



Adapting our structures to a prolonged market recovery

CEO & CFO Conference Call
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Herzogenaurach

Company Representatives

Klaus Rosenfeld, CEO

Dr. Klaus Patzak, CFO

Renata Casaro, Head of Investor Relations

Conference Call (Active) Participants

Henning Cosman, *HSBC*

Sascha Gommel, *Jefferies*

Gabriel M. Adler, *Citigroup*

Victoria Greer, *Morgan Stanley*

Kai Mueller, *BofA Merrill Lynch*

Andre Kukhnin, *Credit Suisse*

Operator

Ladies and gentlemen, welcome to the Schaeffler Group conference call. As a reminder, all participants will be in a listen only mode. After the presentation there will be an opportunity to ask questions.

This conference will be recorded, and the replay will be available shortly after the call on the website. May I now hand you over to Renata Cassaro, who will lead you through this conference. Please begin.

Renata Casaro

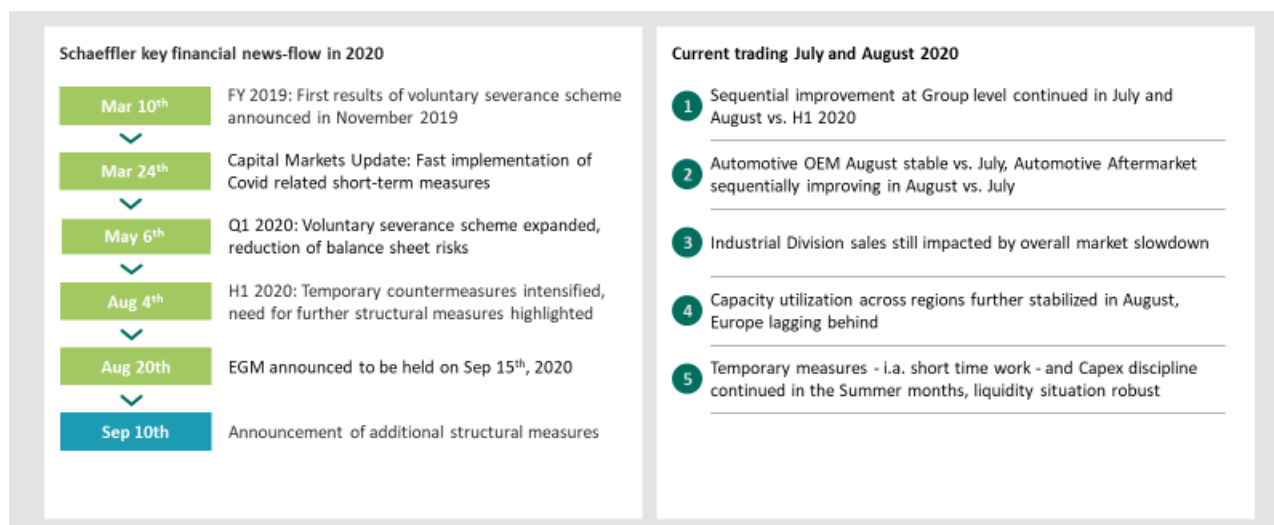
Thank you, Mark. Dear investors, dear analysts, welcome to today's conference call. Mr. Rosenfeld, CEO of the Schaeffler Group and Dr. Patzak, CFO of the Schaeffler Group and IR Team are here in Herzogenaurach. The call will close at 12:30 sharp in order to enable international cascading calls before in order to enable participants to ask the questions, please limit yourself to maximum two questions at a time. Please note our disclaimer regarding forward looking statement at the end of the presentation that you find online and that was distributed yesterday afternoon. Now I leave the floor to Mr. Klaus Rosenfeld, CEO of the Schaeffer Group. Klaus, the floor is yours.

Klaus Rosenfeld

Renata, Ladies and Gentlemen, thanks for joining this call. We want to guide you through the deck that we have provided to the markets this morning and talk about our restructuring announcement. Let me use the opportunity upfront to say there were some concerns this morning that this was somehow linked to the authorization that we announced on 20th of August and let me stay here to clear the air. We have no intention to finance restructuring costs by way of a capital increase. The issues are two separate issues. The authorization and an authorization, Ladies and Gentlemen, once again, is not an issuance of capital, it is an authorization, and is there to complete our financial toolbox and to create optionality for us. The restructuring is there to further amplify our self-help measures, as we indicated on 4th of August and to increase our competitiveness. The fact that the two issues coincide on the timeline does not mean that they are related.

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Introducing additional structural measures – Current trading improved, still market headwinds persist



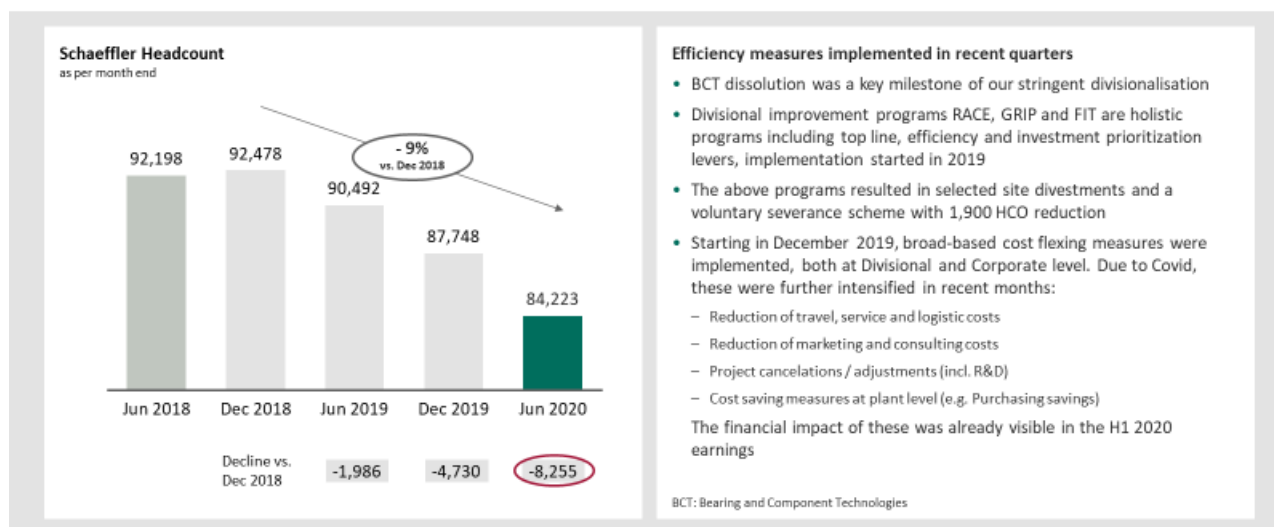
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Klaus Rosenfeld

With this introduction, let me quickly go to page two, you have on the left-hand side the key milestones. Yes, it's intensive, but it has to be intensive because we think we need to speed up the transformation and also continue with the measures to make Schaeffler more competitive. And that also includes reducing our dependency from the combustion engine. I'm not going to repeat what's on the left-hand side. Just a quick word on the current trading. We shared with you the sequential improvement trend at group level in the last call. And I can say that sequential improvement is continuing. Automotive OEM August more or less stable versus July. Automotive Aftermarket sequentially improving. And the Industrial division sales still impacted by an overall market slowdown. Nothing really new on the capacity utilization across the regions, also here further stabilized. Clearly, China ahead and Europe lagging behind. Let me reassure you already here, the fact that today we announced a restructuring program doesn't mean that we will continue forcefully and in a very disciplined manner with our temporary measures like short term work. The liquidity situation is found in the balance sheet, quality is intact.

Transformation journey continues – Additional structural measures will add to previous programs

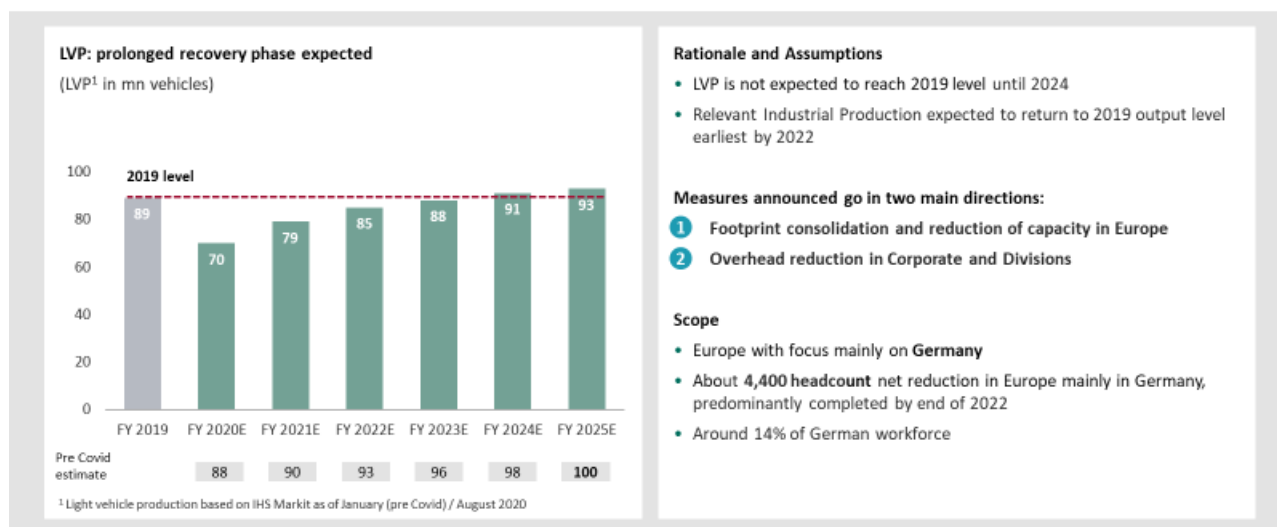


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Please go to page number 3. Before we explain the program, let me quickly explain where we are coming from. Just to remind you, we have in the last 18 months, downsized the company quite a bit, -9% in headcount or 8250 jobs. I think that speaks for itself. Several steps, BCT was one of the key milestones to a more stringent divisionalization, RACE, FIT and GRIP. You all remember that. And then in addition to that, starting December 19, our additional voluntary severance scheme that we then upsized in the beginning of this year. This new program now comes on top of this, and it's a program with a clear focus on Germany and Europe. And the simple reason is that so far, our activities in optimizing the German and European footprint were in these other programs somehow under-represented the 8250 jobs more or less relate to things in Europe and outside Europe. Only 1600 were part of this in Germany. And therefore, it's from my point of view, a very logical step now to approach and address the issues that we have in Europe. And that comes together hand in hand with the crisis and the development there, where we see that our customers more and more ask for localization, where we need to do more to protect our supply chains and where we want to be close to our customers.

Prolonged market recovery phase requires adaptation of our structures – Footprint, Capacities, Overheads

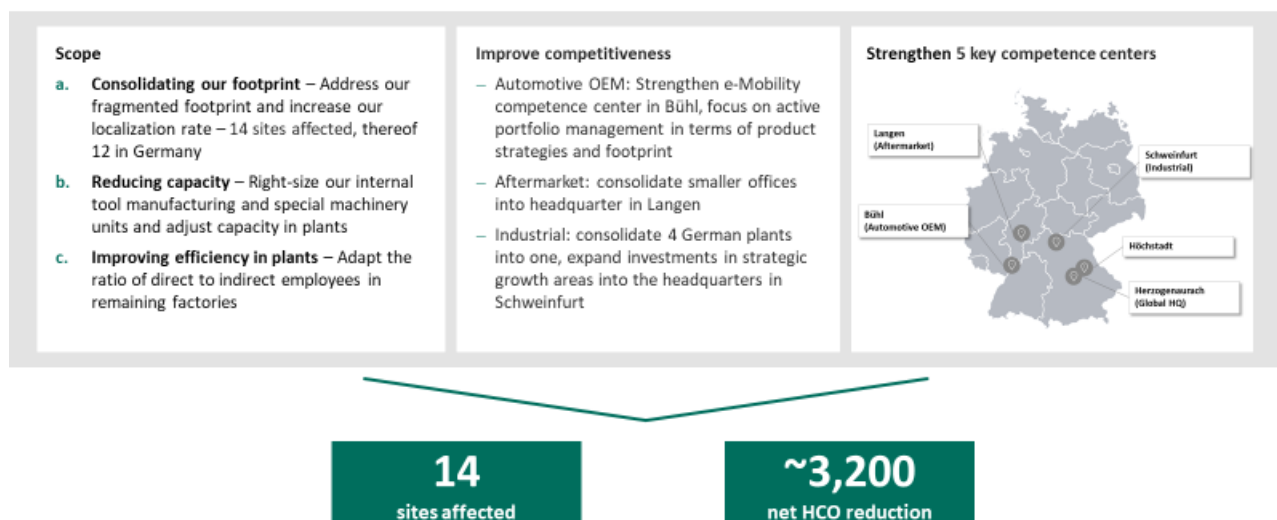


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Let me explain that on page number 4. You all know we're expecting for this year around 20 million less cars than in the previous year. That's a drop. It's stabilizing at the moment. And we all expect that the pre-crisis level will not be fully reached before 2024. That's the auto view from light vehicle production with the prolonged recovery and we have to say that also on the Industrial side, that recovery will play a role. Here our view is that when you look at industrial production figures, the output levels of 2019, will at the earliest be reached in 2022. That means for us next to the technological transformation that we are exposed to that we need to optimize the footprint and consolidate the footprint here in Germany and in Europe and reduce capacity. And secondly, we need to address and want to address the overheads. It's obvious with all these some downsizing of the past that we need to take a fresh look here to further reduce in our corporate headquarter, but also in the divisional overhead. And that has led to this scope. The scope is Europe, but mainly Germany. 4400 headcount I think is a significant number. It equates to 14 percent of our German workforce.

1 Footprint consolidation and reduction of capacity in Europe – Increase competitiveness



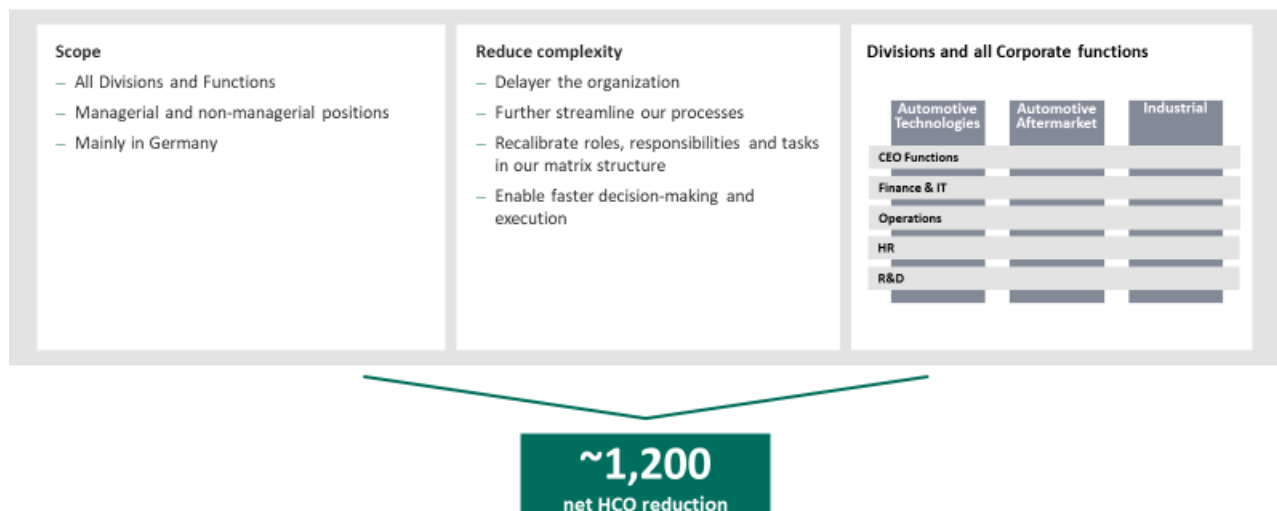
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Let me go to page 5 and quickly go deeper into the logic, footprint consolidation and reduction of capacity clearly targeting to improve our competitiveness. With the consolidation, we are addressing a still fragmented footprint. And that means twelve sites in Germany and 14 sites in total for Europe. That does not mean that these sites will disappear. But we will move things together. We will move from one location into the other. And we will also clearly see what can be saved. But where that is not possible we will also close sites if necessary. Reducing capacity is, on the one hand, rightsizing certain corporate service functions or that are close to the plans. Our tool manufacturing a key technology for Schaeffler will be right sized and also the special machinery building. That is an important element of our company, but even more so in particular, those areas where we are talking about the traditional core businesses, this capacity will be adjusted to current demand. And on top of this, the third driver is a classic KPI driven approach with a ratio of direct to indirect employees in the factories that needs to be looked at and we'll use that to further reduce indirect employees in the plans. This is the overall logic for the whole Schaeffler Group. And you see that that applies in the middle of the page to all the three divisions in a slightly different manner. In Automotive one of the key focus areas is to strengthen our E-Mobility competence center in Bühl, and also push forward our activities, at the same time focusing our portfolio in a more active manner in terms of product strategies and footprints. And I said this upfront, that clearly means we are intending to further reduce the dependency of our ICE products. In Aftermarket this is part of a longer story. Michael is basically consolidating all smaller offices we have in Germany,

Hamburg and Cologne, some other smaller ones into the Headquarter in Langen. That's an obvious step to reduce cost and also optimize efficiency. And also, Stefan Spindler, who, you know, is keen to further optimize his efficiency. He does a significant step by consolidating basically four German plants into one Schweinfurt, parts of Höchststadt, parts of Wuppertal go together. Also, Eltman, a smaller plant close to Schweinfurt will be combined into one competence center for the Industrial business. And that will also go hand-in-hand with expanding our investments in the strategic growth areas. Let me give you an example. Robotics is one of these examples, but also the Mechatronic technologies that we need for Industrial and that will all move to Schweinfurt.

2 Overhead reduction in Corporate and Divisions – Reduce complexity



Second part is the Overhead reduction. I think we have done in the last years quite a bit to streamline this, but there is some still complexity that needs to be reduced. All functions, all divisions are impacted. We go across the different layers, all the managerial and also not managerial positions and also here it is mainly Germany. You know, we have our headquarters in Herzogenaurach and that's one of the main locations where our overhead will be cut. It's there to reduce complexity, delayer the organization, streamline processes, and we'll also take the opportunity to look at the metrics one more time and see how we can make that and remake that in a leaner way to enable faster decision making and execution. So nothing unusual, something that we have done before. And that now is clearly the basis also for the business case that Klaus is going to explain. Klaus, please go to the next page.

Financial impact

Savings: EUR 250 - 300 mn annual benefits of which 90% will be realized already in 2023, split roughly evenly between Automotive OEM and Industrial, small impact in Aftermarket

Transformation cost: Around EUR 700 mn cost mainly in H2 2020, majority of cash-out in 2021 and 2022 – around 90% personnel-related including severance and 10% related to other costs including transfer

Fiscal year 2020 impact: provision to be booked in H2, no impact on EBIT before special items

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Klaus Patzak

Yes, hello also from my side. On the savings, what you see here is 250 to 300 million. This is the full annual run rate of net savings which we will reach in 2024, this savings number relates to the net number of 4400 jobs to be cut. Keep in mind, there's hardly any net reduction in Europe outside Germany, therefore the net number of 4400 is also, you know, the number more or less for Germany. With regard to phasing, 90 percent of the 250 to 300 million will be reached already in 2023. And there will also be a first, you know, visible impact in 2022, but no visible impact from today's point of view in 2021, while we have our first benefits in 2021 they will be compensated from today's point of view through transformation costs which will not be accruable. The split into the divisions is more or less half Industrial, half Automotive OEM, the impact at Aftermarket will be minor.

Now, on the cost side, these costs have been calculated bottom up with business plans for all sides which are impacted. You know, these are the material ones plus two of these which have been mentioned already by Klaus. But obviously they're also some smaller sites where we have a business plan. So, you know, we built that bottom up and it relates not to the net number of jobs to be cut, but to the gross number of jobs impacted. And the gross number on a European basis is in the range of 6100 and the difference between this number and the net number, you know, roughly 1700 consists of two buckets. One is, you know, this consolidation within Germany, you know, that would be around about one third and two thirds is a movement from high cost Europe to low cost Europe. On the phasing, you know, I believe that 80 to 90 percent of that cost will be booked already in 2020 if we progress according to plan.

And since the restructuring plans, which has been communicated yesterday, are already quite detailed, which is good because that I think shows that we have done our homework, a significant portion will be already booked in the third quarter.

If you look at the overall number of roughly 700 million, more than 90 percent, will be cash effective, and that will lead to a significant burden on the Free cash flow in 2021 and 2022. I would say roughly equal in size. But keep in mind that in 2021 there is an additional cash out still for the Jupiter program, which could be a bit more than 100 million. So that needs to be added, so to speak. On this split of the costs equal to the split of the savings, roughly 50 percent at Automotive OEM and 50 percent Industrial, Aftermarket minor, which also translates obviously in a higher margin impact for Industry versus OEM. So we will keep you updated on our progress, obviously, you know, when we talk about the Q3 numbers, there will be an update, but it's been already booked and that is still, you know, is expected to be bookable. With regard to the transformation costs in the fourth quarter, and then we basically take it from there and given an update quarterly.

There is just one topic on the cost, which I also can give you, this is roughly 700 and it splits also into roughly 90 percent personnel related costs and 10 percent, which are other costs for moving, machinery and closing down factories. And within the personnel related piece of the majority, I would say, is related to voluntary redundancies. So with this said hand back to you, Klaus.

Self-help structural measures – Reduce cost and increase competitiveness

1 Coronavirus-related uncertainty remains high – **We adapt our structures to a prolonged market recovery in a sustainable way**

2 Appropriate temporary cost flexing benefitted the Group in H1 – **short-term levers will remain in focus beyond 2020**

3 **Accelerate structural change and transformation** – Optimize our European footprint, increase localization and adapt overhead in Divisions and Corporate functions

4 **Increase competitiveness** – Create flexibility to invest in future business and technologies, continue to focus resources on employee reskilling

5 **Liquidity is robust, our Capex discipline continues** – We will continue to shape our balanced portfolio as Automotive and Industrial supplier

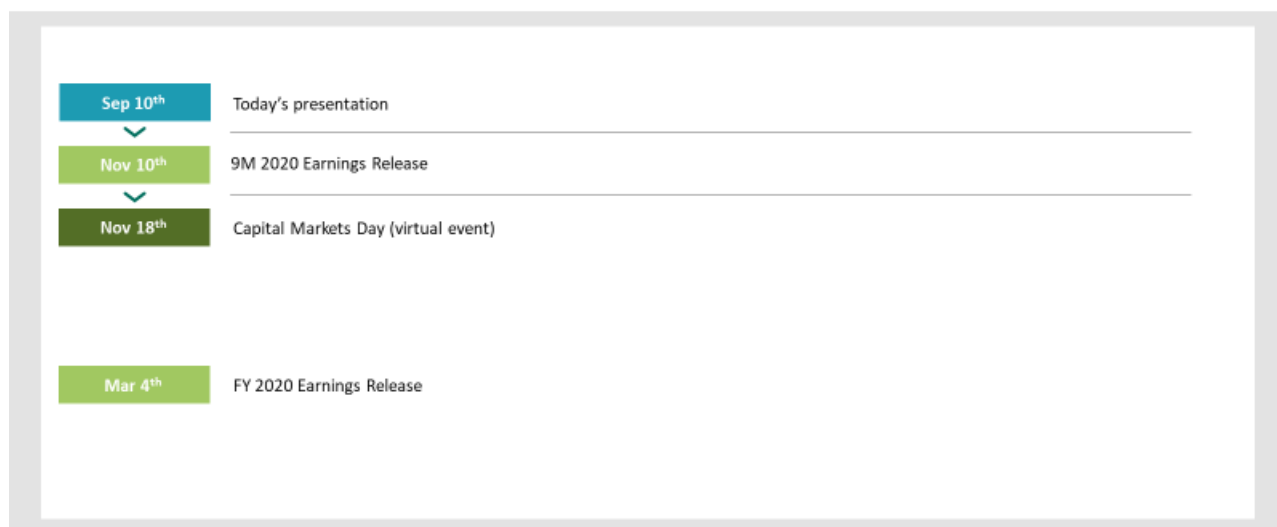
Sustainably reduce cost and increase competitiveness for the long term

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Klaus Rosenfeld

Thanks. We will finish quickly with the last page just to summarize what we said, this restructuring package is a bold step forward. It's there to amplify our self-help structural measures. It doesn't mean that the temporary measures in place will not be continued. The opposite is true. We will clearly keep going at that front as well. It is clearly there to adapt our structures to a prolonged market recovery in a sustainable manner. The short-term levers will remain in focus, but it's absolutely necessary to accelerate the structural change and the transformation in particular here in Europe. We will increase our competitiveness. Parts of the program is clearly geared towards investment, into future technology, be it Hydrogen here in Herzogenaurach or Robotics in Schweinfurt or E-Mobility in Bühl. And we know that this is another execution challenge. We think we have shown that we can deliver what we promised and when it comes to downsizing and that's also what we will do here. The liquidity situation remains robust.

Financial calendar 2020/2021 – Capital Markets Day on November 18th 2020

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And we look forward to our next conversations with you. November 10 is when we will release our nine months results. And I can already say that at that juncture, we will also share with you the guidance for the year 2020. November 18 will be our first joint Capital Market Day for Dr. Patzak and myself. And we'll use that opportunity also to share with you our multi-year targets and the necessary information that you need going forward. With that, I close my remarks and hand back to the operator and to you for questions. Thank you.

Disclaimer

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IR Contact

Investor Relations

Phone: + 49 9132 82 4440

Email: ir@schaeffler.com

Web: www.schaeffler.com/ir

Q&A SESSION

Henning Cosman, HSBC

Hi, good morning, and thank you for taking the question. Thank you for clarifying that there is no direct link between the approved capital and the restructuring. Can you just talk a bit about - I mean, I know today's call is about the restructuring itself, but can you just remind us about the capital allocation priority spend? Because it seems between the 700 million of which most will be a cash effective and one hundred for the for the Jupiter program and 300 million plus dividend per year if you continue to pay at such a level, it appears that consumes most or all of the Free cash flow of the next two years. So I imagine the potential proceeds would then just be left for deleveraging and M&A. And if you could just reconfirm that you still don't have anything on the radar for that. That's the first question, please. And the second question refers to one sentence in the press release where you said that the freed-up funds from the restructuring will be reallocated to innovation in Germany effectively. So I just wanted to understand what that means. If that to an extent means that not the full savings will drop through to the bottom line, but there will rather be re-attributed to R&D costs otherwise or how we should think about that. Thank you very much.

Klaus Rosenfeld

Thanks, Henning. I will start with the last question and I'll give an example. This restructuring program is that is about consolidating the footprint and consolidating the footprint I use an example out of Schweinfurt. There's a plant that is 35 kilometers away that we will integrate into Schweinfurt. We will end up with a very decent plant and buildings and land that we will sell. The money that we will raise from the sale can then be reinvested into, for example, a Hydrogen competence center here in Herzogenaurach. That's what behind the idea that we are freeing up funds we will then use to invest into future technology. That's the logic. And please for everybody, this is an announcement at the moment. It's a plan. In Germany and Klaus said it loud and clear, this is very much geared towards Germany. You have to enter into negotiations with workers council and with the trade unions. That's what we're doing at the moment. We have good experience with them, and we are hopeful that we can finish this quickly. And then it will be necessary to see what the concrete steps when can they happen? When can we execute this? We want to execute this as fast as possible. And then we can give you more information about these types of things. But the tendency to say this is not only just cutting and cutting and cutting, but it's about increasing competitiveness also means that we need to invest into certain future technologies. And I gave you examples. In terms of capital allocation, yes, Klaus said

it. This program costs some money and it will create some outflow of cash in the next years. He gave you a basic some parameters what that could look like; we are in planning phase at the moment. And you all know that we are a cash flow strong company. Klaus will put even more focus on this and therefore we will see that we can finance these outflows primarily out of organic cash generation. And if needed we then would rather think about liquidity from elsewhere, but not about a capital increase. And is there anything else in the making, as you ask? Again, you know our logic. We only talk about things when we're ready and now we are just initiating a next restructuring step. That's the main focus. And you can be rest assured that we will have our hands full to get this now done and executed.

Henning Cosman, HSBC

Thank you. I'll get back in the line.

Sascha Gommel, Jefferies

Good morning. Thank you for taking my questions. My first question would be a bit more strategic, given that you're now looking to authorize capital on the one side and then it feels you separate the individual Divisions a bit more. Should we think about that also as a not a one or two year project but a longer term project, that you could transform the automotive business and separate it completely from Industrial? Or is the strategy Automotive and Industrial is still on the cards?

Klaus Rosenfeld

Well, Sascha, thanks for the question. Again, we think that the current crisis situation is a good proof point, that it makes a lot of sense to be an Automotive and Industrial supplier. And again, we said this on and on, and I'm happy to repeat it. In our case, we have technological synergies between the different divisions. Producing a bearing for Auto is not very different than producing a bearing for Industrial. Our core technologies like hardening and whatsoever all apply in a similar manner. So, we have no intention to split the company and separate the businesses. Our intention is to streamline the company, to make it leaner, to see that we can optimize the overhead structures. And that doesn't mean that you can't have a joint core. In terms of managing the plants and that's where the divisionization started, it has proven to be much more efficient if you allocate the plants one after the other to one division or one business unit. And that's what we have been doing. That doesn't mean that we're going to split the company.

Sascha Gommel, Jefferies

Thank you. The second question would be a bit on the cost cutting for the 250 to 300 benefit. How much of that is kind of direct production versus Corporate and what needs to happen to reach the lower versus the higher end?

Klaus Patzak

Yeah. But first of all, I think if you look at the full run rate savings, I would say that, you know, around about 75%, you know, would relate to the gross margin, right. And then one quarter to overhead. And that gives you a hint of what is more kind of production related and more overhead relate. So, you know, in the end why do we have a range and not the precise numbers. What we basically give to you and there's no other possibility is we give to you what we have internally calculated but on the other hand, this is an anticipation of a negotiation result, which we currently do not have. You know, there is a, you know, negotiation process which we hope that we can conclude pretty fast, you know, by early next year. So, what could be an impact? There are assumptions on how many people are leaving with a voluntary leave agreement. What is reduction in force, for example, how many people leave without specific restructuring money because there is kind of a natural fluctuation, there could be early retirement topics. So that is all linked into this business plan with certain assumptions. And then you do a kind of similar scenario analysis and then that gives you the range and this is how we how we did it.

Sascha Gommel, Jefferies

I see. But that would mean, depending on the outcome of the negotiations, the 700 is also kind of a rough number and could change a little bit. Is that a fair assumption?

Klaus Patzak

Yes. That's true. That could also change a bit, but I would not expect that we overshoot that number.

Sascha Gommel, Jefferies

I appreciate it. Thank you very much.

Gabriel Adler, Citi

Hi, thanks for taking my questions. My first question is also on capital allocation, but more on how you now prioritize your use of cash in light of the program. So, on the

cash outlay for restructuring. What's the next priority for capital allocation that deleveraging, maintaining the dividend or investing for growth in E-Mobility?

Klaus Rosenfeld

Okay. Let me take that question, we have a dividend policy in place. And as we are progressing through this restructuring, I don't have any reason to believe that that dividend policy needs to be adjusted. So, we need to see how all of this plays out and how we deal with these one offs. And let me also stress here, I mean, we have a long-term family shareholder that has always stood behind this company. There's no need to pull out cash from their angle. They have always left cash in the company. The dividend policy was there to find a fair split between the different constituencies. But we need to review that as the year is progressing. We are in a turbulent environment. And therefore, again, for the time being, the dividend policy remains in place. Our leverage situation with the 1.8 times is, from my point of view, sound. You saw that cash flow generation in the first half was negative, as usual, we indicated to you when we talked about the second quarter results that we're expecting for the full year, a positive Free cash flow. And there's no reason to deviate from that statement. And all that then ties together. It remains to be seen. But first, clearly important to put the business into growth mode where necessary. So, I would say growth where necessary, but still being very disciplined with the different situations. We're not going to grow in those areas where we need to protect margin. And then a good balance between dividend and repayment. The most important thing is that we look at the portfolio and I'm very happy that Klaus is here, and we'll drive that process.

Klaus Patzak

And perhaps to add on that, obviously what we will do as we look deeply into the portfolio and there is already a clear distinction now already now between, you know, the areas which will have a growth trajectory going forward and need investment. But here you have to kind of find out how fast scale leads to profit. And what can we do, for example, modularization and things like that. And there will be other parts of the business which will be driven according to different KPIs, specific KPIs, and here you know, CapeFx will be brought down and R&D also, and it will be more focused on cash performance and profitability. So this kind of differentiation, I think that will play a big role and I would guess. But we have not discussed it that this is also something we will then discuss in more detail during the CMD.

Gabriel Adler, Citi

Okay, thank you. My second question is on the provisional overhead reduction measures, specifically, given that you've had efficiency programs running across all divisions for some time now. Can you give some specific examples of where you think efficient of efficiency can be extracted from the division that were not included in the original program?

Klaus Rosenfeld

I think you have to look at these divisional programs as something that is a continuous framework, reflecting that we're steering the company in a more divisional manner than in the past. And RACE, FIT and GRIP will continue. We have, as you know, from the full year results 2019, also allocated the impact from Jupiter on a divisional basis and the same will happen here. So, they are basically the carrier of all these efficiency measures. And again, I mentioned examples during my little introduction. When you look at Industrial. The fact that Stefan consolidates four plants into one is clearly part of an efficiency program. And the fact that we do something on the Aftermarket side in a similar manner also contributes to the success of what was called GRIP and in RACE we have the same example. So, it's a continuous improvement step by step. I'm not a big believer into big bangs. I rather believe into digestible, well-defined, well-dimensioned programs that can be executed in an appropriate timeframe. And we've always said, and this is another proof, if there is need be for more, we'll do more.

Victoria Greer, Morgan Stanley

And good morning. Yes. Just one, please. Could you frame for us how much of this is a reaction to the market situation and how much of it is relating to, you know, the kinds of changes that you've wanted to communicate for some time and it's been pushed back by all the COVID situation around product repositioning. Are you exiting any product lines as part of this restructuring, or should we really think about it just as a reaction to the rebased volumes in the industry that everyone is dealing with? There are no write-downs as part of this so there are probably not any anything product line exits here on top of, I guess, the cash burden for the company for the next couple of years. I guess the concern a little bit is, is there more to do as you identify those products areas that you might want to divest or haven't run off? Thanks

Klaus Rosenfeld

Victoria, that is a very relevant question and I can't give you a split in terms numbers X Y is this and that. I said in the last part already. I think it was right to wait and see how the dust settles after the big drop in April and May. You know, we've always

thought in contingencies. I think that's also what you know from the past. And we have started to think about it on this program. This is this is a bolder step than we wanted to do at the beginning. So it's difficult to really distinguish between this is structural and this is only market related. It's a combination of both. And, you know, I would say maybe even not the right way to ask, well, how much is this? How much is that? The most important thing is that we tackle the problems. And the problems are that in the past, in the downsizing, there was too little focus on Germany and Europe. And this goes across the divisions. Every division has its own issue. Don't always think about this as Automotive. In Automotive it's more challenging situation because we have to balance let's call it the good and the bad dilution in the proper manner. And you all know that the technological transformation we have there is a dynamic situation. We believe, and I believe in particular that the crisis has further accelerated, also the changes on the E-Mobility side. Our scenario is intact. But, you know, also coming out of the discussion on the political level on Tuesday, it's obvious that we need to prepare for an accelerated move into E-Mobility and Hybrid and we are prepared for this and we look forward to this. And that also means that we need to protect the traditional core business and see how we best to harvest what we have there. But the move into Sustainability into all the things that I just mentioned is obvious. And I think it's now the time to accelerate. And that's behind this program.

Victoria Greer, Morgan Stanley

Okay. Thank you. And then you have taken in some, you know, some E-Mobility orders this year. And, you know, are you comfortable that you have got the internal resources to fund the ramp up there? And should we just think about any incremental, you know, big orders on the E-Mobility side of possibly needing capital support or might you need some support for the ramp up there of existing orders?

Klaus Rosenfeld

Look, Victoria, this is one of the managerial challenges, if you do a restructuring like this, you need to do it in a balanced manner. You don't want to end up in a restructuring case where every talent says, I don't want to be part of this anymore. And that's why I said this step by step approach over the last years is the right approach. Corinna, our HR director does a lot to in terms of qualification. We have specific programs in place to move engineers from the traditional core business into the new business. And again, those businesses are not completely separate, in particular in the transmission technologies there's a lot of knowhow that we can use for mechatronic systems and so on. So, it's on the one hand, staying attractive as an as a supplier, staying attractive as a technology partner to the customers. And you see, the orders are a good proof of that. But the talent, the qualification, the long-

term view of the company is at least equally important. And I think there so far also compared to others we have managed this quite well. At the moment we get more inquiries to the positive than to the negative.

Victoria Greer, Morgan Stanley

Okay. So in terms of R&D capacity, it sounds like you're quite comfortable in resourcing these existing orders, you know? But also, I guess, you know, we have some cases from some of your competitors where costs have turned out much higher than expected. And also from a Capex perspective, is there a risk that, you know, those kinds of costs, either on the R&D side or on the cash side, could overshoot and then potentially need to come to the market? Or do you think you have enough contingency there?

Klaus Rosenfeld

I think we have a) contingency and b), we have these costs well under control. That also has to do with the diversification of the company. I mentioned overhead and we will clearly also in the overhead strengthen what we have done before. More prioritization and more focus on the right projects and a better cost control that also applies to R&D. There's still potential here. And what we do the wrong thing and not follow certain customer orders that are attractive enough. No, we would definitely not do that. We want to win. And that also means investment into the future. And with the cash flow generation power that the company has and has shown in the past, I think there is a very good base to win that battle.

Kai Müller, Bank of America

Hi. Thank you very much for taking my question. The first one is really coming back. I know you said in your opening statement, you know, you're not using any capital or equity for this restructuring. I'm just trying to square up a few things. So on the one hand, obviously, it's going to cost you on a P&L basis again. So taking your equity ratio lower, which is already hit, I think only 15% as of H1, what is sort of the ratio you're comfortable with? Because I understand when you go ahead with a program that would drop below 10 if you could make a comment on that? And then you mentioned obviously, you know, sources of capital and the question was asked a couple of times earlier when I look just at the last years. You know, most of your free cash flows, you paid out as dividends. What will be the agenda now? Because I'm just trying to square up and how you are continuing to pay these dividends when you have basically 800 million, 700 from this program, plus one hundred million that's still left over to be

paying out. Either should we be expecting lower dividends for a while or what are the other sources of funds if not equity.

Klaus Rosenfeld

Well, let me start again with the second one and then Klaus can jump in and answer the first one as well. As I indicated, I mean, we are in a new environment. And I said we have an interest to maintain our dividend policy. That is a simple range over a net income adjusted net income number. Now we're doing this big restructuring program and we're clearly receptive to the fact that we should not overpay in terms of dividends. But that decision has not been made. It's a function of what the year is going to bring towards the end. And these restructuring costs have to be funded. But they will not be funded by equity. We have done the right things to think strategically, but also from a financial point so far. And we have always said cash flow is needed for growth where growth makes sense. We will free up cash. So the measures that I mentioned and I'm optimistic that we will find a good balance towards the year end under the new circumstances. Equity ratio is, as all of you know, not a key parameter. Yes, it's a little bit under pressure. We have survived times where this was even lower. So it's an important parameter to look at, but not the one that really makes me not sleep at night. More important is our free cash flow generation. And that's intact. I mentioned that, that's the number to look at. Leverage is also compared to competitors. Absolutely okay and liquidity is strong. So that's what we're looking at. And therefore, I think this concern about Schaeffler has to raise equity is something that I would really push back on. That's wrong. The two things have nothing to do with each other. And I explained that at the beginning. Klaus.

Klaus Patzak

I can also say that we you know, we do not need a capital increase because of the restructuring we can finance that. We have still a robust cash position and net debt to EBITDA is still on a level which I think is comparatively good if you if you look at our peers. Obviously, you know, the equity ratio is going down, you know, the specifics will depend also on some tax topics, which we still have to kind of find out. But I think if it would go down into the range of to 10 percent, that would be still good. But, you know, it would be comparatively low as you say compared to peers. In the end how I look at it is the combination; I look at both things. The one is, you know, the balance sheet. The other thing is the net debt to EBITDA and available cash situation. You always find it's basically not both sectors are, you know, kind of side too weak compared to competition. Right. So if just one is kind of a shy of the peers, I think you can compensate through the other lever.

Kai Müller, Bank of America

Okay. And then maybe two follow ups, the one on, can you give us a sense of how much in cash you expect to be freeing up with those disposals of plants? And then the second one, if we really have you on the line, you made a few comments around current trading in the release. Is there any more you can share in terms of the trajectory beginning of September as well beyond August?

Klaus Rosenfeld

I take the first one as I explained this is the initiation of a negotiation process. And if we now put all sorts of numbers up that are based on assumptions, then to be revisited as a result of the negotiation, that would not be right. It just explains the logic behind that, because also here internally, I think it's important to understand that we are not going to leave Germany. We're committed to this country and we will for sure build our activities here but in a leaner and more efficient manner. So please be a little patient here. The more we know and the sooner we get through this negotiation process, we can talk about cash and reallocating cash from areas where we can reduce capacity. In terms of current trading I think I said what I wanted to say, the positive trends in terms of sequential improvement continued in August. August is more or less stable with slight differences in the businesses. China is, maybe to give some color already for the full year above the previous year. My thesis from last time that, you know, two or three will be rather a strong months is, I think, supported by what we're seeing here. But don't forget, there's a fourth quarter that we need to deal with. We're seeing some headwinds here also with the developments in the European markets. So let's be rather cautious in going forward. I will give you guidance then in November. The most important thing is that now this is out and that this will be executed and implemented properly and with the necessary speed.

Kai Müller, Bank of America

Fantastic. Thank you very much.

Andre Kukhnin, Credit Suisse

Hello. Thanks for taking my question. I wanted to ask about the pricing environment in terms of what you're seeing right now across your major verticals and maybe a rebirth of aftermarket. And also, what kind of pricing environment do you envisage over the next 18, 24 months as we think about the retention ratio of those savings that you announced today? Thank you.

Klaus Rosenfeld

That's a very good question, to be honest. There's not much change to what we said last time. There is. It's a competitive environment. It was where we always have to prove that our product is better than others, it is not only price, it is also quality, it's long term cooperation, it's the whole question of innovation; as it's become more difficult, I think the answer is no. Is it still something where we have our focus on operational improvements, in particular the gross profit side? Yes, but nothing new to report here since our last call. So I would like to leave it with this, to be honest. We had our hands full with this restructuring at the moment. Happy to follow up on that point, Renata, with more details if you want.

Henning Cosman, HSBC

Yes, thank you. Just because we have some more time. I wanted to ask you about the composition of the 700 million again, not to make this too much about the number, it's helpful to hold you to a specific number. But because you've also shown the head count reduction compared to 2018. And I appreciate that you said the cost now is to be seen vis a vis the growth measures, including relocation also staff, not just in headcount cut. And also appreciate it is quite difficult to reconcile all the measures having contributed to the 8000 headcount cut as compared to 2018. But is it completely wrong to think it's getting a bit more expensive as you consider the cost per head count and also the cost relative to the saving? Might that somehow imply that it's getting more difficult to find additional areas to cut costs? Or would you disagree with that?

Klaus Patzak

Well, you know, first of all, I would say we have to differentiate between, you know, relocation topics, right. And e.g. the overhead restructuring. If you look at the overhead restructuring, you know, there is no material change in the cost per headcount. Right. And this brings also a pretty fast payback. Right. And the payback, we assumed is similar to what has been assumed this Jupiter. Right. However, if you if you consolidate to move, you know, jobs to different locations, lower cost locations, then obviously the payback is slower and comes later. Right. And probably that's the difference if you compare it with the past, this time is much more kind of relocation and consolidation in the numbers. But I would not see that in general it's getting, you know, more expensive. Keep in mind what they said about this gross and net numbers of headcount. I think you have to do the calculation with regard to cost per headcount more on the on the gross number rather than the net number.

Klaus Rosenfeld

And maybe Henning, to add one sentence here. This is only not one dimensional in a sense. One of the most important parameters in executing these programs is time and time here is a function of being able to agree in a partnership format with workers council and the trade unions. And we have experience on that, how to do this, but to balance it off. It's exactly right what Klaus said. But we now want to get this organized. We want to get this negotiated. And we want to get it executed.

Operator

Thank you. And as there are no further questions at this time I hand back to the speakers for the closing comments.

Klaus Rosenfeld

Okay, then, ladies and gentlemen, thanks for joining and once again a remark on 10 November, you're all invited again to our next conference call. And on the 18 November, we will have our first joint capital markets. They will now start preparation on that immediately and look forward to having, as most of you as possible in that virtual events. Thanks for listening and thanks for your comments and for your remarks.