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Operator
Dear, ladies and gentlemen, welcome to the Schaeffler AG Conference Call Regarding the Q1 Results 2019. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions.

(Operator Instructions)

May I now hand you over to Renata Casaro, who will lead you through this conference. Please go ahead, madam.

Renata Casaro
Thank you very much, operator. Dear investors and analysts, welcome to the Q1 earnings call of the Schaeffler. Mr. Rosenfeld, CEO; and Mr. Heinrich, CFO, will take you through the Q1 results. And later, we will then available for the Q&A session. Klaus, the floor is yours.

Klaus Rosenfeld
Renata, thank you, very much. Good morning, ladies and gentlemen. Thanks for joining our Q1 call and listening to our explanations that I assume that you've received our presentations and seen the first key figures.

I try to be as crisp as possible and start on page number 4 with my overview page.
As a key message upfront, and I think that is consistent with what also our competitors and our peers are saying, the market environment is still challenging. It’s foggy out there, low visibility, and clearly a challenging and still subdued market environment.

We have, as articulated during the AGM, clearly stated our strategy and is unchanged. And to say that upfront for my point of view, in this environment, with this strategy, it’s all about execution and free cash flow.

Third message, our starting in the year was a little slower than we expect for the full year. But we achieved Group sales of 0.4% on an FX adjusted basis with a solid outperformance in Automotive OEM of around 500 basis points, very much driven by the successful launches and ramp ups in the United States.

The earnings quality has sequentially improved, stabilized versus Q4, also in Auto. With 7.5%, we are not exactly at the lower end of our guidance, but we are, as you will see later on, confirming that the 8% to 9% for the Group is clearly in reach.

The free cash flow is minus EUR 235 million. That is a negative delta compared to Q1 2018 of minus EUR 166 million. The bulk comes from lower EBITDA driven by the earnings quality. It’s also CapEx, and that has clearly some non-recurring items
in there. I can already say upfront here, we are committed to achieve the below 8% free cash flow to sales ratio [IR note: verbal typo – here is meant CapEx/Sales Ratio]. So that should also be doable.

Last point here, our transformation continues. You saw yesterday that we acquired another small company to build our mechatronic footprint and strengthen in particular with software and we also can report, as you saw from the press release yesterday, that we did a next step to consolidate our European plant footprint.

On that basis, we confirm the guidance for 2019, both for the Group and for the divisional level.
Let's quickly run through the other ones. I'm not going to read this to you. I mentioned most of this already.

Automotive with a solid outperformance driven by the Americas; Industrial division with strong and clearly helpful growth, nearly 7% FX adjusted. Interestingly, most of this growth comes from a regional perspective out of China, plus 14%.

The EBIT margin in Automotive OEMs sequentially improved. If you look at the adjusted figure that is backup with the 3.8% margin in Q4, then the 5.0% point in the right direction. It's now up to us to make sure that that becomes the 6% that we are targeting. The bonds have been already explained.

On the negative side, on the lowlights, we are still confronted with a weak Automotive OEM business in Greater China, minus 14.5% is in line with market, but clearly that's what we indicated during our full-year results, Greater China in the first quarter was not really helpful.

Europe has also been weak, and we need to see how that continues.

Maybe a surprise to you, but also, for us, unsatisfactory, the development in Automotive Aftermarket, impacted by weak OES business. And as we indicated, also some structural issues that come from customer consolidation.

We still have to do work on the gross margin. It is – and clearly, driven by the various regions by higher production costs. Also, overhead costs not where it should be. It has grown faster than sales. Not a surprise in this environment, but
clearly it's something that we are addressing, and I will come back to this later on. CapEx to sales, I already mentioned the reasons here.
Now, very quickly through the divisions. I think you see, on page 6, more or less what I already said. Two more highlights, E-Mobility is continuing to grow. 34% is driven by ramp ups in particular for hybrid modules, CBTs and clutch activators. That is positive. And the R&D ratio has also contributed to some of the margin improvement. We kept it flat and are starting to see the first effects from more focus on the future business and a stricter regime on the existing business.

I think all the rest, I have already mentioned. Weakness in China, weakness in Europe. I think we have been quite good with flexing our cost base in China. We also need to – we would be in better shape if the same logic would be also deployed in Europe and elsewhere.

Overhead cost increase is interesting. More or less driven by the personnel costs. What is a key indicator that this is not going to stay like this is the fact that headcount has started to decrease in Q1 for the full Group and also for Automotive and we will, as we indicated, become more stricter on this.
Seven is very quickly on the business. Just to give you two highlights here. We had a, from our point of view, successful auto fair in Shanghai. Some of you were there and also visited our booths. I think our technological presentation was strong. We also launched a e-axle production, as you may have heard. So, that's all very consistent and found great interest.

In terms of the business development, you all know, we are not giving order intake or order numbers for every quarter. We are doing it for the half years, but I can indicate that we are seeing a positive development here, both on the classic engine and transmission business where we gained some new orders and also the pipeline of new projects and E-Mobility is building up. Most of these projects are prenomination projects. Some of them are either at an early stage, some of them are at a later stage. And you will receive more information for the half-year results.
Aftermarket on page 8, I already gave you some color here. It's a mixed result with good growth in the Independent Aftermarket, 3%. Also here, a strong regional performance from Americas and South America. We managed to get some price increases through for selective parts. But as I said, OES business in Europe showing some temporary decline. And as we already indicated, customer consideration becomes a little bit of an issue.

We are tackling this with a range of initiatives, efficiency measures, in particular, directed to SG&A that form a little bit of a small program for Automotive Aftermarket, and this is nothing comparable in terms of size with RACE, but it's clearly there to compensate headwinds and some of the negative impacts. Happy to speak more about this later on.
In terms of business development, just two positive things. I'll start on the right side to be -- explain to you. Already in road shows and also during the annual conference that entering into the ancillary business here, the bearings and seal business in North America is a critical part of our portfolio expansion. We have started the bearing and seals program for NAPA in Q2 2018. It starts now to pay off. There is a good ramp up and sales volume development that supported our sales and we see that also together with a steady improvement in profitability as a result of additional fixed cost coverage.

Also, on the classical chassis products that we market on the FAG, we see a positive development in terms of portfolio repositioning. It's not in the numbers yet, but we have planned to market launch in Europe on June 1 and global rollout until 2021. It is -- goes hand in hand with a repositioning of our RUUVILLE brand and we think that upgrading our product quality will also pay off.
Industrial, on page 10, clearly a positive surprise with nearly 7% growth. The gross margin improved. When you look at the EBIT side, then you see that EBIT margin has come down a little bit. That is something that we will continue to address through our FIT program. FIT was also mentioned -- it stands for Fast Industrial Transformation. It's basically the third phase of CORE 1 and CORE 2. You, on the sales side, can take away that the sales drivers are pretty broad. It comes from more or less every sector. It comes from the Industrial Distribution business.

We're also seeing some of the favorable pricing impact now coming in. But in terms of overhead costs, we need to become more focused here and also make sure that the earnings quality going forward gets the necessary support. We are still shooting for the 11% to 13% for 2020.
In terms of the sectors, let me cut this short. It's more color here. Wind has seen significant growth in China. We are ramping up local production there in Nanjing. And clearly, localization going forward will be a key issue. Rail has also been a strong contributor, and we just won a good contract with a large railway operator in Eastern Europe. Raw materials, in particular, strong in Asia Pacific and China. Also quite consistent. Raw material covers things like the cement industry. And pulp and paper and other more infrastructure driven industries. You may have heard already, it will come out tomorrow that we are opening our new plant in Vietnam on May 9th. That also clearly indicates how important Asia-Pacific is going to come. And in terms of the strategic area, Industrial Automation, Industry 4.0, the thing that you have already read is, also on page 11, we entered into a global strategic partnership with Mitsubishi Electric, clearly, showing that we also think highly about cooperation where possible.
As this is very close to my focus, I have -- we have added a page called capital allocations on 12. We are giving you a new focus here because this is not the CapEx number in terms of outflow of cash. It's the PPE number that we also report in our interim report. We call it investment allocation.

The numbers that you see here, the 296 should not be mixed up with CapEx in the free cash flow statements. These are the additions to the property, plant and equipment. It's one of the main drivers of our capital employed. As we told you and promised, we will put much more focus on capital discipline. And, therefore, the capital employed number has come under much more scrutiny.

We want to share that with you and show you here that, yes, there are some increases in the PPE numbers. Some of them, in aftermarket, are driven by these one-offs that I explained. Industrial is very robust. And in Auto, we have some of the issues that has been triggered before.

I want to say this once again loud and clear, we are committed to the target of 6% to 8% on a mid-term basis and we definitely want to bring down the CapEx ratio to 8% for the rest of the year.

There have been additional actions taken here. The CapEx committee started well. It has now meanwhile a range of meetings. We have made good experience with the tightening hurdle rate and we will bring this further bound because there is a lot of smaller things that are coming and, therefore, in a next step, the hurdle rate will be further reduced.
XTRONIC is a software company that strengthens our competence in this area. Not a massive buildup, but something that is focused. It will help us to strengthen the Schaeffler-Paravan joint venture. It will be integrated in a careful manner as we did with Paravan as well.

People are excited. There is a group of nearly 175 engineers joining us and we will use them not only for the drive-by-wire technology, but also for other mechatronics challenges.

And the sale of the Barden plant is part of our exercise where we said we will align the footprint and then make sure that we reduce also in the United Kingdom. There is another one that we will close. This is a sale transaction, very favorable for us because we could avoid a complete closure of what is normally costly and also could sell this entity that is a profitable entity at an acceptable price.

So, summing it up, I think a quarter with a pretty difficult market environment, a mixed result with certainly lots of things that we need to continue. We are committed to achieve the guidance and we are very focused on getting the execution things right.

With this, I hand over to you Dietmar.
Okay. Klaus, thank you very much. So, also good morning to everybody on the phone from my side. I would then skip actually the overview chart, page 14, and go directly to a more detailed information regarding our sales growth on page 15.
As Klaus already mentioned, our sales quarter-on-quarter compared to last year has been growing by 0.4% on FX-adjusted basis, which is on the low level driven by the development in the automotive market in China and Europe. But on the other side, we have a very positive development in Americas, which is actually offsetting that impact. And in Americas, it's coming across all three divisions. So, it's a positive sales development that we see on Auto OE, Aftermarket, but also on the Industrial side. And nevertheless to mention that also, in Asia Pacific, we could realize a smaller FX adjusted growth of 2.8%.
We’re now moving on from the top line to gross profit level, which you can see on page 16. We have actually then three major impacts. One impact is coming from the price side that the pressure on the pricing in the automotive end market is going on, especially in China. We are partly compensating this on a Group level with a positive development on the Industrial side where, based on the measures that we initiated already last year, now we are able to push through higher prices which are helping them to compensate and to develop also the profitability on the Industrial side.

Additionally, second biggest impact is the mix impact on the Automotive OEM side with the change that is adverse to actually our benefit coming on a customer and product mix, especially in classic product lines and a negative regional mix with the development of sales, especially in China. So, that's having negative influence to the gross profit development from a mix point of view.

And the third big impact is coming from higher production costs in all divisions, mainly due to higher input costs on raw material, but also on the personnel cost side.

Nevertheless, especially also now what Klaus mentioned that the situation still is actually having a low visibility. We also started additional measures. We added closing these now also for the coming months in order to control our personnel cost development properly.

We continue with the reduction of temporary workers and you can see this in the report that, actually compared to year-end 2018, our full-time equivalent went
down already by a significant amount and we have actually implemented a hiring freeze in all the indirect areas to make sure that the cost development is well managed.
Now, looking over to the EBIT side, and moving on from gross profit, we see the drop in the EBIT compared to previous year third quarter to 7.5% impact as described coming from the gross profit side.

Then from a divisional point of view, the decline in the Automotive business, where we will get actually in a minute, then is having a big influence on a Group level. On the Aftermarket side, it’s the European market with consolidation going on where we face tough challenges. And on the Industrial side, on one side, positive volume and price effect, but also on the other side, higher production and logistic costs.
We’re moving more detailed to the Automotive side, we can see that in regards to the growth development, E-Mobility and chassis systems developed very well in the first quarter compared to last year, but on the classical side, engine and transmission system, we had to actually accept a decline. Nevertheless, positive development in current difficult market condition, we managed then to grow above the market and to show an outperformance there, as you can see on the lower left side, especially the Americas market that contributed significantly, but also in Europe and Asia-Pacific, we could achieve an outperformance.

From a profit development and beyond gross profit, we see major impact coming from administrative expense, and especially others area. Others areas is significantly influenced by foreign exchange development.
Now, moving on to the Automotive Aftermarket, we have also, as already mentioned, very positive development in regards to sales in the Americas. We have a decline in Europe. And when looking to the structure, we can see that the decline in the Automotive Aftermarket is especially coming from the OES side. We could see that certain of our customers are adjusting their inventory levels that actually the volume, then the orders have been reduced, but we can see already stabilization now in March and April. So, we expect that, in line with our guidance, the development will improve in the next month.

On the profit side impact, gross profit also coming from, as already mentioned, personnel costs and material cost increases and a small other impact.
Now, moving on to the Industrial side, we have a strong growth momentum there of 6.9%. You can see that, again, China is at the forefront of positive contribution, with growth of 14%, but also the other regions and, again, here, Americas contributed significantly to the positive development.

From a cluster point of view, we can see that raw materials, but also winds, railway are developing very well, growing significantly. We can also see that other sector clusters like two wheelers, like industrial automation and offroad have a difficult market situation right now.

And looking to the EBIT development, we see the positive development on the gross profit as already explained that is contributing here to the profitability of the Industrial division. We see an increase in expenses on the selling side that's caused by additional logistic costs, but it's also caused by the fact that we put our European distribution center into operation last year in the second quarter. And in the overlapping period, we have redundant costs with the existing warehouses until they are finally brought down in regard to operational level and, at the same time, already operating the distribution centers. So, we have a bit of overlap and the higher cost due to these inefficiencies that we are going to decrease over the next period of time.

On the other side, impact here again foreign exchange.
And moving on to the net income development, net income compared to first quarter last year decreased by around EUR 100 million. And is already -- we could see, this is basically caused by the impact or the development of the lower EBIT.
Then moving on with the point that Klaus already explained a little bit. Free cash flow development is influenced by lower profitability on one side, higher CapEx on the other side, but I will also get back with the next chart. I think what is important to mention, the higher CapEx is caused by the buildup of the Aftermarket Kitting Operation in Europe. So, we had a significant payment that we did in the first quarter and some other topics that are, let’s say, going beyond their regular scope of production related investment. So, this is influencing on that part.

I think from my point, what is important is you’re all aware of IFRS 16 has to be reflected now with the starting of the year in our profit and loss and balance sheet statement. We actually changed our cash flow definition to make sure that we have a like-for-like comparison to previous year.

So, what you see on a cash flow basis, the impact coming from the IFRS 16 side are basically adjusted in a way that we can compare cash flow last year and this year in a proper, clean way.
Then other influence on the free cash flow is working capital side. We can see actually a rebound of working capital in the first quarter, which is in line with the pickup of the business development, especially compared to very weak December and also -- so we see this increase on the receivable side. We also see an impact on the inventory side in the Industrial side, especially with the continuation of the positive business development over there.

And CapEx, Klaus already mentioned as well, in the first quarter, we are above our target for the whole year with the 10.3%, but as already mentioned, caused by special investment from a strategic point of view.
Finally, moving on to the debt development, our net debt at the end of first quarter was EUR2.8 billion, then equal to a gearing of 89%. So, basically, a stable development. Some payouts being caused by the impact also for the acquisition that Klaus mentioned.

And now, just a short word on the refinancing that we did in March successfully, we are going to repay now the bond in mid of May, so that finally also the gross debt will be reduced.

And with this being said, Klaus, I would like to hand back to you.
Thank you, Dietmar. Let's, gentlemen, very quickly on the last two pages. I said it upfront, we confirm our guidance for 2019 on group level and for the divisions. You see here the numbers in the comparison. Just to remind you, this is all based on market assumptions from end of last year, is where we said, okay, global car passenger production minus 1%. It could well be that the market develops differently and that it becomes less supportive, but we need to see how that works and we clearly have our eyes on the roads and our hands upon the wheels to make sure that we adjust to an adverse environment.

In Automotive, yes, there is a challenge to make up for the slower growth and the slower beginning of the year.

And Industrial, I think we sit quite well. Today, here, it's more the opposite. We need to see how the second quarter -- how the second half is going to develop. The expectations here in terms of growth come down a little bit. We were at some 2.6% and now that prospect becomes a little weaker.
Finally, finalizing the whole presentation on page 26 has the key messages going forward. In the headline, full focus on cost and CapEx and capital discipline. Full focus on the cash generation. We clearly have to compensate for the lower cash flow in the first quarter. And then, a continued transformation with focus on execution. I think I explained, number one, we all know visibility is low and will also continue to be low.

On Automotive OEM, RACE is on track. We will report more about this in the next quarters. And as I indicated, we have put in additional short-term measures to focus on production costs.

Automotive Aftermarket, there is a little program here, with some -- one major focus on SG&A efficiency measures there to compensate for the headwinds.

Industrial, the key focus here is to continue the good growth path and making sure that the earnings quality stays intact and, therefore, we have program FIT.

And as I said on the capital side, clearly, budgets further reduced in the non-strategic areas, the hurdle rates have been tightened. That means even stricter approval levels. And that, together with strict overhead cost discipline enforced across the board, should make sure that we adapt to this challenging environment.

I hand back to Renata for the financial calendar and thank you for your attention.
Thank you very much, Klaus. Thank you very much, Dietmar. Just a quick reminder from my side. On slide 27, you see the forthcoming roadshows. And for sure, you're already familiar on the right-hand side with our releases coming in on the August 6th and November 5th.

There is a small change regarding the CMD. We will host our light version of the CMD. And instead of doing it in London on the 18th, we decided to anticipate at that and to do it within the context of the IAA conference. That means, it's going to be on September 11th in Frankfurt. And we hope that will be also our less complex solution and crisper for all of you attending there, sell side and the buy side.

And with this, I hand over to our dear operator for opening the Q&A session
Raghav Gupta-Chaudhary, Citigroup Inc
Thank you. Good morning. Thanks for taking my questions. I've got three topics. One on -- the first is profitability. Second, CapEx. And finally, just a quick one on products.
So, the first one, when I look at slide 16, gross margins came under pressure again due to pricing mix and production cost. In particular, I was surprised by the magnitude of the kind of the increase in production costs, which you, I think, believe, attribute to raw materials and personnel costs. Will those be annualized in kind of Q2, Q3 or are you budgeting for these persisting at that level for the entire year? That's the first one.
Secondly, on CapEx, your mid-term guidance is a CapEx to sales ratio of 6% to 8% versus, I think, 9% that you've been doing in recent years. Can I firstly clarify that you are assuming an 8% ratio in your EUR400 million free cash flow guidance for 2019? And then, I guess, the second part of that would be, do you believe a CapEx spend of between 6% and 8% is sufficient to enable growth for the business beyond the mid-term or is the 6% to 8% range due to this kind of current weaker volume environment that we're in?
And then finally, I'll just kind of squeeze it in there, on products, there's a lot of focus at the moment on the impending CO2 targets in Europe that the carmakers clearly need to meet. In that context, could you help us with what products you're providing to help the OEMs improve their fuel efficiency. When I look at top line for engine systems and transmissions, they've both been weak for a couple of quarters now. Is that something you expect to inflect in the second half and in 2020? Thank you.

Klaus Rosenfeld
Okay, thank you. Let me start with the two last questions. And then, Dietmar takes over on the gross profit.
First on the product question, this is a very good question and I can indicate that we are seeing some of this in the order development, the business development. We have always said we are one of the key suppliers that is able to help customers to optimize their existing engines in terms of better CO2 economics. This can be a one-way clutch that is easy to install and that saves some CO2 that can be a variable valveltrain. This is the same story that we have encountered for several quarters now and we're seeing some of it that those -- you will understand that I cannot mention the names, but those OEMs that may be rather late with adjusting their fleets for the new technology are the ones that are clearly calling and saying, can
you help us there. Maybe that is a little bit of color in terms of what we're doing. Think about thermal management modules that play a role here. So, there is a lot of technology that is available. The E-clutch I mentioned, I think we're sitting right at the -- right spot to help customers to tackle this issue even in a more short-term challenge.

Second, in terms of CapEx, yes, our 8% target was part of the original guidance. What I indicated is that we need to be more selective. We are clearly -- in some of the areas, we have sufficient, if not too much capacity. I could also say we're maybe over-invested in some of the areas. And, therefore, we will deemphasize certain investments in that area and become more selective. That's the whole thing when we talk about capital discipline. It's not about stopping the necessary build up in those areas that are strategic in the future, like E-Mobility or chassis mechatronics. We're also seeing that we are doing this through external growth and improving our competence there.

So, it's very much about making sure that we do the right choices and that we restrict those areas that will not continue to grow in the future and push those that are strategically important.

What I said at the Annual General Meeting is, on the one hand, accelerating and putting -- going on the brakes in the other areas and that's where, I think, we will become more focused and better in the next quarters.

With this, to Dietmar.

**Dietmar Heinrich**

Okay. So, when talking about profitability, what you asked, actually, the development of material costs and personnel costs is basically in line with our planning for this year, which has been the basis for the guidance. So, we expect an improvement in regard to profitability moving forward, as Klaus mentioned, when he compared guidance with current situation already. We have a full-year guidance, but we expect -- we are basically developing in line with our expectations in that regard. And I think just the with --

**Raghav Gupta-Chaudhary, Citigroup Inc**

Dietmar, just to follow up on that -- sorry, Mr. Heinrich, the production cost headwind, so are we expecting – should we expect the 170 basis points or something of that order of magnitude for the rest of the year or is that something that eases as we kind of get into the second half?
Dietmar Heinrich
Yeah, there is definitely an easing in there. For example, when you look to our German workforce, there has been labor cost increase last year in April, which was not in the first quarter now of last year, but it’s in the first quarter of this year.

Raghav Gupta-Chaudhary, Citigroup Inc
Okay. All right, thank you.

Kai Mueller, BofA
Thank you very much for taking my questions. Three if I may. The first one is on the market development and your own products. You did particularly well in North America. Can you sort of outline a little bit what the products were and what the driver was? And at the AGM, you said you see stabilization in H2. Can you give us a little comment on what you've seen so far going into Q2, in comparison maybe to what you've seen in Q1 and that sort of by region?

The second point is on your outperformance, which was clearly better and above your sort of 200 basis points to 400 basis points outperformance target for the year. At the same time, your margins are still well below the full-year range. What are you going to do about them in terms of getting them up? Is that mainly through cost savings or is it just the leverage when sales pick up again organically in the second half?

And then a last point, just on your capital discipline, I thought the charts in terms of splitting it out by division was very helpful. Just trying to understand a little bit again what you said in the past, your ROCE targets are basically to stay the same as you go into the new E-Mobility space. At the same time, your CapEx seems to be spiraling up and the margins are going down. Has that message changed? And can you give us a little bit of color, maybe your margin profile in E-Mobility versus the other divisions in your Automotive OEM, just to get a little bit of color what is contributing to it given your mix is changing quite significantly now?

Klaus Rosenfeld
Okay, Kai. These are several questions in a row. Let me start with the outperformance in United States. That was clearly one of the main drivers of the overall outperformance. Here, it's very much driven by the transmission technology. We have a large ramp up and indicated this to you for one of the big three, with a 10R transmission. We are having a good, solid ramp up with CVTs and we also have the Ford MHT that we explained to you that was displayed at the Detroit motor show. So, again, a mix of existing products and new products, and it gives us some proof points that the strategy is impacting.
In terms of Q2, a good question. That's why I said visibility is still low, but growth, doesn't give us green light where it's all going to turn. You all saw what happened with the market when Mr. Trump issued his statement last week. The problems have not been solved. There is a slightly more positive tone in April when you look at the sales development also in China. But, for us, it's very advisable that we stay very cautious and have our measures right if the development doesn't come through as we expect.

That's also linked then to your third question about where is the gap that we still need to achieve our guidance coming from on the Group level. It was 0.5 pp. On Auto, it's a percentage point. And, yes, there is an element of positive support from the market in there. But, as I said, we have, and Dietmar explained that, on purpose put more cost measures in place to make sure that we have a decent chance to also bring in some additional cost savings.

There is a full hiring freeze for the whole group in Europe, in place since Monday. We will put additional sort of measures in place when it comes to the non-headcount-related things. So, again, it's, from my point of view, very much about being proactive and making sure that we control the profitability development month by month.

In terms of the capital discipline, the new page, yes, you're right. This is a different perspective. This is not free cash flow. This is additions to property, plant and equipment. And that's one of the main drivers for our capital employed.

We have some -- and we don't intend to give you numbers on return on capital employed.

The overall general notion that we have always shared with you, that the new business will come in is less capital intensive than the existing one, is still true. But as the impact in terms of the actual Q1 is still not really big, that's more an issue for the mid-term and for the strategic development. So, it doesn't explain the logic here.

As all of you know, E-Mobility is still in an investment phase. It's growing according to the pace that we expected. We have a lot of costs already digested, but it's still something that needs to reach the various breakeven levels. And that is, from my point of view, very much a function on how to move forward with.

In terms of the growth, let me say, this year, our key target is to get to the EUR2 billion of order intake, proper order intake, not just order intake for order intake sake. Therefore, controlling the growth and making sure that we're not deviating in terms of the minimum profitability that's the challenge to E-Mobility. The last point was on -- can you help me again? Was on profitability again?
Margin profile then. Dietmar, do you want to jump in with -- help me with more information or have I covered everything?

Dietmar Heinrich
No, we already talked in the past that, of course, when moving forward for E-Mobility, the breakeven is still to come, but based on the development on the cost side with the projects that we already launched, we see the continuous improvement on the project specifically.

Klaus Rosenfeld
Is it the answer?

Kai Mueller, BofA
Yeah, that's great. Is it just so it's still true, engine over transmission over chassis safety and then E-Mobility still negative within that segment?

Klaus Rosenfeld
That's what we said. We said breakeven is not reached. So –

Kai Mueller, BofA
Okay. Okay, perfect. That's very helpful.

Sascha Gommel, Credit Suisse
Yes, good morning. Thank you for taking my questions. The first one would be on Industrial. We're seeing kind of positive volumes, positive pricing, and yet margins are coming down in the division. And I was wondering, given that you expect, and probably most of your peers as well, expect a slowdown of organic growth over the course of the year, maybe you can share how we should think about the margin and what are you doing to kind of offset the cost inflation that is reducing the margin at the moment? That will be my first question. The second question, when we dial into OEM conference calls, at the moment, we hear a lot about additional price cutting and some of your peers in the supplier space actually confirm that OEMs becoming a lot more aggressive than they used to be in terms of cost cutting. Maybe you can share your view on that topic. And then, my last question would actually be on the aftermarket. Why is top line growth being so weak? And what are you doing to tackle the profitability there in order to offset the incremental price pressure and the low growth in the division? Thank you very much.
Klaus Rosenfeld
Thank you, Sascha. Maybe I take the first two ones and Dietmar can jump in on the aftermarket. Your observation is right on Industrial, although the delta is clearly something that can be overcome. On Industrial, we have, as I mentioned, introduced the FIT program. And the FIT program has a clear target on what should be achieved on the overheads, but there is -- it's a broader thing. There are some structural shifts here with some EDC-related things. But I can assure you, FIT will pay off in the next quarters and we are very focused here on getting the target in. I think I can say this, FIT has at the moment a EUR40 million improvement target and that should be achievable with good discipline.
Let me very quickly say on the pricing and the atmosphere there, I can't observe anything that is different to the last couple of months. There is nothing new. I don't have the privilege to listen to what OEM is saying, what other suppliers say. But for our business, I can say it's nothing. There's no dramatic change here. And don't forget, we are not a tier 3 supplier. So, if this stays on, we will also put more pressure on our suppliers. And this is never mentioned, but don't forget, for -- if you are larger tier 1 supplier and we have numerous suppliers, we'll try to pass some of the pressure on to others to mitigate for that. With that, to Dietmar.

Dietmar Heinrich
Also then, briefly, also on the Aftermarket side that you asked, in regard to sales development, the impact on a negative way that's coming from Europe and, as mentioned, it's on the OES side. So, our OEMs on one side, but also automotive-related customers which are supplying adjusted inventory levels in the first quarter that actually led to a decrease in the demand. So, that's what we see.
In regard to profitability, actually, the Aftermarket side, because they get actually their products from our internal resources, our plants on one side, but also on the certain parts from the external side, where they are chasing then from other suppliers, the parts. We have the pressure in line with Automotive and Industry in regard to material costs and the personnel cost development, which is influencing the profitability. We've actually put measures in place now also in regard to purchased material components and to go more detailed into this to see various cost reduction potential. So, that helps them also that we could lower then the purchase prices from our suppliers in that regard.
And Klaus also already outlined that, for the Automotive Aftermarket, we are also looking on efficiency measures improvement, especially in the SG&A area, where actually we are in the preparation, also already implemented certain steps to stabilize any profitability because the first quarter is not in line or not up to the level that we mentioned with the full-year guidance.
Sascha Gommel, Credit Suisse
Okay. So, just a quick follow-up. So, we should expect kind of a smaller program over the course of the coming quarters in the Aftermarket division and then some one-offs?

Klaus Rosenfeld
I wouldn't call it a -- we need to be a little bit careful with the program because otherwise you get confused with all these different programs. This is by far not the same magnitude as RACE, but it's a dedicated list of countermeasures that Michael has put in place. We are targeting basically three areas. As Dietmar said, the SG&A, it has to do with sourcing and it has to do with working capital improvements. So, that's in place. But don't get this wrong. This is typical self-help measures to make sure that the fluctuation that we have here in terms of earnings quality is taken care of.

Sascha Gommel, Credit Suisse
Okay. But are you confident that you will at some point get back to 16% to 18% that we discussed at the Capital Market Day or -- due to the changing structure?

Klaus Rosenfeld
Well, I've confirmed the guidance, I can't say more. That's the target. We want to make sure that we achieve the 15%. That's, I think, the answer there.

Sascha Gommel, Credit Suisse
Okay, great. Thank you very much.

Henning Cosman, HSBC
Yeah, sorry. I was in mute. Good morning. Thank you. If we could please stay with the aftermarket for one question, I believe, Mr. Rosenfeld you said you could talk a bit more about the effect of the consolidation in Europe. I understand that's outside of the OES impact. So, if we could just talk around that a little bit more again and sort of quantify the two effects, how they compare to each other and which one is the bigger one? That's my first question.
And, secondly, on the programs, not to say I'm already a little bit confused with the programs as is, just maybe to kind of remind ourselves again about the effect of CORE and RACE, whether it's the right way to think about those two in cumulative terms. So, almost effectively a EUR400 million swing vis-a-vis the 2017 level when CORE was first indicated. Or is it now more difficult to achieve the magnitude of the
savings? We often observe that it's more difficult to achieve savings relative to an otherwise lower revenue base. So, I could imagine it's maybe become a bit more difficult to achieve the full EUR300 million.

And then, the third question maybe on the visibility and industrial growth. You sometimes used to give us in the past order book as a leading indicator. And I was just wondering if you're still tracking that in-house yourself and what that would be indicating for the second half growth, for even Q2, if you can. Thank you.

Klaus Rosenfeld
Okay. Let me start with the last one. We're still tracking this. We have decided to reduce our disclosure, in that sense not to put too much out. That, at the moment, indicates growth will continue but at a slower pace. There's only visibility for three months. So, we need to be a little bit careful how to interpret this, but we will consider. If that's an indicator that people want, then – maybe we give it on H1, but you can see that again.

In terms of CORE, the program, I can say CORE 1 is fully in the numbers. CORE 2 still should have a positive impact in 2019. The measures are fully implemented. But they are rolling -- the impact is rolling in 2019. By 2020, out of the top of my head, that should be finished. And then, with the EUR40 million I indicated, part of that should come in 2019 and a little bit will then roll into also the next year thereafter.

With RACE, it's more complicated because RACE is -- it has to be split until phase 1, 2 and 3. We have started one.

The normal buildup of this takes some time, in particular, when we now do more portfolio work where it's not a function of just putting measures in place on our end, but where we also have partners that we need to think about. I can say we are working hard on the four situations in Germany, but also don't expect miracles from there. So, there, it's more the focus on the short-term measures that we think are well-designed and more self-help than portfolio transactions.

In terms of the Aftermarket, again, it's a more difficult question. I cannot give you now a full split of how big is the impact on what. But, structurally, what I already indicated during the full-year presentation, we see consolidation of major customers in Europe. And if you think about someone like LKQ, the large group that acquires more or less every half year, one of our customers, then that leads to sometimes difficult conversations because they come and say, now we have increased our share with Schaeffler and we want to see that you move into our direction. In particular if competitors are in there, then that can be quite a challenging debate. And with Aftermarket, you have either on the shelf or not on the shelf. So, that is something that Michael is fighting with at the moment. And that's the structural thing. The more temporary stuff can clearly be handled and
our planning for the mid-term clearly needs to incorporate further moves in terms of the market consolidation, but that's something for the future.

Henning Cosman, HSBC
Sorry, if I can just clarify and follow-up on the program, I think I said CORE, I probably meant Agenda 4 plus One with respect to the EUR300 million.

Klaus Rosenfeld
Okay. Let me explain that. The Agenda is the project transformation program. We have given you always our completion ratios and we have said we are going for a delta in 2022. And that delta has different drivers. They are clearly also the big initiatives in there, like the digitalization. One of the key drivers is that. If you want to have a tracking of that, you can also think about how we do this in the half-year or the full year maybe, but these programs are set up in a way that don't overlap and that we don't run the risk that we double count. But, clearly, there, the delta of EUR300 million is something that we can talk about with more preparation. I can't do it out of the top of my head, but there is a tracking month-by-month where we look at these numbers. But '22, with all due respect, is far out. What I can say, this program as such, it has now reached nearly two-thirds of implementation.

We're looking at a full completion ratio. We have adjusted in between. There are some very positive impacts here. The shared service center in Poland, for example, is up and running. That was a big step forward.

There are other areas where we are adjusting when we said we are going on the brakes with certain investments. We have stopped some of the branding stuff. So, there's a lot of movement in this program. I think the key figure that you may want to look at is completion ratio. We want to bring the number of initiatives down by the year-end from 18 to 12. And we have clearly, in between, changed the logic. In terms of the digitalization impact, that is something where also the question of revenues, what does it mean in terms of extra business, play a role. And again, happy to give some more information about this during one of the next calls.

Henning Cosman, HSBC
Okay, thank you.

Tim Rokossa, Deutsche Bank
Yeah. Hey, good morning everyone. Thank you for taking my questions. I would have two or three please. The first one is -- Sascha already touched on the price cuts by OEMs being a very consistent theme of conference calls nowadays. Another one, clearly, is the lack of visibility. And as we can see everyone today is trying to
get some flavor out of you, what the current trading looks like. You also said visibility remains very low. Now, this is the new normal. How have you changed your systems internally or the way you monitor the business to really live with this? Secondly, I completely agree with you on the markets. I think no one can really predict what’s happening with Mr. Trump or the Chinese and US or EU and US trade conflict. But if we leave this aside, I think the very positive news this morning was your outperformance that we’ve seen on Automotive OE. If we focus on this and just leave the market growth, a bit what it is for now, was this outperformance that we have seen due to certain product ramp ups, specifically in North America with this one major OEM that you're working with, for example, or was it other things that we're seeing and will it be persistent going forward or was this pretty much like a one-off event and you're going back to your usual outperformance in the past?
And then, finally, maybe this is a little bit interlinked with the growth that we've seen in Q1, you said in Q4 that you did some capital preservation and probably didn't grow as much as you could in certain areas. Is this weaker free cash flow that we've seen in Q1 and the stronger growth a bit of a payback of the capital preservation that we have seen in Q4 or is that a wrong interpretation? Thank you.

Klaus Rosenfeld
Okay. Let me again -- let me just deal with the first one gain. Managing in such a situation, it's clearly something where you need a strong team. And I think we have the privilege of having both a divisional view on things and a regional view on things. And it's very important that you don't not only get the data, but also that you get the assessment of what that means. And I think, Dietmar, you may want to jump in, but the fact that we have a dedicated CEO, colleagues or a regional CEO in China helps us a lot to interpret the numbers there.
So, I can only say we have increased the frequency of our internal meetings. Dietmar runs a dedicated business review process. It's very much getting a sense of what's going on and being close to the marketeers and understand what they think it's going to do. We have, with some of the weaknesses from the past, worked a lot on our forecasting ability. Again, there is always room for improvement, but I feel that we are getting a little bit better here in terms of reading the data, interpreting the data and doing the right things.
The key is in this, from my point of view, Tim, to be as selective and as focused as possible. I said it during the annual general meeting as well. We need to focus on what we can do best. We need to cut some of the luxury that can be cut without cutting too deep. And again, I think the capital and cost discipline going forward is a key driver to make sure
that we continue well into the year. The ability to adjust becomes clearly of strategic importance. In terms of the ramp-up, I said it in the outperformance in America, this is not simply a one-off. It’s driven by new ramp-ups and also improved products with large OEMs. Like I mentioned, again, the 10R transmission is a classic transmission. It was one of the Detroit 3, the CBT business. It’s a broader business and the Ford MHT is a new hybrid module that we have all explained to you several times. So, we think that that is -- if the market continues in terms of market volume, the US will support -- will be supportive. Outperformance, and you saw this on the page with some -- that Dietmar presented on Automotive, outperformance in the Automotive side is at the moment lagging in Greater China. We are more or less in line with the market downturn there, should not come as a surprise. It's very difficult to outperform the market there with the mix of local and international customers.

But if that picks up -- and you asked for a little bit more color on April. We are seeing slowly and not really something that you can really build on, but we are seeing, in April, a little bit of an improvement in China. Let's now see what May and June is going to bring.

We have always said, ladies and gentlemen, that 4% out performance on average over a year, it is possible. And that remains also the target. If you think that the market comes down to minus 2%, minus 3%, if we manage the 4%, we are still at the low end of the Auto guidance and maybe that gives you a little bit of a more data point that you find helpful.

What was the last one? Is that okay, Tim?

Tim Rokossa, Deutsche Bank
Yeah, absolutely. Just the relationship between free cash flow and growth is still open.

Klaus Rosenfeld
Managing free cash flow is more an art than a science. And again, we were aware that there were certain payouts from this non-recurring stuff, the AKO payment schedule. The things that were real estate related have the same logic.

We are still finalizing our new plant in China, the Xiangtan plant. There is a payment schedule behind this. So, that impacted the CapEx.

And the working capital side was explained by Dietmar. There is a drive from Industrial in terms of inventories. Yes, it was a very weak, as all of you know, December and now a swing in terms of trade receivables. That is absolutely in line with the normal ratios. If you compare the DSO ratio in Q1 2018 with the one in Q1 2019, it's even a little bit better. And then we have -- we're seeing on the trade
payables side, all the good things that Dietmar has put in place to optimize the work -- the payment clock with our suppliers. So, yes, it is what it is. And the key drivers on cash flow were the lower profitability and also these impacts that I just mentioned. But it's not directly related to sales. And don't forget, we also have initiated what we explained to you, this special target that this whole issue of hockey stick building that sometimes is a behavior in organizations that are not fully up to speed, but we want to avoid hockey sticks as we have seen in the past by a special target that incentivized people to go much earlier on the brakes when necessary.

Tim Rokossa, Deutsche Bank
Great, thank you very much for the comprehensive answer. Can I sneak in one more on not China. Everyone always asks about China and it's very important. But we've seen this very weak German production numbers in April and that has spooked quite a few people. Is that a trend that you see for Europe, in general, or can you actually not share a view of a weaker environment in the European market as well?

Klaus Rosenfeld
What I can say is that, and again it's supplier view, not an OEM view, but we have seen a -- compared to March and April, we are seeing an improvement in China. That is not insignificant in our business, Dietmar. And we're seeing that, in April, Europe was weaker, but don't forget there is also this whole issue of working days because Easter was late this year. It was in April. And last year, it was early. So, there are some of these day to day impact that we should not overestimate.

Tim Rokossa, Deutsche Bank
Thank you very much, Klaus. Thank you.

Akshat Kacker, JP Morgan Chase & Co.
Thank you. Akshat from J.P. Morgan. Three from my side. The first one on FX. I saw that it had a positive EUR30 million impact on EBIT in the first quarter. Can you share your expectations on the FX impact on EBIT for the full year? The second question is on the Automotive EBIT bridge. Can you share details around the minus 21% other line item in there? And the third one, for Klaus maybe, on product -- for fuel efficiency products in Europe. You talk about one-way clutch and CO2 emissions. Can you give us a broad sense of the cost of that system for OEMs and how much CO2 emission savings does that offer? Thank you.
Klaus Rosenfeld
Thanks for the question. Let me start with the last one again. This is a conference call on Q1, and I need to be crisper.
The e-clutch is just one example. It's a little device. It comes from an accelerator that is directly linked to the pedal force emulator and it's something that can be implemented together with an existing clutch or clutch release system. It has potential up to 5%, 6%, 7% CO2 savings. So, that's one of the examples. But, again, this is not a product show. It's a Q1. So, maybe we can take this offline and the colleagues from IR can explain it all. When we come and see you at one of the road shows, we can give you more color. This is certainly a perfect question to Matthias who is not with us today. But let's follow-up on this. Dietmar?

Dietmar Heinrich
In regard to the foreign exchange, and you mentioned, especially for Automotive, yes, we have a positive impact on the gross profit side, equal to EUR21 million, as we indicated or showed in the chart. But we have on the other side, what is then on others, the realized and unrealized impacts, and so, actually, these two impacts are basically setting off each other.

Akshat Kacker, JP Morgan Chase & Co.
Okay, thank you.

Klaus Rosenfeld
Well, ladies and gentlemen, there are no more questions. Renata, can we finish?

Renata Casaro
Absolutely. And I thank you very much for all participants. We will be in conference call on 6th of August for our second quarter with the order intake for Automotive and for Industrial in our slides. And regarding road shows for sure, see some of you tomorrow in London and then some of you Friday in Frankfurt. And then it continues in Paris and Toronto in the coming weeks. Thank you very much. And goodbye.