-bye.

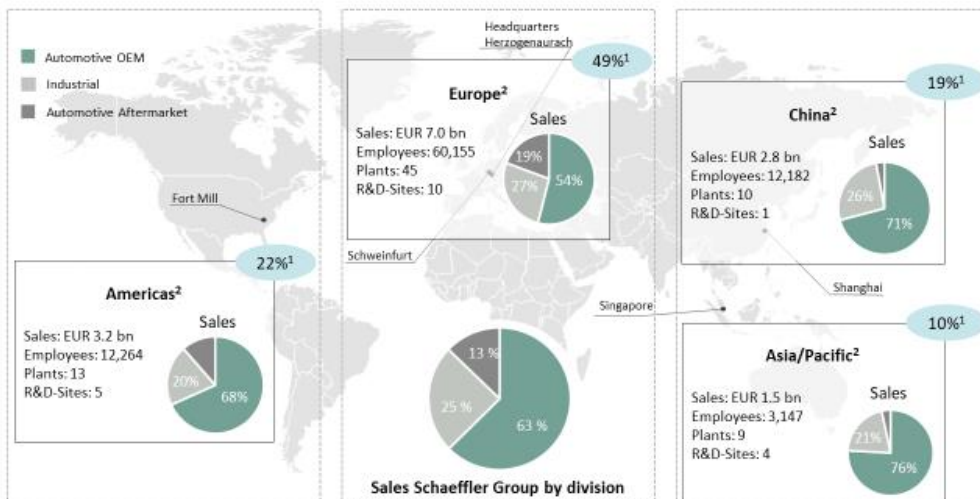


## IR Contact

### Investor Relations

Phone: + 49 9132 82 4440  
 Email: [ir@schaeffler.com](mailto:ir@schaeffler.com)  
 Web: [www.schaeffler.com/ir](http://www.schaeffler.com/ir)

## Global Footprint Schaeffler Group – Automotive and industrial supplier



<sup>1</sup> In % of Total Sales Schaeffler Group 2019 | <sup>2</sup> As of FY 2019



**Overview Corporate and Financing Structure**

