COMMENTED SLIDES / CONFERENCE CALL RESULTS Q2 AND H1 2020

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Results Q2 and H1 2020 Schaeffler AG

Conference Call
Aug 4, 2020
Herzogenaurach

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Company Representatives

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Dr. Klaus Patzak, CFO
Renata Casaro, Head of Investor Relations

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Akshat Kacker, *JP Morgan Chase*
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Henning Cosman, *HSBC*
Kai Mueller, *BofA Merrill Lynch*
Sabrina Reeh, *UBS*
Sascha Gommel, *Jefferies*
Stephanie Ann Vincent, *JP Morgan*

Operator

Dear ladies and gentlemen, welcome to the Group H1 2020 Results Conference Call of Schaeffler Group. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions.

At our reserved customer's request, 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 Casaro, who will lead you through this conference. Please go ahead, madam.

Renata Casaro

Thank you very much, operator. Dear analysts, dear investors. Thank you very much in this busy day for your time. Mr. Rosenfeld, CEO of the Schaeffler Group; together with Mr. Patzak, our new CFO, will lead you through the second quarter 2020 results. Please take a second to consider our disclaimer because, for sure, our forward-looking statements also include a number of factors and uncertainties, which are definitely beyond our control.

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

Klaus Rosenfeld

Renata, thank you very much. Ladies and gentlemen, good morning to you, and welcome to our conference call for the second quarter. It's my pleasure to start by introducing Dr. Klaus Patzak to you.

You all heard the news that he joined Schaeffler 1st of August, so he's on board now for one day, and we have clearly an opportunity now to introduce him to you.

I hand over to you, Klaus, for some words of introduction.

Klaus Patzak

Yes. Thank you. I'm happy to be here on the phone with you and some of you I know obviously from my past, others I hope to get in touch with as soon as possible. It's still too early after one day to tell you something about the company. What I can do is that I briefly touch on what is important for me in general, what was important in my past career for me.

And the first thing is that in the next couple of weeks, I will try to understand and listen. There are three main topics I want to focus on in that respect. The first one is clear responsibilities and accountability. Second one is sources and use of cash. And the third one is strengths and weaknesses of the portfolio.

After having a grip on that one with regard to understanding these things, I typically focus on improving the performance culture together with my colleagues. And what I mean with performance culture that is clear targets, quick and decisive decision-making, measurable results and then clear consequences. I also believe in productivity measures, which I can find in the P&L. And I'm a big believer in focusing a lot of internal discussions on forecast and forecast quality instead of just only looking back into the actuals.

The third topic, which is to my heart is resource and capital allocation. I believe that rigid decisions here are important to bring the company forward. In general, I believe it makes a lot of sense to strengthen the strengths. And the strengths are typically areas where the company has good technical competencies and what I call right to win.

Then finally, that would be the fourth topic. I'm a believer in sharing the results, of course, with the owners. That's total shareholder return, which matters, but also to society and to the team, obviously.

Why I have joined Schaeffler, that might be also something which is relevant. I think it's here 4 points. First one, I think it's, for me, a quite interesting combination of a stock-listed company and a family-owned business. Second is it's an interesting portfolio, specifically in these times where you have Automotive together with Industrial business, I think that can nicely pay off this balance. Third one is that I like to work for companies in transformational times because I believe this is opening opportunities for change, and I regard change as positive as prerequisite for improvement. And fourth, obviously, I have talked to quite some people here, future colleagues and other major players within the company and got to know them. And for my perspective, these are not only good individuals, competent individuals focusing also on quality work, but also a functional team. And that is what I believe a good prerequisite for not only success, but also fun working for that company.

With that, I'll give it back to you, Klaus.

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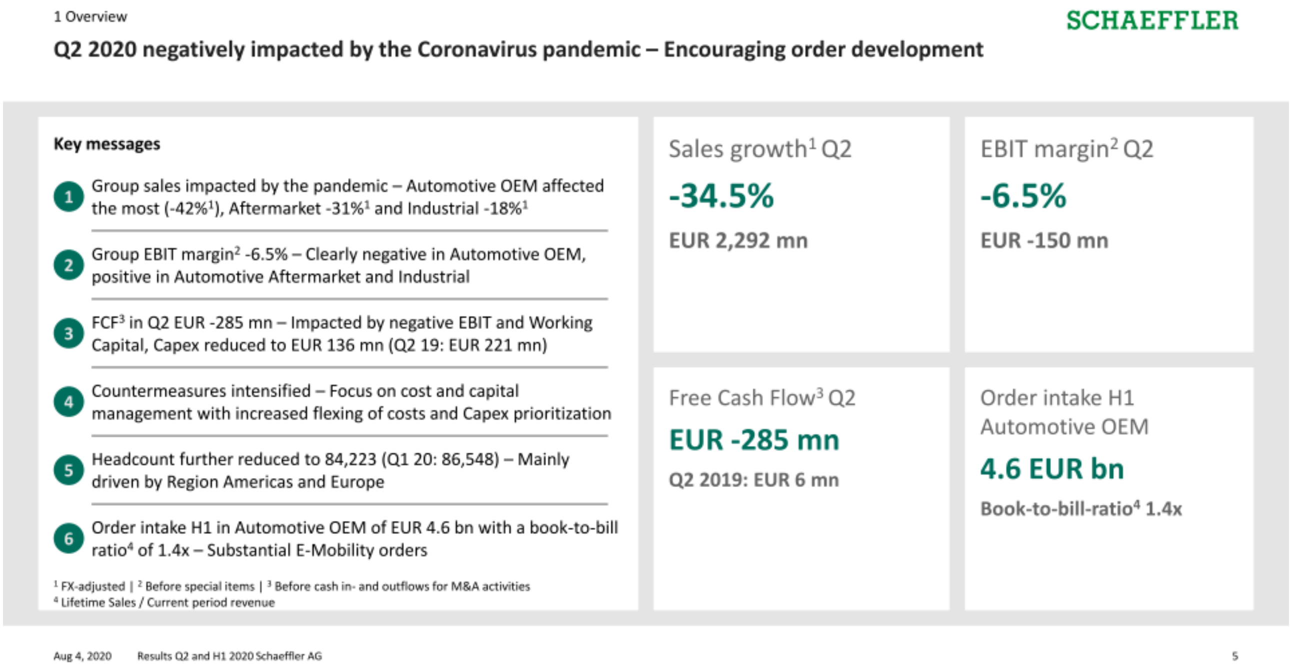
Agenda



Klaus Rosenfeld

Thank you, Klaus. I trust that all of you will have a chance as soon as possible to meet Klaus. And I'm really glad that he is now on board and that he will help us to steer the company forward.

Now, let me go to page number 5 to give you the summary on the quarter. You have all seen the presentation upfront and I will just put some color to it. Clearly, the quarter was exceptional in terms of the downturn we experienced as part of the corona pandemic. If you look at the top line, you saw that Automotive OEM was affected the most with minus 42%, Aftermarket slightly less, 31%, and Industrial was minus 18% in the quarter. That led to minus 35% sales growth and a top line in the quarter of EUR 2.3 billion. If you judge that, I think we can say in the half year with 22% sales drop, that is in this environment a number that from our point of view shows that we have coped quite well with this crisis. I can also say upfront that we saw in the second quarter months by months, an improvement in the top line, months of April down minus 50% compared to previous year months, May 39%, June now minus 13%, and for July, we'll come back to this later on, there is even a further improvement. So we already noticed that the trough should be achieved and that we are moving in the right direction.

EBIT margin in the quarter, minus 6.5% or EUR 150 million before special items. Also here I would like to make one reference to the half year, if you look at the half year, it's still a positive number with EUR 65 million for the full group. That clearly shows that our measures have been successful in countering the negative impact from the volume-driven downturn.

It also shows one thing very clear. It's positive for us that we are not Automotive OEM only, but that we have the two other divisions. This has never become more clear than in the second quarter, both Automotive Aftermarket and Industrial with positive results in the second quarter in every months and clearly with an improving trend, I think is a clear achievement and shows that the diversification embedded in our business model pays off.

Third bullet point, free cash flow. Also here, I think we can say we successfully managed our cash resources in a proactive manner. If you take the EUR 285 million for the second quarter, that's clearly a negative free cash flow. But for the first half, if you add this together, you come to minus EUR 148 million and that is even better than the previous year. So it shows that we have, I think, managed quite well the drivers that are under our control, in particular Capex but also working capital.

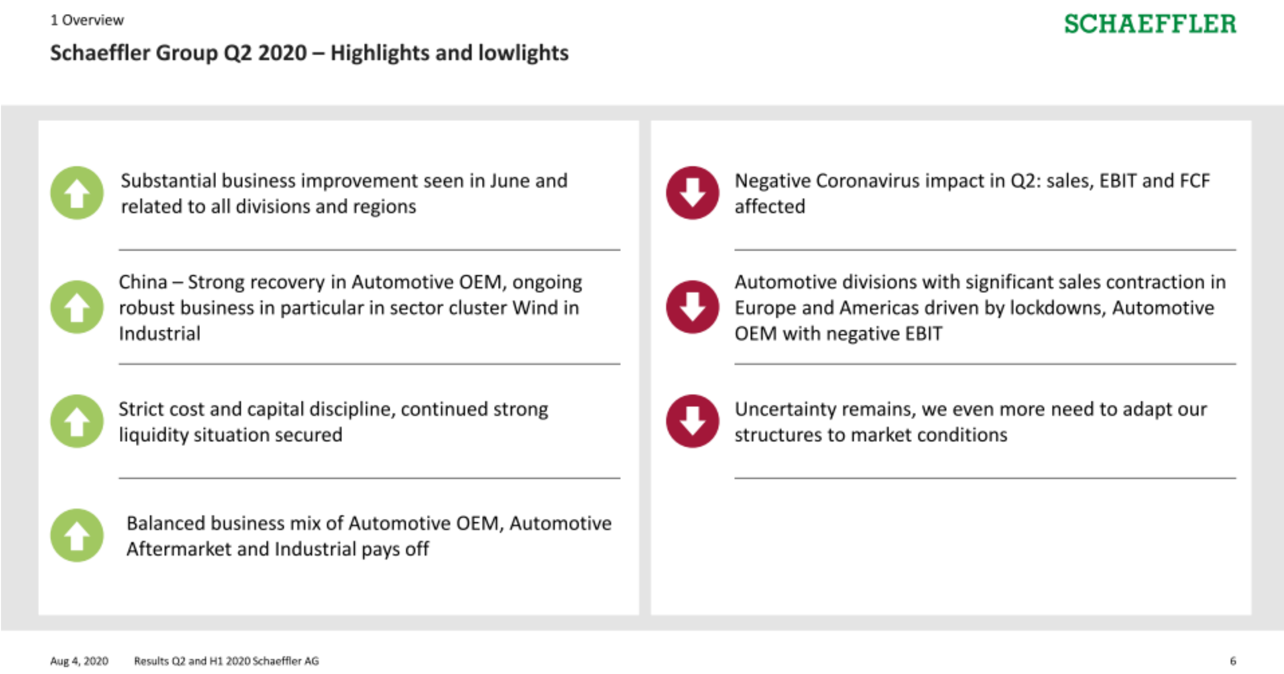
I would like to say already at this juncture that crisis is not over, we need to be cautious while we are carefully optimistic for the rest of the year. And, therefore, it is important that our countermeasure stay in place and that we still remain focused on cost and capital management with a continued flexing of our cost base, a very strict working capital management when it comes to inventories, and also strict Capex prioritization.

Number five, headcount is further down. We are clearly benefiting from the programs we have put in place. End of last year, you remember, JUPITER that was increased 3,500 jobs less than at the end of last year, I think, shows that the continuous improvement is continuing and it's good to see that this is not only driven by Americas, but also by Europe, so we feel quite in that respect.

Does that mean that we are not going to put something additional into place? That's not the case. The fact that we are announcing nothing today in addition doesn't mean that we are not working and carefully considering structural additional measures in particular as our countermeasures are more of a temporary nature.

Then let me finish this first page by one key aspect regarding the business development. We already said this in the last quarter. It's in these troubled times important not only to manage the crisis, but also to look forward. And in doing so, we see significant opportunities for us both on the E-Mobility side, but also in the Industrial space. Think about the Wind business or the Rail business, and I'm proud to report here that it was --that we gained success in a significant order intake in the second quarter for a premier OEM with a prestigious order for a 3 in 1 E-Axle that really drives us forward and will help us to build the E-Mobility business going forward.

As I said, ladies and gentlemen, we remain cautiously optimistic, but still cautious and that's also one of the reasons why we decided not to give you and share with you any more precise guidance at this point in time. It's important to wait for July and August and understand how the third quarter will develop and we will then reevaluate and decide whether we stay the course with this more qualitative guidance for the rest of the year or whether we come out with something that is more quantitative. But at this moment in time, it's from our point of view prudent to stay with our existing guidance.



Quickly on page 6, I already mentioned some of these points and I will do them quickly. Substantial business improvement in June, continuing in July. I think that's on the positive.

China is clearly one of the driving forces in the beginning recovery. We saw for the first half, 3% plus top line compared to the previous year, what speaks for itself. It's driven in the quarter both by automotive, who had a very strong June, but also by the continuous growth in the Wind business.

The strict cost and capital discipline that I mentioned, the liquidity situation is strong. We have abstained from any bigger refinancings. We think that with what we have with our available liquidity, we are very well prepared. Mr. Schreiber issued a little bit more of Schuldscheindarlehen. But with the situation we have today we feel that we are in a very comfortable situation.

I talked about the diversification. Let me go through the negatives. It's obviously it was a difficult quarter – Sales, EBIT, FCF all affected and clearly the Automotive OEM division saw sales contraction during the lockdown period and has produced negative EBIT. Going back to the measures, as I said, the temporary measures are paying off. The uncertainty remains and it's obvious to us that we even more need to adapt our structures to market positions. There is room for improvement. As you know, we have adopted this policy of step by step. And as I said, we are -- as Klaus has just joined, again, looking at what kind of structural options we will have. As soon as we are ready with this, we'll share that with you, but at the moment it's too early to give more details.

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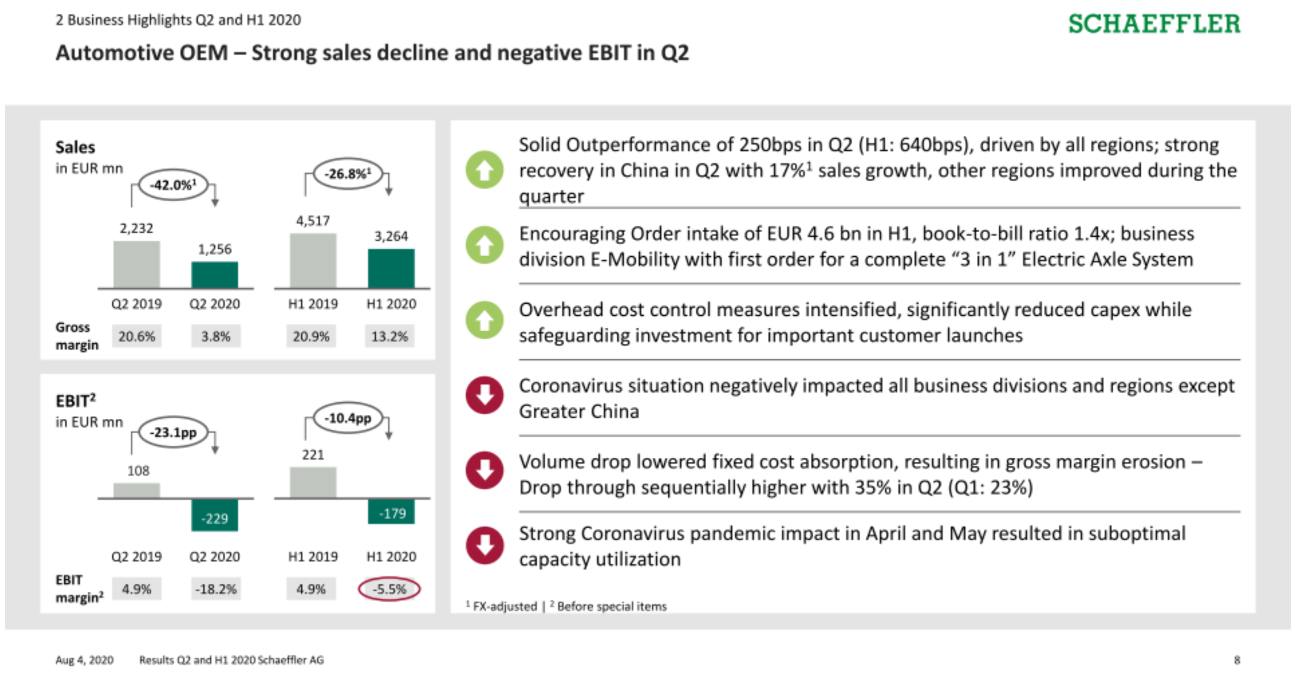
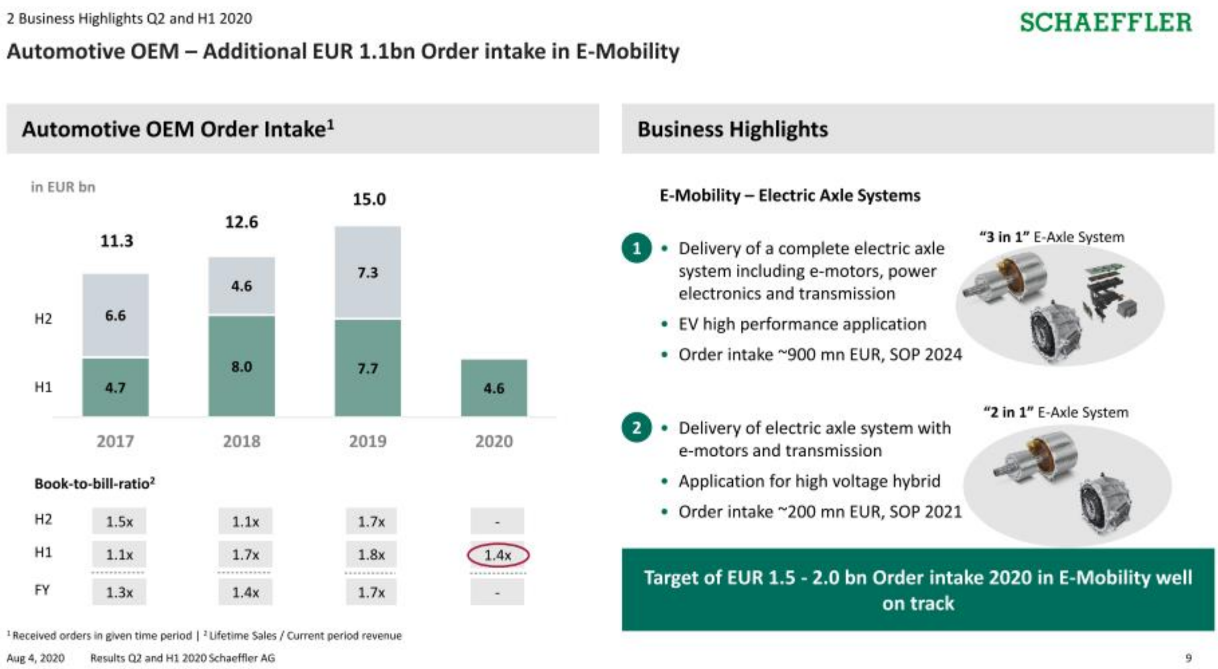
Agenda



Then please go to page number 8, Automotive OEM. I think I already mentioned some of the key points. Solid outperformance in Q2, 250 basis points. We all know that a quarter doesn't really determine outperformance. So if you take the first half with 640 basis points after a strong Q1, I think we are on the right track, it confirms that even in these troubled times, it's possible to outperform the market and Matthias, we all know, just confirmed in the morning that it looks like that both in China, but also in the US, we sit at the moment at exactly the right platforms and that helps us to outgrow the market.

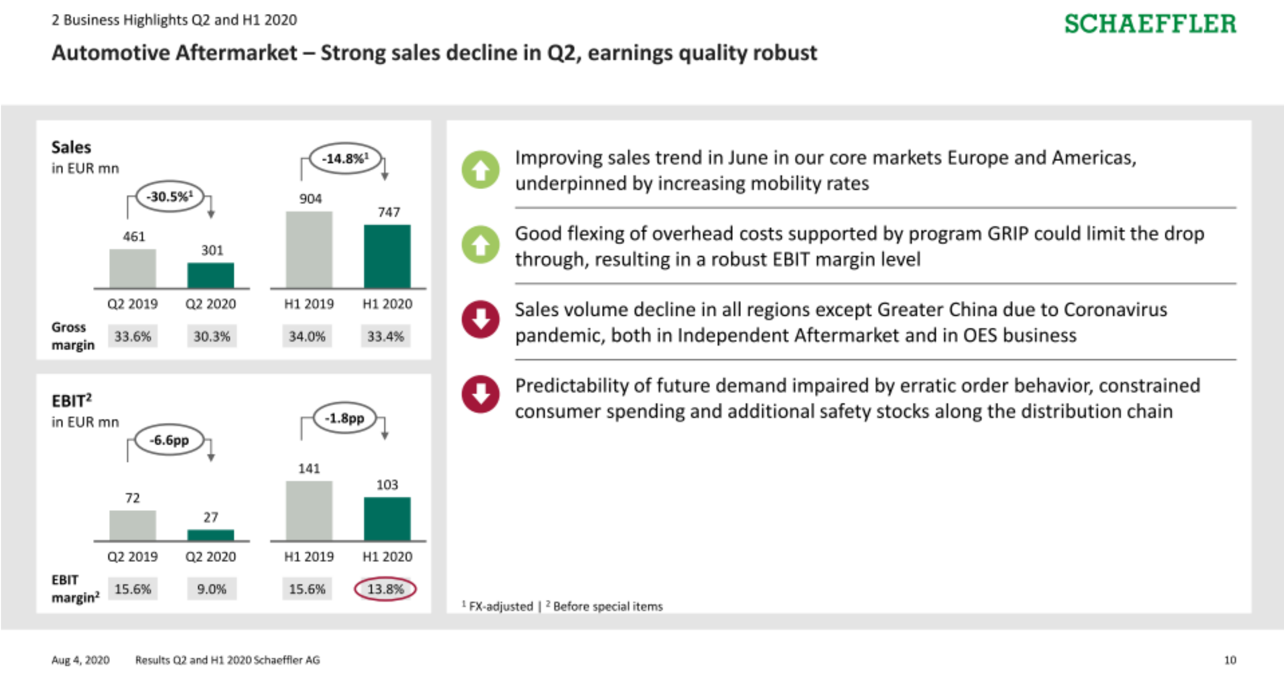
The order intake, I mentioned, and also in particular cost control is important. Without overdoing it, we need to stay the course when it comes to new business. And here the success is in particularly on the working capital, but also being more selective on Capex. We will come to this later on.

I think all the other things I have already mentioned. The one number that you should also take from this page is a drop-through rate. It's sequentially higher than in the first quarter. That's I think not a surprise to you, the 35% for Q2 is a number that we more or less expected and it's now very important to make sure that in the next quarters we further improve that number and stay the course with our cost flexing measures.



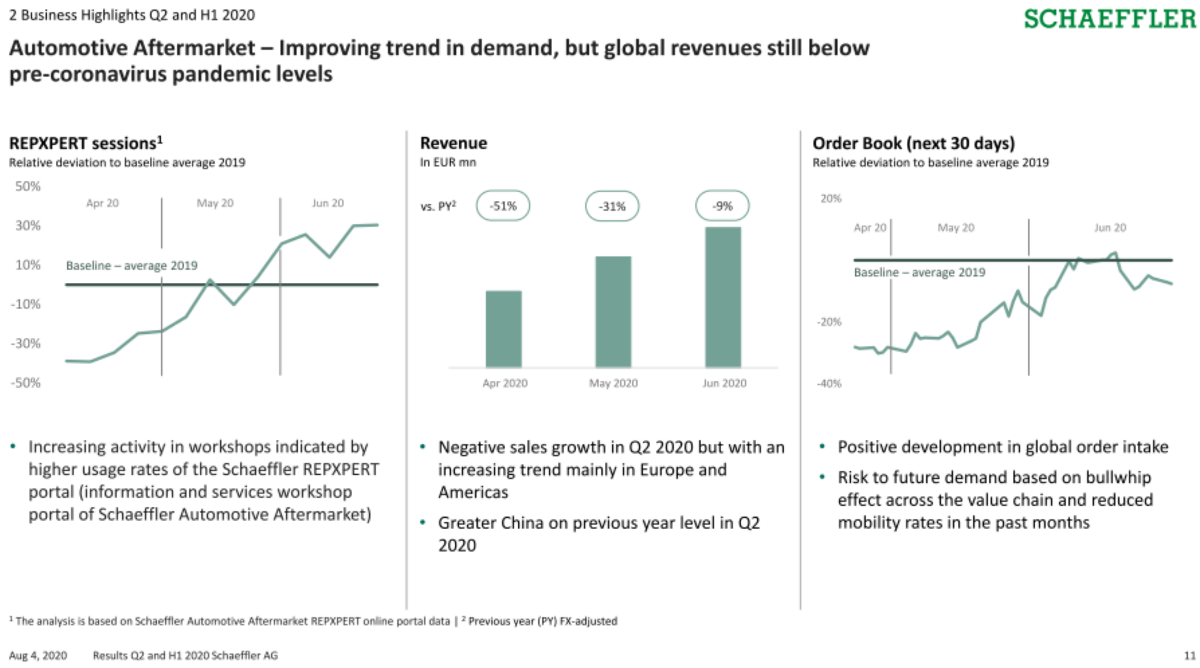
Number 9 is on the order intake, I think I've said what I wanted to say -- 1.4 times book-to-bill in this environment is, from my point of view, an achievement. Here, the two important products and orders that we gained. The first one is 3 in 1 E-Axle system. It's an order intake of around EUR 900 million SOP in 2024, a premier player for us with a product that will clearly make a big difference and compete with the Tesla's. For us, it's a prestigious order, because we do for the first time an E-Axle in complete. That means 3 in 1 from the mechanical to the E-Motor up to the power electronics and then there is another one, a smaller order, but equally important, an E-Axle system with E-Motor and transmission and with a high voltage hybrid solution.

I think all of this shows that the colleagues and teams around Jochen Schroeder have continued to perform. And our key USPs, in particular the systems understanding, the integration know-how, all of this is much more rewarded by customers. So we really feel well that with the E-Mobility division, we are on track and also benefit from the growth trends that come in a post-corona environment.



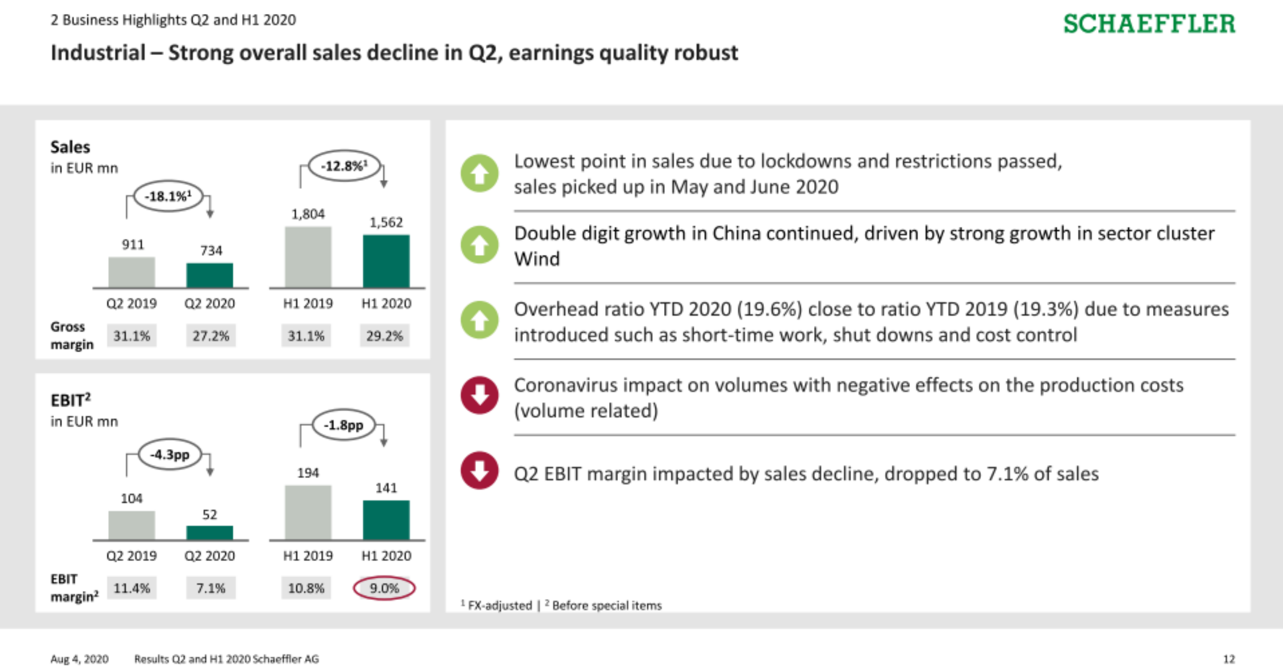
Aftermarket, page number 10. Sales improved quite a bit in June and it looks like that July is also continuing. Key drivers are the mobility rates and the mobility behavior after lockdown, this is driving the business.

With our REPXPERT, we are clearly seeing that there is a positive trend also, driven by digitalization and digital offerings. The flexing of the overhead was strong here in this division when it comes to sales cost, still you all know that volumes were suffering and the predictability of this business clearly is something that needs to be further improved.



Page 11 gives you some of the drivers. I think I can leave that for your reading. We have improved this a little bit. You also see for the first time an order book for the next 30 days.

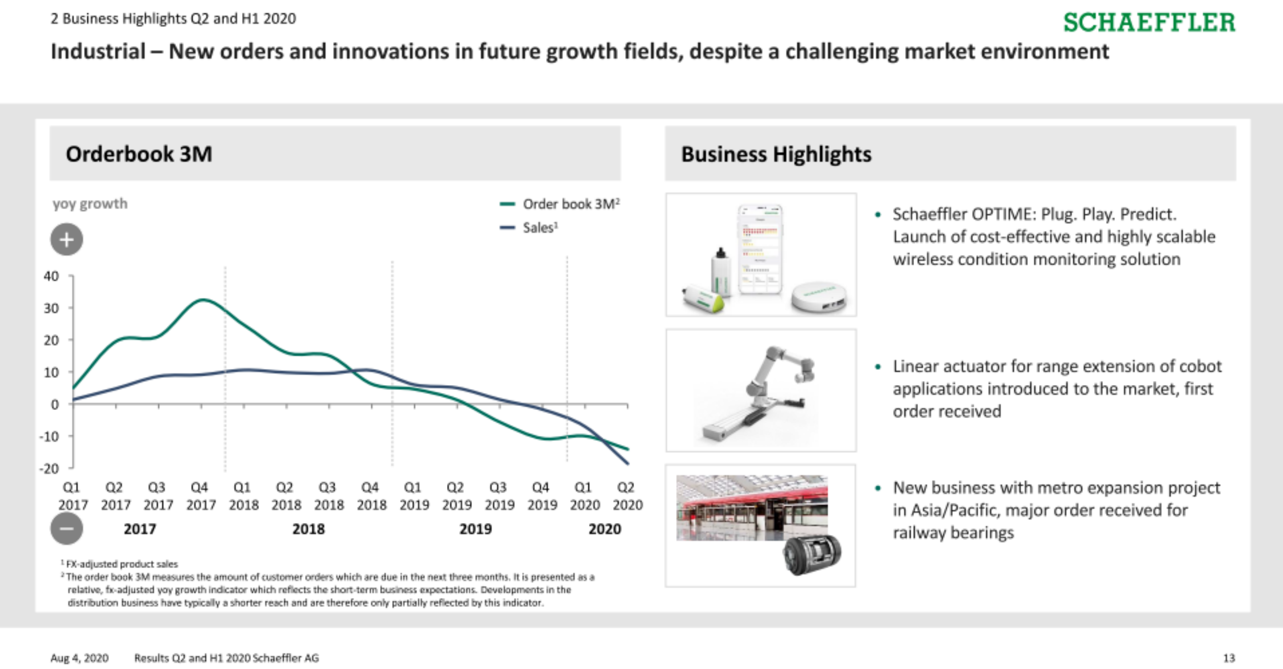
That is by nature of this shorter period a little bit volatile. What I can say is that, the positive trend you see from the first chart continues in July and we hope and we are carefully optimistic that that will also help us to drive profitability in that division for the rest of the year.



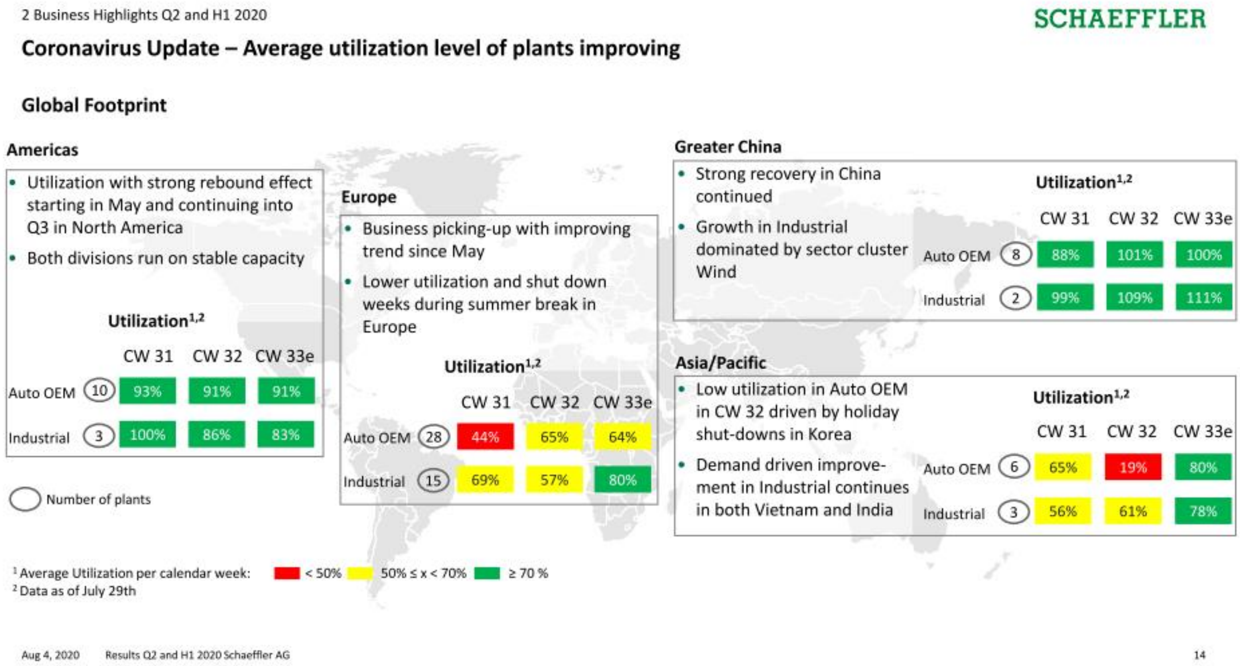
Number 12 is then Industrial.

I said it and it's also circled here in red on page number, 9% margin in this environment for the first half I think speaks for itself. Here we are benefiting from all the hard work from the past and clearly the exceptional growth in the sector cluster Wind helps us quite a bit. If you look here at the overhead ratios, year-to-date 2020, 19.6%, close to what we had year-to-date 2019 also tells you that the measures are successful and have clearly helped to stabilize the overall margin.

However, it would be wrong to indicate that the Industrial division is not also negatively impacted by the overall environment and we will need to wait what the rest of the year will bring. The environment should not be interpreted in a way that the crisis is over, in particularly on the Industrial side. Things will take a little longer to go back to the pre-crisis level.



In terms of business development here, as you know, the order book chart, I just want to highlight three business development areas. On the one hand, we launched a new product, Schaeffler OPTIME. It's a very interesting cost-effective wireless condition monitoring solution that gets a lot of positive attention. We are active in the robotics space and you all know that Rail is one of our areas that are -- that is important to us and also something that we see positive as part of the post-corona analysis.



Let me go to Page 14.

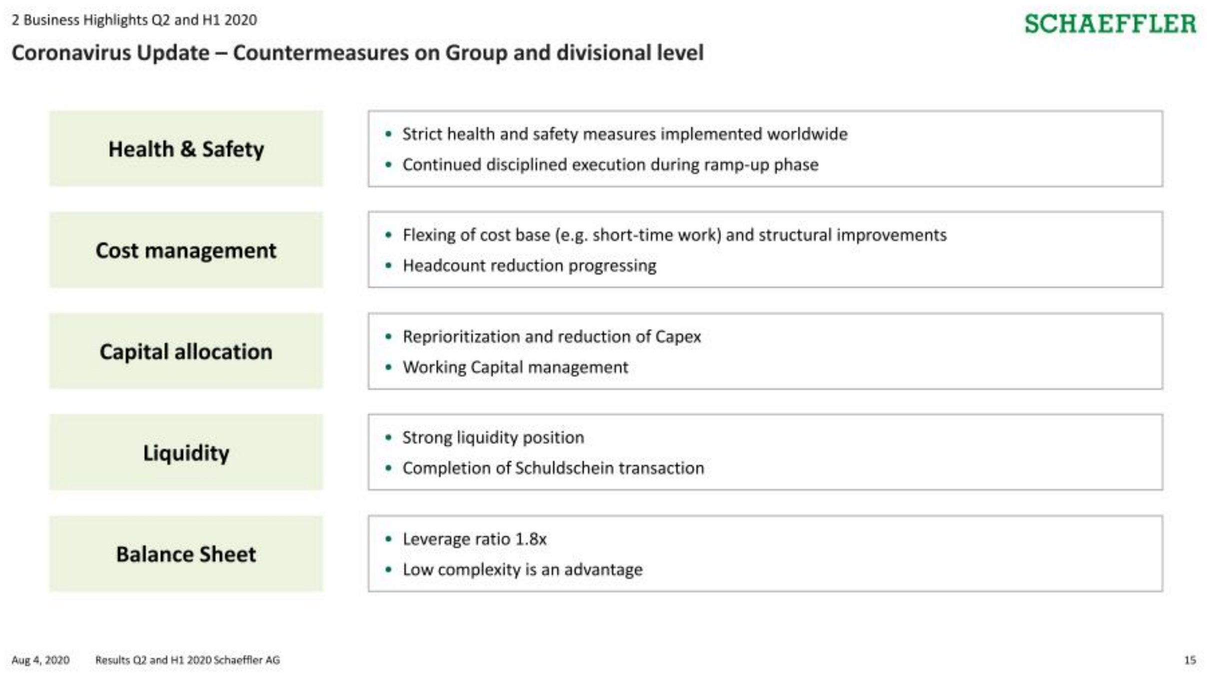
A page that we shared now for the second time with you. It's a page with the utilization of our plants in the different regions. And you see here that starting with China, the recovery in China continued. We are back to 100% or expecting 100% also for the next week to come, and Industrial even above 100% compared to our budget. So that's really back on track.

What is also visible from this chart is that Americas has seen a strong rebound starting in May. And what we see from call offs, in particular, from our big Automotive OEMs is that, that trend continues. The public impression that you get from the crisis management there may not be in sync with this, but the business development here indicates that Q3 will continue to normalize. And both divisions are running here more or less on stable capacity.

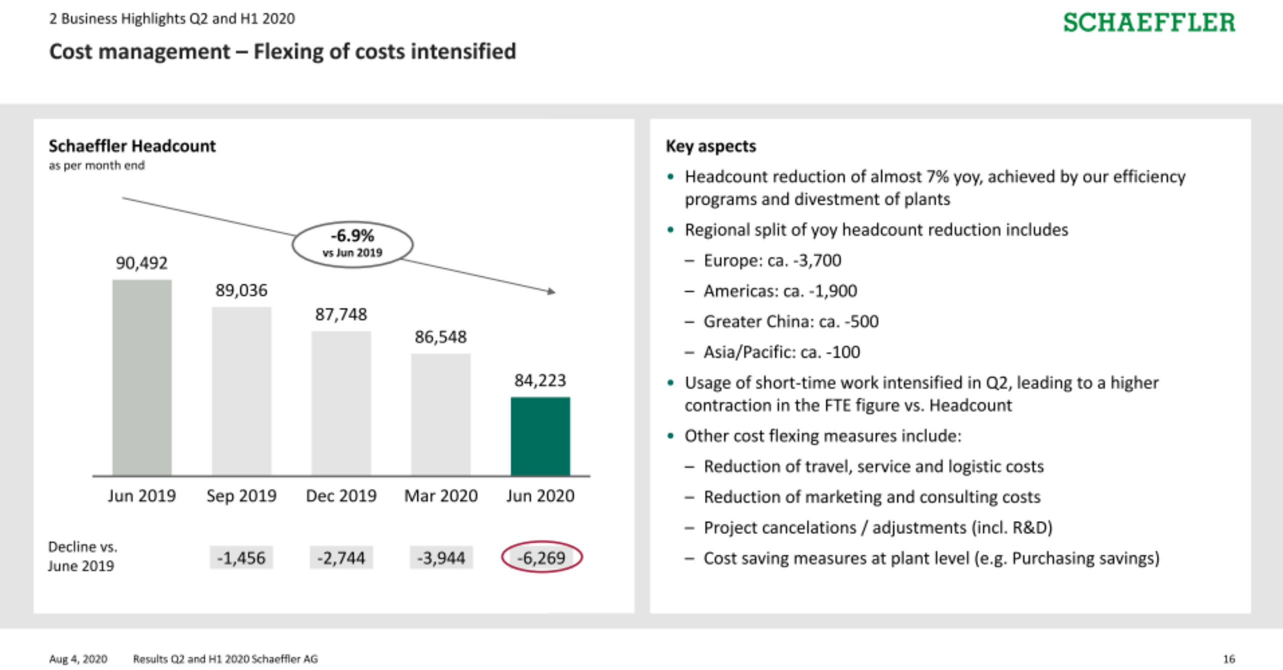
And Europe, it's a little bit more mixed. We also see that in the summer break, people are using the holidays for some shutdown days. But also when you look at the 3 weeks here, there's definitely a positive trend.

And in Asia Pacific, where the crisis is still developing, in particular in India. We have a similar picture, holidays in Korea, a more difficult situation in Vietnam and India. But also there in calendar week 33, everything going back to normal.

So this page indicates, again, the crisis is not over. We need to manage carefully and with a strong focus on our resources. But there is a trend that continues from the right direction.



Page 15 is the page that you recall. I don't want to go into too much detail here. This is the structure of our measures. And I think I mentioned most of the aspects already. For us, it's important that we stay the course here and continue with these tactical measures, while at the same time, looking at further structural improvement opportunities.



Page 16, I think, shows that we delivered what we promised. Schaeffler headcount is continuously coming down. 6,270 people below end of June '19 or 3,500 since end of the year. That's something where we are now harvesting the fruits from the efforts in the last years. It goes together with all the other flexing measures that you know, and that I'm not going to repeat on this page.

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Capital allocation – Prioritization and differentiated steering resulting in Capex ratio[2] of 5.4% in H1

Investment[1] allocation | in EUR mn

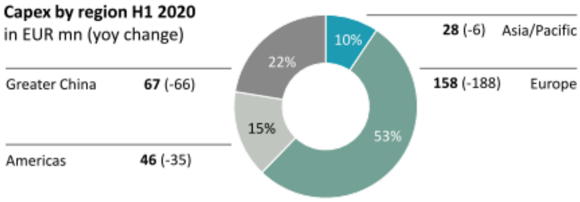
	FY 18	FY 19	Q2 19	Q2 20	H1 20
Automotive OEM	1,049	702	167	76	164
Automotive Aftermarket	56	68	-2	1	2
Industrial	170	163	41	53	122
Schaeffler Group	**1,275**	**933**	**205**	**130**	**288**
Capex	**1,232**	**1,045**	**221**	**136**	**300**
Capex ratio[2]	**8.7%**	**7.2%**	**6.1%**	**5.9%**	**5.4%**

[1] Additions to intangible assets and property, plant and equipment | [2] Capex in % of sales

Key aspects

- Capex in FY 2020 reprioritized and to be reduced by at least one third compared to previous year
- Capex prioritization properly balanced among divisions
- Throughout H1 we continue to invest in E-Mobility, sector cluster Wind, AKO and Sustainability projects

Capex by region H1 2020
in EUR mn (yoy change)



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Then capital allocation and Capex, next page, page number 17. We are quite proud here that our measures have proven to be successful. You remember in the first quarter report, we said it should be indicated -- should be around somewhere EUR 650 million, a-third down compared to the previous year and that's definitely possible with EUR 300 million Capex in H1.

Our new capital allocation logic that we introduced last year, focusing more on the reinvestment rate is paying off and you clearly see when you go into detail of that in those areas where we want to harvest in particular, the traditional combustion engine-driven businesses, reinvestments rates are much lower than Industrial. In Industrial, it's above 1, and in these areas it's even below 0.5. So I think we also, here, are on track without overdoing it, because Capex is at the end of the day the lifeblood of the business. But we can, also for the rest of the year, stay with these levels of Capex ratio that you are seeing.

Let me go through -- stop here and go now to page number -- to chapter number three.

Agenda

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3 Financial Results Q2 and H1 2020

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Key figures Q2 and H1 2020

in EUR mn		Q2 2019	Q2 2020	Q2 2020 vs. Q2 2019	H1 2019	H1 2020	H1 2020 vs. H1 2019
Sales	1	3,604	2,292	-36.4% / -34.5%[1]	7,226	5,574	-22.9% / -21.8%[1]
Gross Profit	2	899	339	-560 mn	1,813	1,138	-675 mn
Gross Margin		*25.0%*	*14.8%*	-10.2pp	*25.1%*	*20.4%*	-4.7pp
EBIT[2]	3	284	-150	-434 mn	556	65	-491 mn
EBIT Margin[2]		*7.9%*	*-6.5%*	*-14.4pp*	*7.7%*	*1.2%*	*-6.5pp*
Net income[3]	4	136	-168	-304 mn	273	-353	-626 mn
EPS[4] **(in EUR)**		0.21	-0.25	-0.46	0.42	-0.52	-0.94
Schaeffler Value Added[5]	4	289	-89	-378 mn	289	-89	-378 mn
ROCE[6]		13.4%	7.9%	-5.5pp	13.4%	7.9%	-5.5pp
Free Cash Flow[7]	5	6	-285	-291 mn	-229	-148	+81 mn
Capex	6	221	136	-85 mn	594	300	-294 mn
Net financial debt	7	3,167	3,002	-165 mn	3,167	3,002	-165 mn
Leverage ratio[8]		1.6x	1.8x	+0.2x	1.6x	1.8x	+0.2x
Headcount		90,492	84,223	-6.9%	90,492	84,223	-6.9%

[1] FX-adjusted | [2] Before special items | [3] Attributable to shareholders of the parent company | [4] Earnings per common non-voting share | [5] Defined as EBIT before special items LTM minus Cost of Capital (2019: 10% × Ø Capital Employed; 2020: 9% × Ø Capital Employed) | [6] Before special items, LTM | [7] Before cash in-and outflows for M&A activities | [8] Net financial debt to EBITDA ratio before special items

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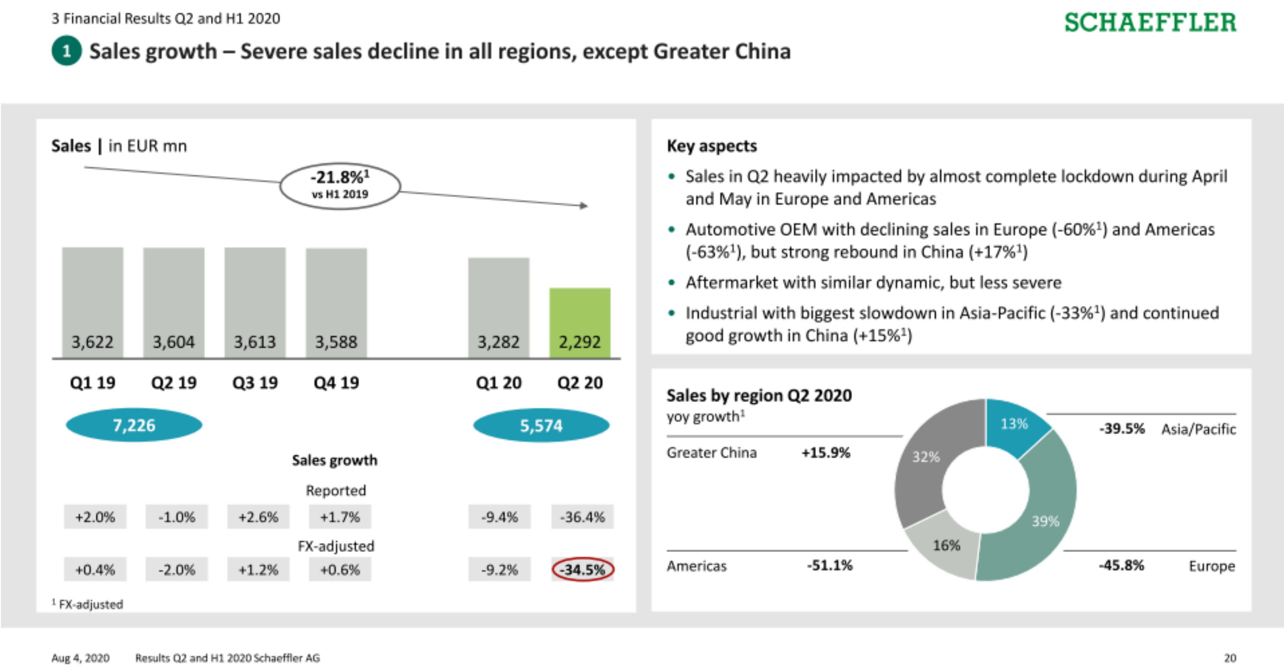
This is normally the page that Dietmar has explained to you, page 19. And as Klaus is here only for one day, we thought it's appropriate that I'd quickly continue with some of the details. In future, it's self understood that he will present the financial details.



Page 20, not much to add here. You see when you look at the chart of the right-handbottom side, sales by region. China in the second quarter, plus 16%. I think that also explains the -- what I said before and if you break this into pieces, it's not only Wind, it's also a very strong development in Aftermarket -- in Automotive OEM in June and in May. So China is really back and that drives our top line, but also the other regions are improving. As I said, in particular also the region Americas.

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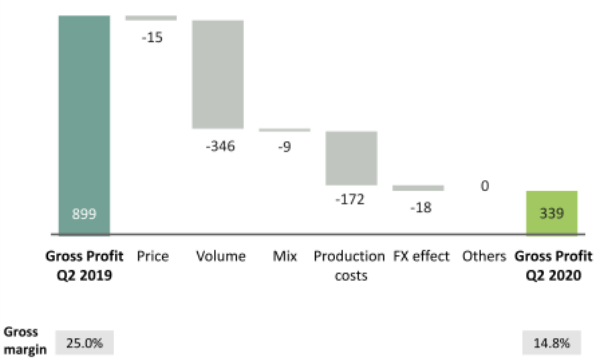
2 Gross Profit – Severe volume losses could not be compensated by cost flexing

Gross Profit Q2 2019 vs. Q2 2020 | in EUR mn



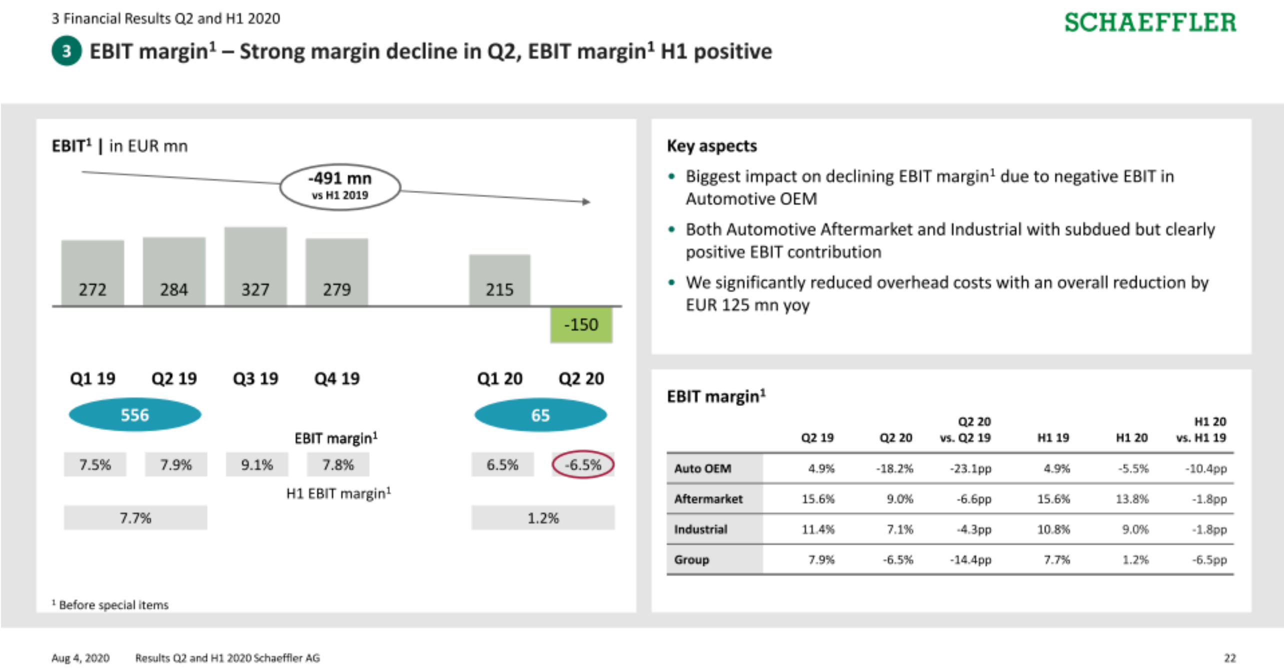
Key aspects

- Normal negative price effect in Automotive OEM, Industrial still with positive price momentum, but less material
- Negative volume effects across all divisions representing major impact on Gross Profit development
- Cost flexing measures could not fully compensate the negative volume related production cost development, especially in Automotive OEM

Gross Margin

in % of sales	Q2 19	Q2 20	Q2 20 vs. Q2 19	H1 19	H1 20	H1 20 vs. H1 19
Auto OEM	20.6%	3.8%	-16.8pp	20.9%	13.2%	-7.7pp
Aftermarket	33.6%	30.3%	-3.3pp	34.0%	33.4%	-0.6pp
Industrial	31.1%	27.2%	-3.9pp	31.1%	29.2%	-1.9pp
Group	25.0%	14.8%	-10.2pp	25.1%	20.4%	-4.7pp

Gross profit earnings quality, page 21. Only one word here. You see that the bulk of the reduction comes from volume and to some extent from production cost. If you go to the little table, you also see how well Aftermarket and Industrial cope with the reductions and there is clearly more work to be done on Automotive OEM.



EBIT margin, page 22, I've already mentioned here, let's look at the half year as well and EUR 65 million in such an environment for the half year is from my point of view a remarkable achievement. I also want to point out here, the hard work on overhead. If you compare the reduction year-over-year, it's EUR 125 million less, clearly not possible to flex 100%, but the overhead ratio in this environment is below 20%, more towards 18.5% and that's clearly the right direction also for the second half.

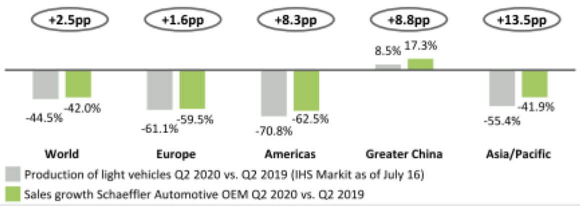
SCHAEFFLER

Automotive OEM – Outperformance achieved in all regions, negative EBIT

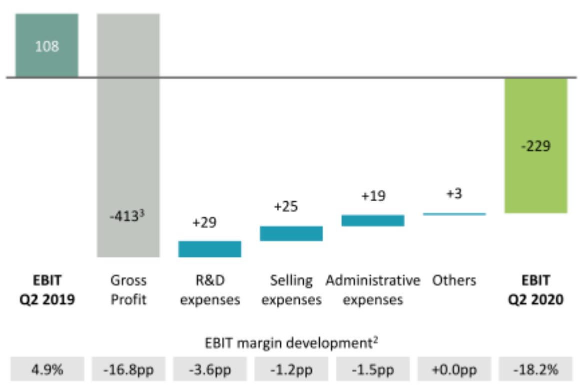
Sales by business division | yoy growth

	Q2 2019	Q2 2020	Δ[1]
E-Mobility	159	128	-18.8%
Engine Systems	689	384	-43.6%
Transmission Systems	987	548	-43.1%
Chassis Systems	397	196	-49.1%
Total	2,232	1,256	-42.0%

Outperformance: Sales[1] vs. market development in Q2

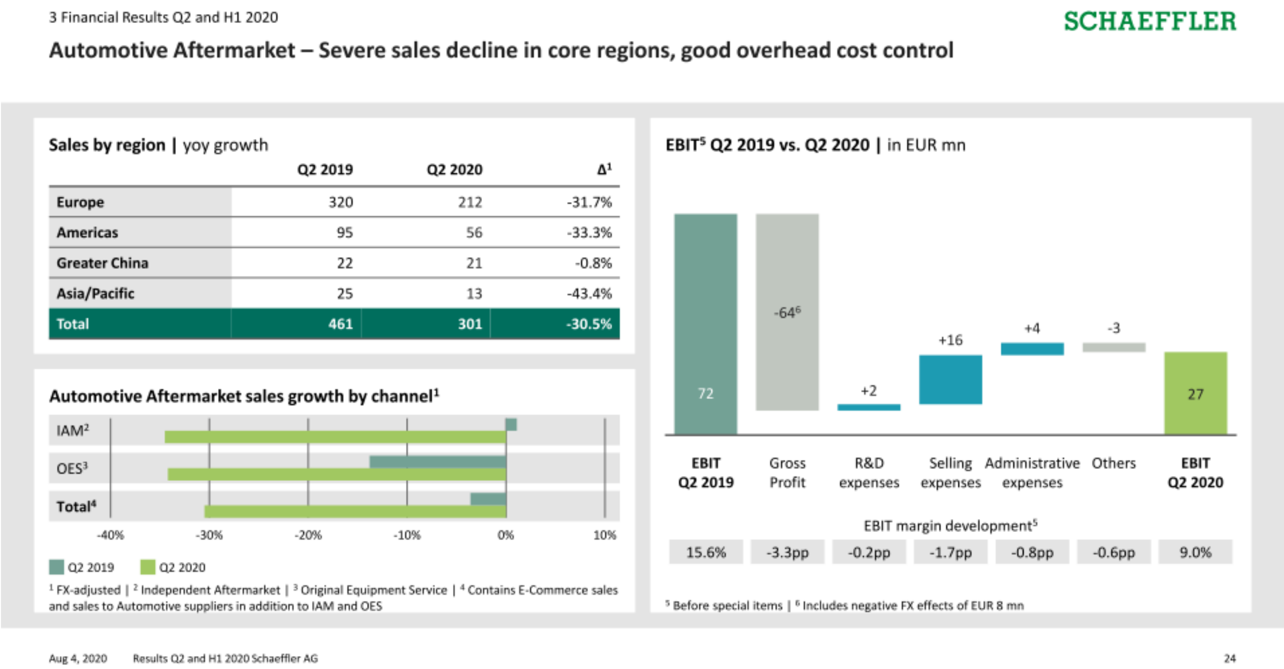


EBIT[2] Q2 2019 vs. Q2 2020 | in EUR mn



[1] FX-adjusted | [2] Before special items | [3] Includes negative FX effects of EUR 6 mn

23 is a little bit more detail on Automotive sales by division. You see here, E-Mobility clearly also slightly impacted, but not as strong as the three others. That's a function of the buildup situation. On the outperformance, I already said, let's not extrapolate a quarter. The 6% for the half year outperformance is the right number to look at and we hope that going forward we will stay within the 3% to 4% range.



Aftermarket, nothing spectacular here. The most important thing is that, as Michael clearly indicated, that the business is picking up in a more sustainable manner. And he has done quite a bit, you see it from the selling expenses, to manage overhead cost proactively.

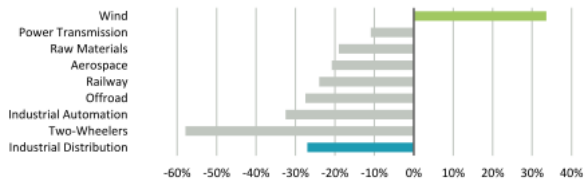
SCHAEFFLER

Industrial – Polarized sales development, earnings quality robust

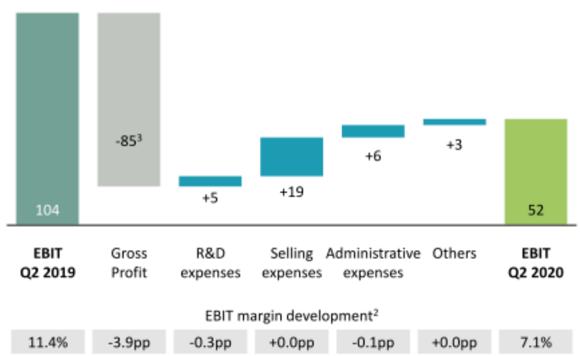
Sales by region | yoy growth

	Q2 2019	Q2 2020	Δ[1]
Europe	422	308	-26.5%
Americas	160	120	-24.2%
Greater China	191	218	+14.6%
Asia/Pacific	138	89	-32.7%
Total	911	734	-18.1%

Industrial sales growth by sector cluster Q2 2020[1]

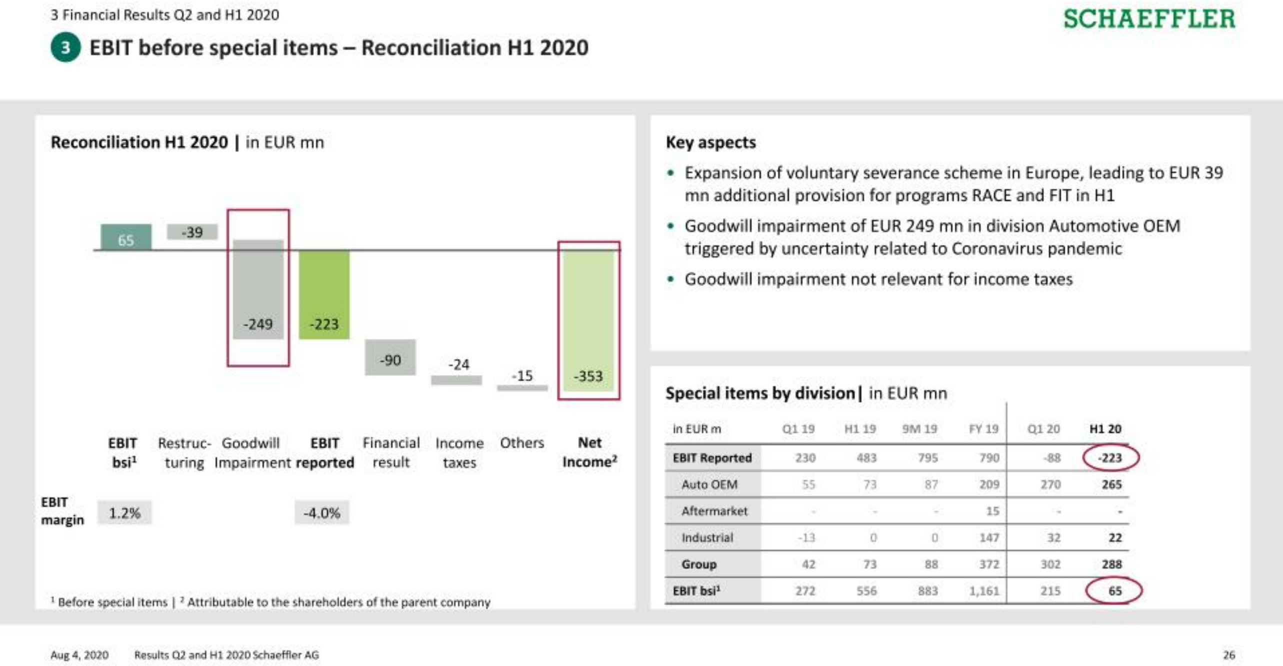


EBIT[2] Q2 2019 vs. Q2 2020 | in EUR mn



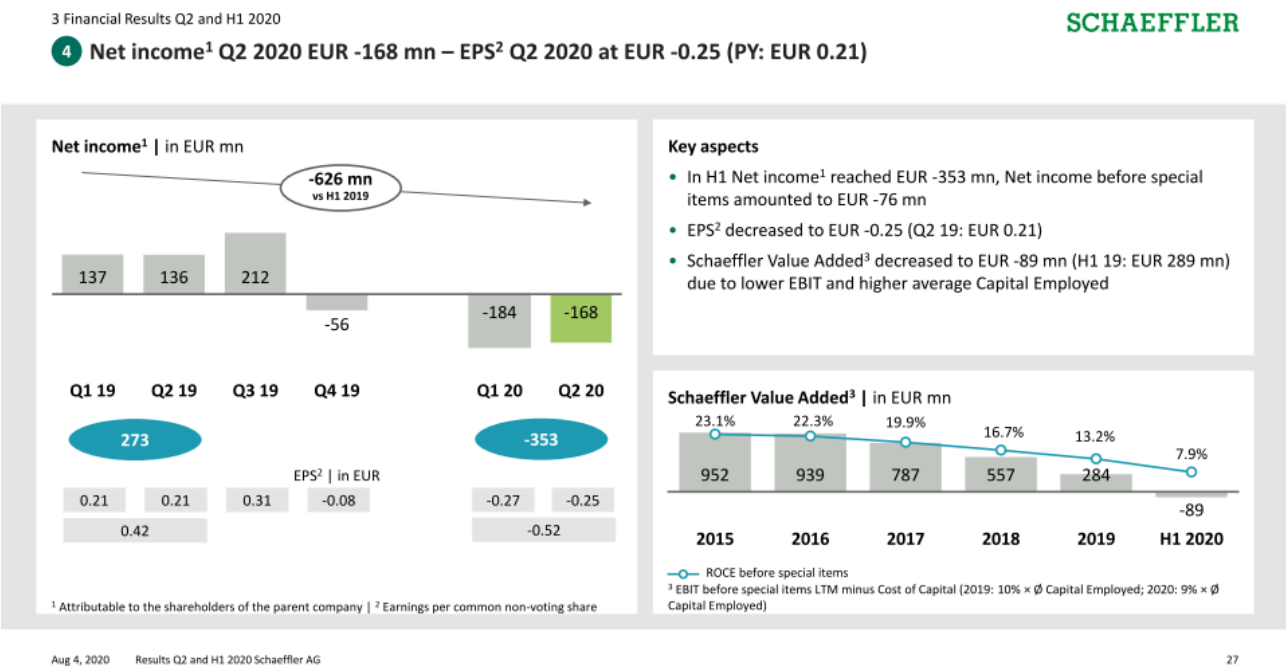
[1] FX-adjusted | [2] Before special items | [3] Includes negative FX effects of EUR 4 mn

In Industrial, you see it on the page number 25, we have this polarized sales development. Clearly Wind is helping us quite a bit with, again, more than 30% growth rate in Q2. The other Industrial sectors are still suffering, Two-Wheelers the most. Sector-over-sector and quarter-over-quarter, we see improvements. And one of the key important things to watch out will be the development of the Industrial Distribution. That is definitely picking up and also Stefan has done a great job here with optimizing his overhead cost base.



in EUR m	Q1 19	H1 19	9M 19	FY 19	Q1 20	H1 20
EBIT Reported	230	483	795	790	-88	-223
Auto OEM	55	73	87	209	270	265
Aftermarket	-	-	-	15	-	-
Industrial	-13	0	0	147	32	22
Group	42	73	88	372	302	288
EBIT bsi[1]	272	556	883	1,161	215	65

26 is more for reporting purposes. We wanted to share with you once again the reconciliation of the EBIT before special items and the net income. You know that we already impaired some of our goodwill in Automotive OEM in the first quarter. And so far, I don't see any more goodwill impairment needs. Headroom has improved a little bit. However, we are in planning cycle now and we'll certainly revisit that as we follow how the crisis continues.



Net income, negative for sure. Just mentioned the extraordinary ones and that also means that EPS is at the moment negative with EUR 0.25 in the second quarter. We now need to see how that continues to develop. But, clearly, the net income is something that will improve in the second half as well.

3 Financial Results Q2 and H1 2020

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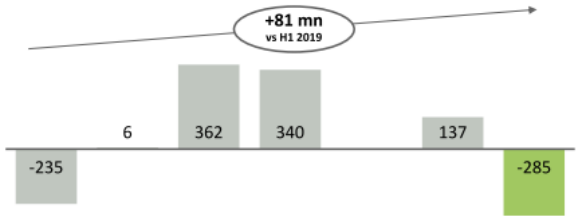
5 Free Cash Flow before M&A[1] FY at EUR -148 mn (PY: EUR -229 mn)

Free Cash Flow before M&A[1] | in EUR mn



	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
FCF reported	-300	10	322	341	137	-285
FCF Conversion ratio[2]	10%	11%	19%	22%	41%	34%
Capex ratio[3]	10.3%	6.1%	6.3%	6.2%	5.0%	5.9%

[1] Before cash in- and outflows for M&A activities
[2] LTM FCF before M&A divided by EBITDA before special items | [3] Capex in % of sales

Key aspects

- FCF[1] in Q2 amounted to EUR -285 mn, mainly driven by negative EBIT and Working Capital; in addition higher non recurring items as a result of cash outs for efficiency programs
- Despite lower EBIT, FCF[1] in H1 improved YoY by EUR 81 mn
- Strict prioritization led to reduced Capex of EUR 136 mn (Q2 19: EUR 221 mn)

FCF Details | in EUR mn

	Q2 2019	Q2 2020	*Δ Q2 20/19*	H1 2019	H1 2020	*Δ H1 20/19*
FCF as reported	**10**	**-285**	***-295***	**-290**	**-148**	***142***
M&A	-4	0	*4*	61	0	*-61*
FCF before M&A	**6**	**-285**	***-291***	**-229**	**-148**	***81***
Non recurring items[4]	31	62	*31*	45	134	*89*
Investments[5]	0	5	*5*	51	11	*-40*
Receivable Sale Program	0	50	*50*	0	50	*50*
	37	**-168**	***-205***	**-133**	**47**	***180***

[4] Including payments for legal cases and restructuring measures | [5] Capex in major strategic projects, e.g. Agenda 4 plus One (AKO Europe, EDC, Focus)

Aug 4, 2020 Results Q2 and H1 2020 Schaeffler AG 28

Free cash flow, again, I said, we have decided not to guide differently than what we did in the previous guidance. So there is no quantitative guidance. However, let me share with you, at this page 28, that we will do what is necessary to achieve a Free cash flow before M&A in positive territory. You all know that we are not only experienced with this, but also quite ambitious. And here the key drivers, Capex, Working Capital, but also EBIT and EBITDA have been mentioned.

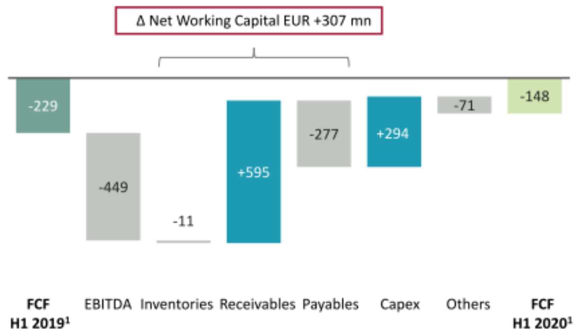
Just want to quickly guide you to the Free cash flow conversion ratio, that is calculated on a last 12-month basis. Here we are at the moment at 34%, what is clearly a strong figure stronger than in the past and I do believe that we will be able to compensate for the negative Free cash flow in the second half. So that a positive number is possible. Certainly not as positive as last year. EUR 700 million in the second half 2019 will not be possible, but you can be rest assured that this is one of the key numbers that I look at very carefully.

3 Financial Results Q2 and H1 2020

SCHAEFFLER

5 Free Cash Flow details H1 2020 – Net Working Capital and Capex prioritization

FCF[1] H1 2019 vs. H1 2020 | in EUR mn



[1] Before cash in- and outflows for M&A activities

Key aspects

- Positive Net Working Capital Delta of EUR +307 mn contributed materially to the FCF composition in H1 2020
- Capex prioritization resulted in a Capex reduction in H1 of EUR 294 mn
- Others include mainly cash outs for the voluntary severance scheme in Europe and other components of efficiency programs
- Receivable Sale program reduced by EUR 50 mn in Q2

Net Working Capital details| in EUR mn

Change in	Q1 2019	Q1 2020	Q2 2019	Q2 2020	H1 2019	H1 2020	*Δ H1 20/19*
Inventories	-117	-151	-24	-1	-141	-152	-11
Receivables	-241	76	-23	255	-264	331	595
thereof R. Sale Program	*0*	*0*	*0*	*-50*	*0*	*-50*	*-50*
Payables	62	62	-118	-394	-55	-332	-277
Δ Net Working Capital	**-296**	**-13**	**-165**	**-140**	**-460**	**-153**	**307**
Working Capital ratio[1]	*18.0*	*17.4*	*19.2*	*20.2*	*19.2*	*20.2*	-

[1] in % of sales (LTM)

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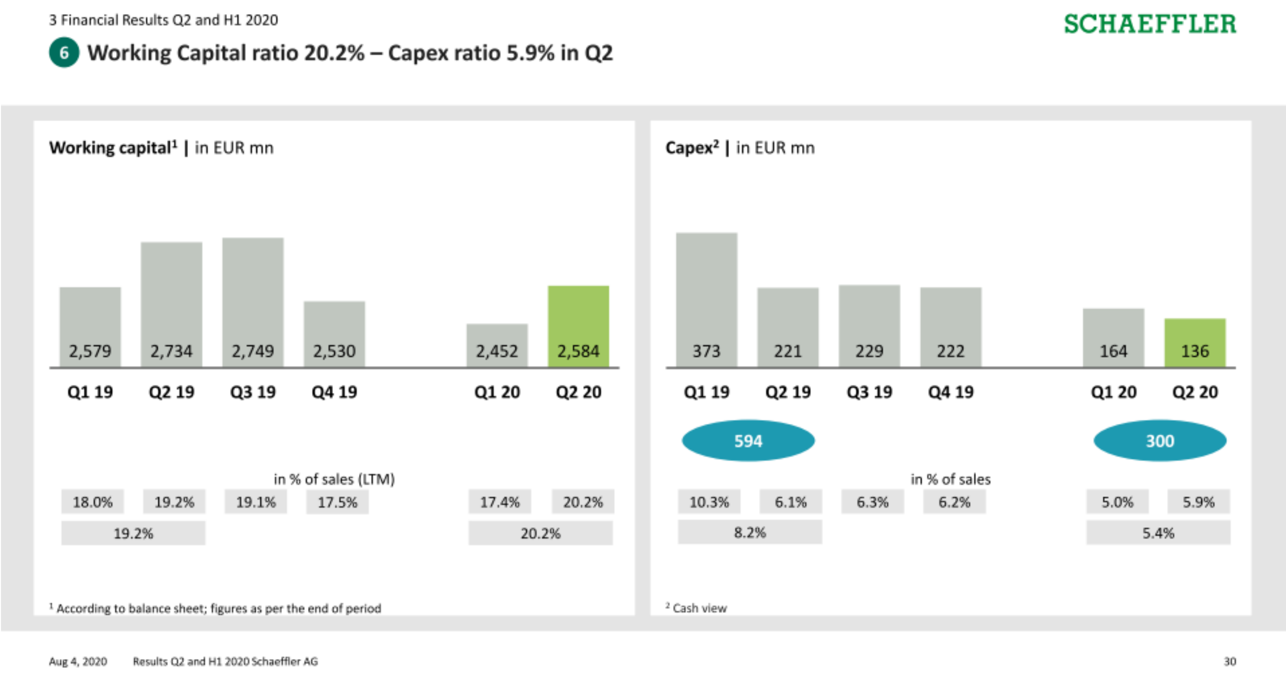
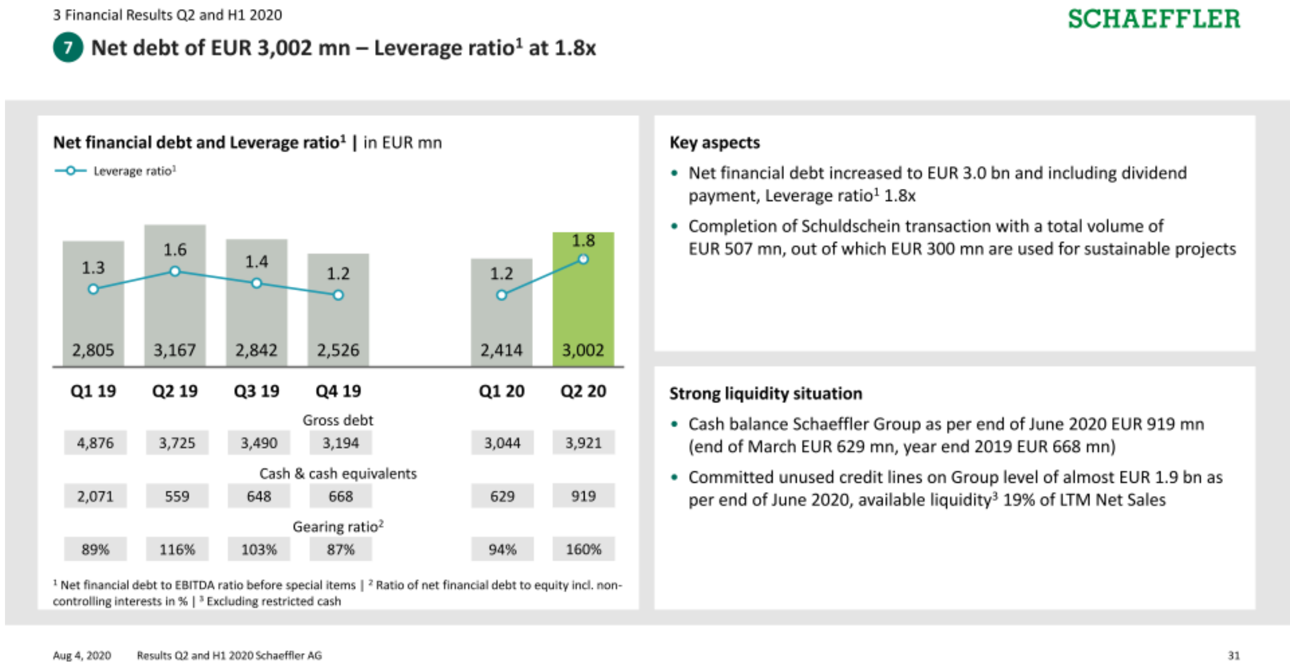
Let's go to 29 that gives you a little bit more insight and was also one of the comments we've received before the call, net working capital and the different drivers here; Inventory, Receivables, Payables. You recall from the last Q1 call that we indicated it will be very important to manage the key drivers of Net Working Capital proactively, in particular Receivables, Payables on the one hand, but also Inventories. We chose in Q2 to try to build a little bit of inventory, that's also why the number is with minus 1, more or less modest, to be able now when the third quarter, the crisis and the recovery is starting to be able to compensate the receivable growths and that will now be very important to manage the third quarter.

In terms of cash flow, I do believe if we want to achieve the target that I mentioned before that the interplay between the third and the fourth quarter will be important. I personally see a stronger fourth quarter in terms of cash flow. One thing is clear for us, we are not going to mortgage the future, and we will also avoid like we did last year a hockey stick on Capex or on Working Capital. So managing the three main drivers of the Net Working Capital is probably one of the most important tasks. And I can say that our plan has performed exceptionally well when it now came to inventory reduction. Inventory reduction is continuing in July and it has to do with the fact that we tried to pull several levers at the same time. For example, smaller lot sizes, be very close to the customers' demands and understand what's coming in, and so far that sounds very encouraging.



Now 30 is just additional information in terms of the quarter development. I think I can cut that short.



31 gives you the balance sheet view on net debt and the leverage ratio. We believe that with 1.8 times that we can show that the net financial debt situation is absolutely under control. As I said, we have refrained from any bigger refinancing transactions and feel that with our available liquidity of nearly 20% of last 12 months' net sales, we are in good shape. How will this number develop? It will probably slightly increase, but this is all a function of free cash flow and also EBITDA development.

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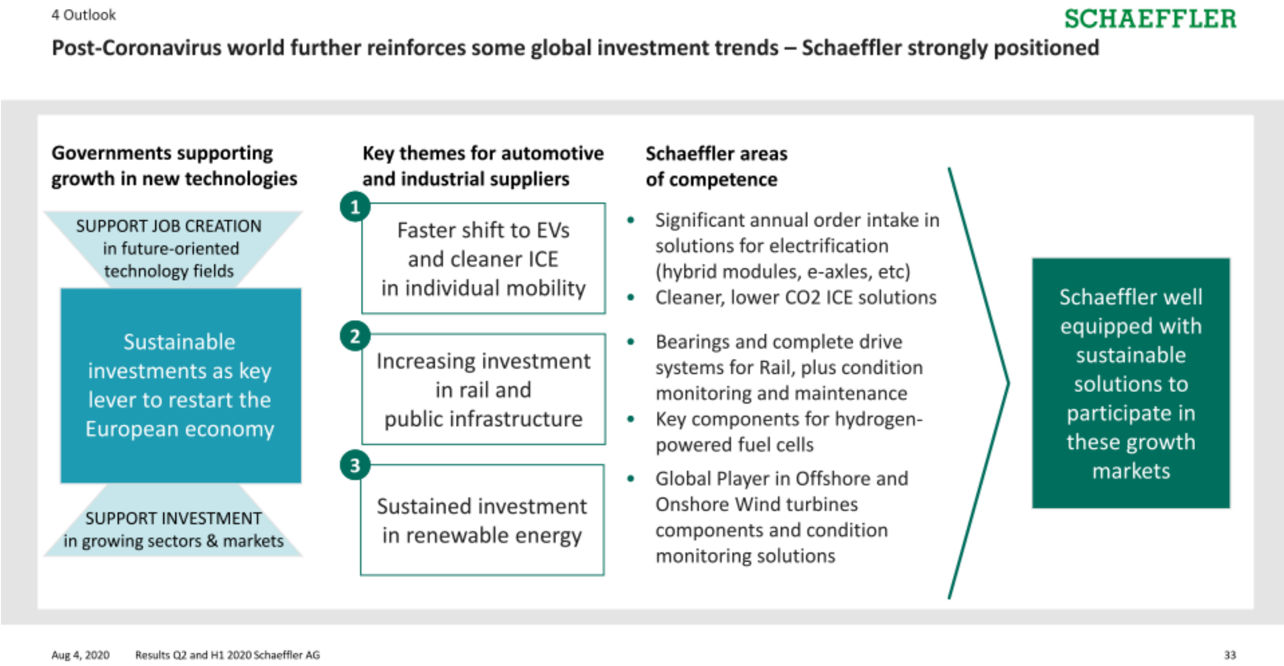
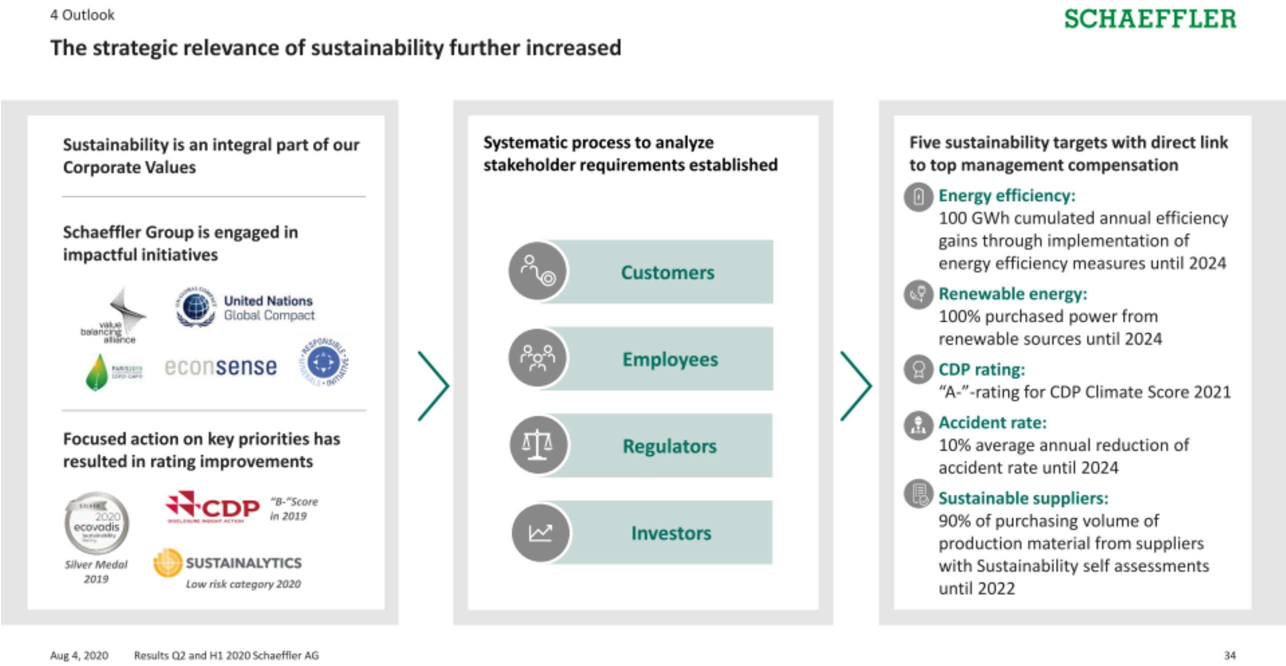
Agenda

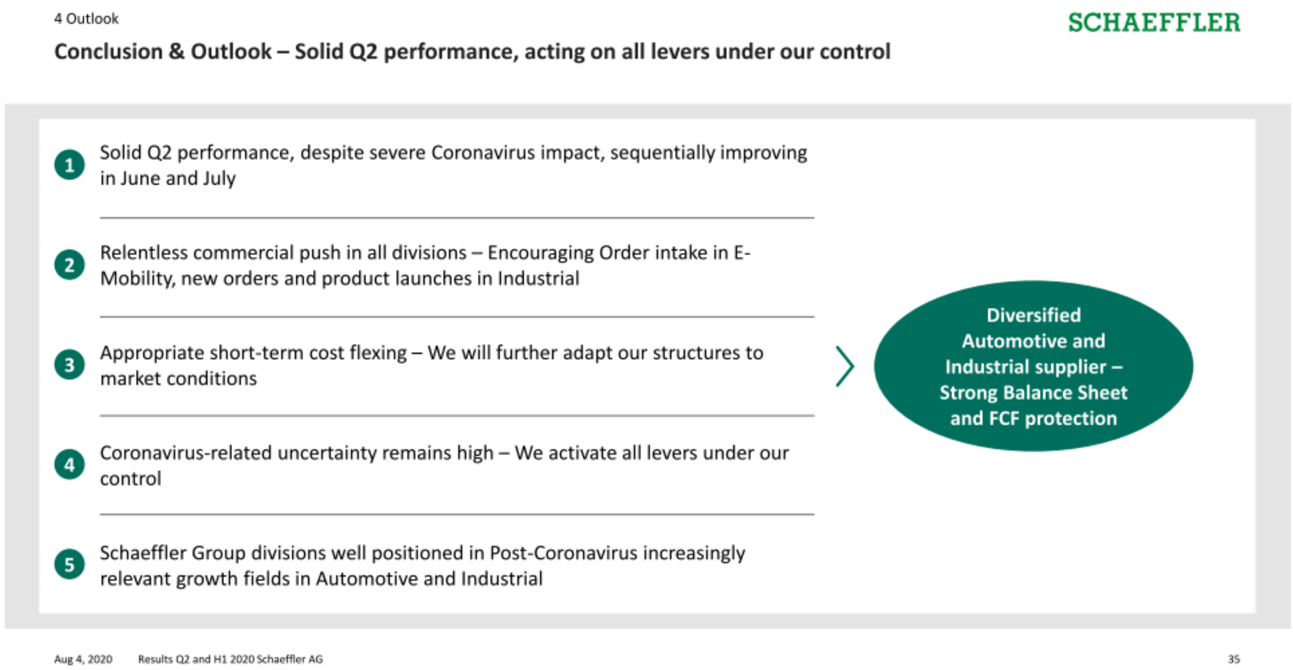


Let me stop here with the financial information and go to the outlook. The outlook goes a little bit more in the strategy. And what we did in the last couple of weeks in terms of how should we go forward, we have, as you all know, a strategy dialogue event behind us. We use the opportunity to stress test our existing strategy and ask ourselves what will change after the crisis and how we will look like post-crisis. And I can say, we see the crisis also as an opportunity, because in this business mix with Auto and Industrial, there are certain areas that will give us further opportunity. Clearly the fastest shift to EV, cleaner ICE, individual mobility is one of the areas that will drive gross opportunities. The increasing investment in Rail and public infrastructure, something positive for us. And we also think that sustained investment into renewable energies, Wind, but also opportunities in the hydrogen area will be good for Schaeffler. We are very well equipped to participate in these sustainable solutions and the new growth areas. And we think the government programs that have been established are a proof point that if we can offer the right new technologies in these fields, then we will be one of the winners from a restart of the European and global economy.



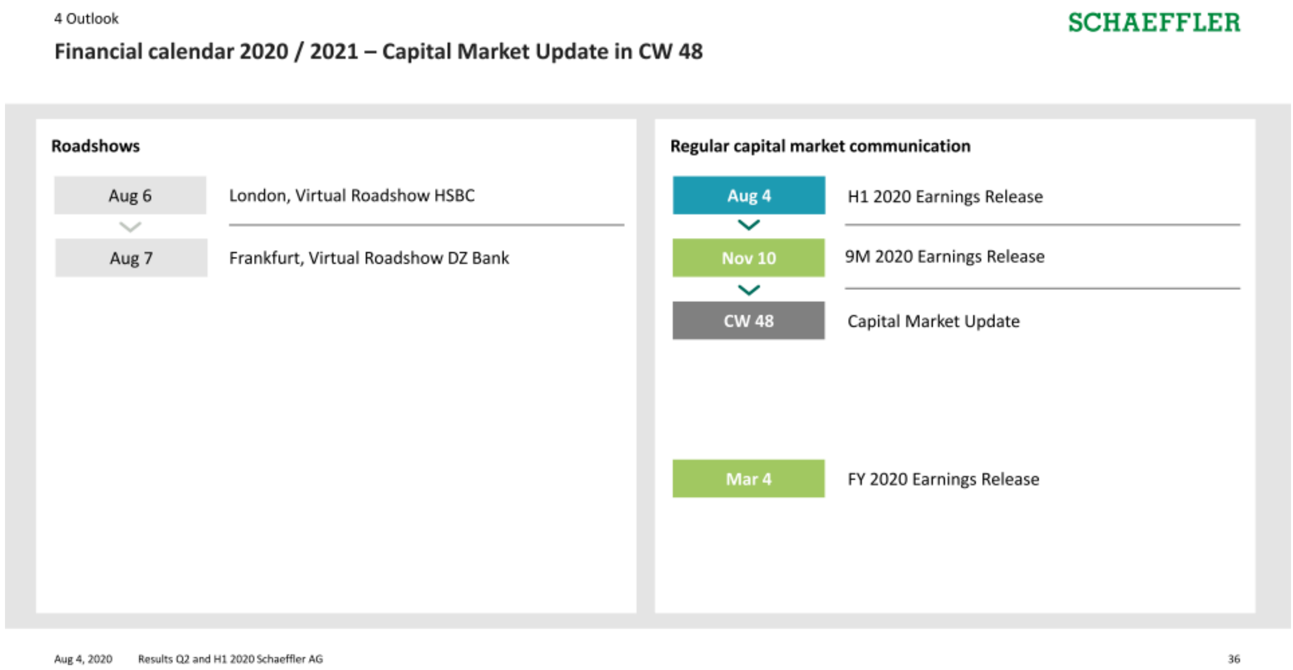
And that goes hand in hand with page 34. Sustainability is very close to our hearts. It has increased in its strategic relevance and you all know that we have implemented here a strong sustainability roadmap going forward, linked our targets to sustainability targets. Top management is compensated by achieving ratings and energy efficiency measures.

There is a much more systematic approach to understand and analyze the stakeholder requirements and we want to be a good corporate citizen when it comes to all these developments around the globe that are covered under the abbreviation ESG. And I really welcome the statement of Klaus, how important that is also from a company valuation point of view.



Let me finish my presentation on Page 35 and sum it all up. Despite this severe corona impact, we think the second quarter clearly showed that we can manage a business like ours in a crisis. The trend is improving. However, we need to stay tuned and careful on how to manage going forward. We have clearly pushed as a management team for looking at the opportunities in all divisions, business development despite the environment was positive, exemplified by the order intake in E-Mobility. But also in Industrial, we are proud of what we can offer. Short-term flexing remains a clear necessity. And I said what I wanted to say in terms of additional structural measures. Coronavirus-related uncertainty remains high.

The crisis is not over, but we think we can manage it going forward if we continue to activate all our levers that are under our control. And on top of this, we think every crisis has also opportunities. And with what we are seeing, what's changing our strategies, in fact, and will give us additional opportunities in increasing our growth potential, in particular in Automotive but also in Industrial.



With this, I come to an end. And I just share with you the Page number 36, we will have 2 digital roadshow days on Thursday and Friday and are envisaging a capital market update for you in calendar week 48 after our 9 months earnings release.

Q&A SESSION

Akshat Kacker, JP Morgan

Thank you. Good morning. Three from my side, please, and welcome Dr. Klaus as well. The first one on slide 6, where you mentioned that you have to adapt to the new market environment and obviously look at your cost structure and do more. Klaus, can you please share some more light in terms of what exactly are you looking at? That's the first one.

And the second question is on slide 23, on the presentation, the Auto OEM bridge, to be honest, the drop-through did come as a surprise, especially on gross profit, because we are looking at a 50% drop-through on volumes. Is it broadly possible to give us a split between volume, price and mix, because I am assuming that mix was positive in the quarter? That's the second question.

And the third one is on slide 14, where you very kindly give us the utilization level of plants. Is it possible to shed some more light on Auto OEM in Europe in July? How is that looking, please? Thank you.

Klaus Rosenfeld

Okay. Let me start with the first one. And, again, please accept that we have not finalized our analysis and are not ready to share any details. But when we talk about structural measures, you clearly need to look at the global footprint. You need to look at the volume expectation for the next years, in particular, in Automotive OEM and we also want to look one more time on where we can improve, if possible, on more structural measures in the overhead area. But that's what I can say at the moment. So please understand, it's too early to share any further details. You know that we have always said, if we need to do more, we will do more, but that's it for the time being.

On page 23, Automotive, you asked for the more detail. I can say it is predominantly volume. There is no real mix change quarter-over-quarter and also price is not really relevant. So it's all driven by volume. That also makes it so difficult to react forcefully and please don't look at this only by quarters, wait for the nine months and you will see that we will fight hard to bring the flexing forward and continue and optimize the drop-through rates.

In terms of 14, you asked for the European developments in the plant. And here, again, the capacity utilization levels should not be taken only from an one week perspective. We are going into holiday seasons and clearly in some areas there were partners that decided to optimize their utilization by partial shutdowns. That improves now. But the fact that it's red is just a coloring. I think you need to look at the trend going forward. And we feel that with all of what the global footprint can offer here and don't forget European utilization is not only European business, it's to some extent also driven by other demands from around the globe. It's a complicated global footprint allocation. I feel quite good that we will, step by step, see all the plants go back to green.

Henning Cosman, HSBC

Hi, good morning. Thank you for taking my question. And I don't know if Matthias and Stefan are on the call. But, otherwise, maybe Klaus for yourself, one for Automotive and one for Industrial.

So in Automotive, I appreciate you told us about the Capital Market Day now, but in any case maybe this great order intake there for the three-piece axle is a good opportunity to discuss a little bit. And not to make this about margin so much, but what you want to be and what you want to do in the mid-term in the Automotive OEM segment, especially also seeing that you do the power electronics now. So maybe you can discuss a little bit where you see this going? Also really interesting to hear you talk about the reinvestment rate, so maybe we can elaborate on this a little bit more?

And then for Industrial. Again on the slide 14, which I also really appreciate, I see that Europe and APAC in Industrial are back in the green now for the utilization rate. So I'm just wondering if that's representative and a good sort of exit rate for H1, entry rate into H2, is there any reason to expect this utilization to drop again? And if doesn't, if there's any reason to expect the margin to be much lower in H2 as compared to H1? Thank you.

Klaus Rosenfeld

Okay. Let me go to the first one. Again, we indicated that it will be a Capital Market Update. Matthias and Stefan are actually on holiday, so they are not on the call. And happy to take your suggestion, Renata, for November and shed some more light on what's going on in Automotive OEM.

The crisis has clearly two angles. So on the one hand fighting the volume downturns; on the other hand, there is a turnaround and the transformation go hand in hand. And the transformation is on overheads. In certain areas, even more pressing now. And when you look today, this morning, into the German newspapers and see how many people make use of the E-Mobility incentive, then it's obvious to us that this will drive us forward. And you have for many quarters always asked the question, can you perform even if you don't produce your own power electronics or own software? And is it possible to compete with us others in this area? And exactly this mandate or this order that we achieved is a good proof of this. And I think also you often will go on the road with you, Renata, in the next weeks and then share a little bit more what's

going on there. Our E-Mobility achievements are, from my point of view, really success and how this unfolds over the next years is then a question that we can discuss at the next Capital Market Update, but we feel that while we started late we are now really where we should be in terms of competence and also our USPs compared to others.
In Industrial, again, these are weekly indications. They are not meant to be directly translated into margin profile. I can say the order intake on the Industrial side is definitely stabilizing. Don't get this wrong, the Industrial side is also impacted by the crisis. You see it from the various sectors. There are improving trends in -- particularly in Europe, but a week doesn't explain the second half. So, as I said, let's remain cautious and let's keep the organization focused on the necessary countermeasures. At least internally, I don't want to see a situation where the crisis is called off when everyone goes back to normal, that's not the case. We need to be still very focused on cost and capital and that works quite well.
The key target is, as I said, a strong cash flow contribution in the second half and if we achieve that, I think we will see what -- you will see what the third quarter will then bring and that's then time to judge also the Industrial margin development.

Henning Cosman, HSBC
But there are no specific plant holidays or such intended in Industrial and the Auto weeks that would push this utilization below 80% again?

Klaus Rosenfeld
Well, again, we are managing this more or less months by months, week by week. As I said, the crisis environment is not over. We are at the moment looking very, very carefully what's coming back after holidays. And, again, therefore, I'm not going to say no, there is nothing anymore. That's not the case. You need to manage this very carefully at site. Holidays are still on. The business is back on track, that's for sure, but how steep the ramp-up curve will be, let's wait and see.

Sascha Gommel, Jefferies
Good morning. Thank you for taking my question. The first one would actually again a bit on the cost-cutting. I know you cannot share much going forward. I was just wondering in terms of rate of completion the RACE, GRIP and FIT program, how should we think about the rate of completion at the moment? That would be my first question.

Klaus Rosenfeld
Okay. I don't have a number for you in the rate of completion. Again, as part of our strategic dialog, we have said these programs are not over tomorrow. We'll use them as platforms and then as a basis for additional measures when needed. When one of the learnings from the past was that, we may have confused you with a little bit too much, so steering these efficiency programs by divisions, I think it's one of the key learnings we had from the past and therefore I would dare to say these programs are not just over. They will continue where necessary and there is good success in terms of following and monitoring the different initiatives behind it, but our completion rate, as such, I can't share with you, Sascha.

Sascha Gommel, Jefferies
Okay. No worries. Then the second question –

Klaus Rosenfeld
And let me add something on the restructuring, so that you also understand this. I mean in a situation like the second quarter and we should look forward and not so much backward, but in such a situation where it's really raining, you have to be careful that you don't overdo any type of restructuring and that's why we waited. We said it's important to first manage the crisis, see how it is developing and it's now the time to review that and see what is the outlook for the next years.
A restructuring is not a temporary measure, something that needs to pay off then in the years '21 and thereafter and the dimensioning of that is more an art than a science. And also with Klaus on board, we want to now take the time, for us summer holidays is over in the next weeks to really see what we can do. We know the drivers. We know where to look at. But to put that in a package, in a program that we then can also as good as possible negotiate with our workers' council, that's something what needs a little bit of time. It also needs diligence, because something that is down in hectic or with the wrong communication or with the wrong approach to our workers' council has proven to be not as successful. Therefore, again, give us a little bit more time and we'll come back to you.

Sascha Gommel, Jefferies
Understood. Thanks. My second question would be on short time work and equivalent plans, the benefits, can you quantify the benefits in the quarter, roughly, in terms of maybe euro million or basis point of margin or any of that?

Klaus Rosenfeld
Well, we have -- it's a very good question, Sascha, and we have chosen not to share that number. The number is important, because if you think about this crisis, what if they --once in a lifetime event from my point of view, we all know that the temporary measures and the temporary support that we get from these short-term work and other measures will go away and will vanish over time and it's important to understand this gap. If you know, think about structural measures. That's exactly what I said before. It doesn't make any sense now to be too fast. We need to go into in-depth analysis in that and say what is falling away in '21 and how do we compensate for this. Just to give you an indication, so that you're not too disappointed about what I've just said, it's the EBIT impact from “Kurzarbeit” in Germany is a significant two-digit million number, it goes across the two divisions, but also impacts the relevant functions. And here don't forget we have a strong functional core, so areas like operations but also the other bigger function have played an important role here. Let me also indicate that to you that gives us a little bit of support for the Free cash flow side. The cash flow impact is not fully synchronized with the EBIT impact. So some of the money we expense to our workers is prepaid and you get the reimbursement with a two-month delay. So that may be also interesting information for you. It will support our Free cash flow ambitions and that's Q2 what I said. It continues in Q3 and Q4. We have not relaxed at the moment the request to all our areas to stay very focused, but probably the second quarter will be the toughest in terms of impact and the impact will reduce over time.

Sascha Gommel, Jefferies
I appreciate the details. And then very lastly, and I apologize because it's the technical question on the accounts, but there was a EUR 25 million provision reversal in the quarter and there was also quite a substantial increase in government grants, does this included in your EBIT number or what was it and how should we think about that?

Klaus Rosenfeld
The reversal of the provision comes from the program “Jupiter”. When we designed the program, we were a little bit more careful in terms of how much restructuring money we need and the development at the moment shows that we don't need all of this to get the 1,900 people reduced. Therefore, we released. It was discussed with KPMG and that is clearly reversed and outside the EBIT adjusted. It has to do with the fact that voluntary --these voluntary severance programs are sometimes a little bit difficult to evaluate, but we're getting through this with less restructuring cost than we thought. And on the government grants, that's a detail where I cannot immediately say what you're referring to.

Sascha Gommel, Jefferies
I'll follow up (multiple speakers) that's okay

Klaus Rosenfeld
Let's follow-up, it's nothing that I have on my radar screen at the moment and Renata will clear that with you.

Christoph Laskawi, Deutsche Bank
Hi, good morning. Thank you for taking my question. It's a bit of a follow-up on Sascha's question relating to operating leverage, a drop-through in the coming quarters. You highlighted that a lot of the measures are obviously short-term that you benefited from in Q2 and now with the activity coming back in the market, we would expect at least part of the measures to fade. Can you keep up most of them or is it tough going into high activity levels? And then you also said there was not really a mix impact even though the E-Mobility revenues have not dropped as much as the others. Considering that E-Mobility or electrified demand is quite good currently also running into the second half, should there be a mix impact in H2 or essentially all volume that you can gain back from that are so positive that the volume impact offsets all the mix impacts? Thank you.

Klaus Rosenfeld
Well, let's comment on the mix first. The E-Mobility business is a growing business and don't forget the business division of E-Mobility is not only E-Axles, there are other products in this as well. And when I said the magnitude of the gross profits decrease comes from volume, then that is still right there. It's only a small mix impact. How this develops in the second half, I have not looked at this. I don't think the picture will change a lot.
What we see - and I think that's the important message to you - when we look at the improvement that we, for example, get in China and in the United States, then the improvement there is very much from the more traditional products at the moment. So our 10R transmission, that is a GM and Ford transmission that goes into SUVs, that's one of the products that drives the recovery at the moment and it has to do with demand for SUVs in North America.
In China, it's clearly Geely, it's a Great Wall. Also, here, we feel that we are on the right platforms. What that means in terms of mix, we need to see, but for the year 2020, E-Mobility, in terms of mix is not really making a big impact both in the one or the other direction.

Christoph Laskawi, Deutsche Bank
Thank you. And just one follow-up on the working capital side. In the Q1 call you pointed towards factoring being the headwind of, say, EUR 80 million to EUR 90 million in the near term. Now you had about EUR 50 million and activity is coming back already. Should we consider the EUR 50 million that you've seen in Q2 essentially have the full impact, and that to reverse already in Q3 or would you expect another headwind come back?

Klaus Rosenfeld
It's a good question, Chris. You remember in this first quarter when we were in the middle of the crisis, I said, we normally think about EUR 200 million as our umbrella and I said my best guess at the moment is, together with Dietmar, maybe it's 50:50 of that, EUR 50 million comes back, so EUR 100 million. At the end of the day, this is a program that a function of the receivable development. The better the development on the receivable side, the more we can also sell into this ABCP program. And until May, we were exactly at the EUR 100 million level, but June then offered new receivables and we sold them into the program that was the EUR 50 million additional Free cash flow. Can I say something about how this develops in July and August at the moment? Not really. I mean, these are receivables of larger customers. And it could well be that we get a little bit support from that in the third quarter. And if that comes, it will not come again in the fourth quarter. So it's a phasing question. For the second half, if we are optimistic, I could see that there is an additional EUR 50 million being sold. But let's wait and see. It's nothing that it's the only important cash flow driver, it's more of an additional support if necessary.

Christoph Laskawi, Deutsche Bank
Yeah. Sure. Thank you. Just what I take from that is, quite clearly the expectation is that there is no additional headwind to come, right? So it could be neutral to positive?

Klaus Rosenfeld
I think so. Yeah. But, again, what if July looks good also in Automotive OEM and for August it's too early to say. The call-offs we have some customers don't indicate a big summer break. But, again, we're not through yet. Let's stay on the course of site.

Gabriel Adler, Citigroup
Hi, good morning. It's Gabriel from Citigroup. And my first question is on E-Mobility. Given your slide on the crisis, reinforcing a faster shift to electric vehicles, and the encouraging 3 in 1 E-Axle order this quarter, could you comment on where your

capital allocation policy for EVs is changing at all as a result of the crisis? And how did your investment rate E-Mobility compared to the rest of Auto OE?

Klaus Rosenfeld

It's a good point. Again, we have, so far, not commented on details in terms of how much capital is allocated to which business division. What you need to acknowledge is that E-Mobility has a lower capital intensity, because we are not producing every part and every piece of an E-Axle ourselves. Let's say, it has more sourcing parts than in our traditional businesses. What is important and Klaus clearly said this that we distinguish between the new opportunities and there is no doubt that we will put the necessary capital in place. But in terms of margin - and Renata said it several times - there is good and bad dilution in terms of margin. There is capital allocation that we definitely want and regard necessary when it comes to strategic growth areas and therefore it's so important to manage the transformation very much from a capital point of view. And I think, as Klaus said, making the strong things stronger is a prerequisite. On the other hand, we need to stay disciplined and that's what we're showing in the traditional businesses. So maybe that's a directional statement, not more. But further numbers on capital intensity or capital invested in E-Mobility, I cannot share with you.

Gabriel Adler, Citigroup

Okay. That's helpful. Thank you. And my second question was just on China, because sales growth at about 17% in China was very strong, but the outperformance of 900 basis points was actually a bit weaker than the last three quarters where you saw greater than 20 percentage points. Could you comment on the trends in China that may be contributing to the slowdown in outperformance? Are you seeing any increased competition or pricing pressure in that market?

Klaus Rosenfeld

Well, let me, first, once again say, you always have to be a little bit careful to take quarterly outperformance numbers and extrapolate and say this is now weaker or not. This is not fully synchronized with market developments typically, so rather look at the half year and there is clearly outperformance as we have more or less shown in the last years in China. And I can say the growth in China in particular in Auto in the last two months for May and June -- was better than what we expected. So, in particular in June we are significantly above the previous year. And let's also wait here now how the next two quarters come. There maybe also after such a crisis a little bit of erratic moves in the one or the other direction. So let's not extrapolate too early on a month development. It's more important to stay the course and remain cautious and not to call crisis over too early.

Sabrina Reeh, UBS

Hi, gentlemen, and thank you for taking my questions and warm welcome also to Klaus.

So I just have two last. Just a clarification question on outperformance. I know you've chosen not to provide a quantitative guidance, but maybe you could give some more color on outperformance if we assume the minus 22% decline that IHS is predicting for 2020. Would it be fair to assume a similar outperformance as the average 6% in H1 for H2, because the 3% to 4% would imply a slowdown in outperformance in H2? That will be the first.

And the second one is a follow-up to the previous colleague who asked about competitive pressure or pricing pressure. Could you maybe follow up on that, because some competitor has been quoting competitive pressure and the necessity for additional restructuring measures on the back of increased pricing pressure and specifically mentioned China. So if you could maybe update us on that if you've been seeing any different development not just based on the quarter, but just forward-looking? Thank you.

Klaus Rosenfeld

Yeah. Thanks a lot. So let me start with your first question, how do we see outperformance? Again, we have said global light vehicle production for the full year 2020 light vehicle somewhere between minus 20% and minus 25% for the full year. And, again, this is a number that will fluctuate. This all assumes that there is no further shutdown. If there would be a shutdown, then these numbers definitely have to be revisited. It leads to something that is then, let's say, somewhere in the area of 68 million, 69 million cars. In the first half, we have seen a market drop of somewhere 33%. If you would go to this 20% to 25% and that basically halves in the second half, so we would somewhere be around, let's say, minus 11%, minus 12%, minus 13% in the second half. And if you now think about us and say, our Automotive business in total was in the first half is somewhere around FX adjusted minus 26%, then that's the outperformance that I mentioned 6%.

How we will now perform in the second quarter remains to be seen, but I think to be really on the safe side and outperformance for the full year of 4% plus should definitely be doable taking into account that we were probably early on, benefiting from the step by step recovery and that has to do with the fact that typically when plants restart and OEMs restart their business and they start with their engine plants and the transmission plants, so that pickup may have helped us a little bit and we need to see how this develops, but I think somewhere around 4% or maybe 5% for the full year with this environment that I just explained should be achievable.

Sabrina Reeh, UBS
Okay. That's very clear. Thank you.

Klaus Rosenfeld
And then on price pressure, I can say we have not seen in our business, I'm speaking about the global situation, any extraordinary price pressure. We have the normal environment, I think it's fair to say that in particular in Q2, big OEMs were careful with suppliers and clearly wanted to make sure that their supply chains stayed intact. So there is normal price competition when it comes to new orders and you all know that in this transformation that plays a role. But anything that now would put even more pressure on us I cannot confirm. I do believe that there is even a chance in this environment. If you are a strong supplier, if you have the right balance sheet, if you have a good diversification as we have to demonstrate your financial strengths and become an even more trusted partner in this environment and that also helps you to negotiate prices going forward. So it's not one-dimensional. It's certainly quality, it's all the other USPs that we have and that's something that we are also trying to play when it comes to more long-term orders.

Kai Mueller, BofA Merrill Lynch
Hi. Thank you very much for taking my question and Klaus, welcome to Schaeffler as well.

The first one is really on the inventory situation you mentioned in the second quarter. You said you had a slight build-up. Was that factored in on purpose? Or was that more a factor that maybe some of the demands you had anticipated didn't quite come through? And how do you think about that obviously going into the third quarter also with regards to your own shutdown periods and your customers obviously having the summer break?

The second point is generally with your conversations with the OEMs, we just obviously talked about your sort of expectations where IHS is. What do you hear from them for the second half? Are they all being extremely careful and planning to sell out more out of inventory, their own finished car inventory for the moment? Or is there an ambition and plan really to ramp up post the summer break and improve, obviously, the car sales for this year, or is there more let's wait and see and just sort of see that 2021 will be a better year again?

Klaus Rosenfeld

Well, I think, Matthias would have more details than I can share with you, but we discussed it and there is not a universal answer to this. Everyone is now ramping up and this is the answer of the all automotive OEM industry. I think the different companies are behaving differently. And the French have their views, the US colleagues do it quite differently, China acts in terms of call-offs and orders in a very different manner. Don't forget the crisis was also for most of the OEMs an event that they have not seen so far. What I can say is that what you normally see in this extraordinary situation is that we get more call-offs then what makes sense to us just to have them in the system that has been cleaned out now. And I think, for us, we are very close to our big customers and understand what they want, we have engaged in numerous calls understanding how to really read the signs and I would say there is a general optimism that the third quarter can be more positive. But we also should take into account the year is not over in the third quarter. Let's wait for the fourth quarter. And while we are still fighting this crisis in the holiday season, it will be interesting to see what that means in terms of infection rates, it is clearly important that you work with scenarios and manage that side and do what is necessary to be close to the market development.

And maybe that's then lead into your first question, on inventory, Kai, I said in the first quarter call what we tried to do is, when we saw the dip coming, we said that will give significant cash inflow from receivables that will be reduced. If we now go completely on the brakes with inventories, we will see a double whammy in the third quarter. That means receivables may come up, the dimension remains to be seen. And if you then all of a sudden have to produce inventories and can't deliver, this is wrong. So we tried to build a little bit more inventory in the first quarter and also at the beginning of the second quarter, but I can say now - and I have a chart in front of me that shows me my weekly inventory levels - that in particular in Automotive OEM we are reducing week by week at the moment inventory levels and benefiting a little bit from the additional build-up that we organized in the beginning of the second quarter. How long this will hold? We need to see. But so far this paid off. And as I said for the plants, the plants have done an exceptional job here in doing also other operational measures in cleaning out inventory and making sure that lot sizes are reduced where people work in a very agile manner. So hopefully that starts pays off and helps us also to achieve this overall cash flow target that I alluded to.

Kai Mueller, BofA Merrill Lynch

Thank you. And then a follow-up question that is really sort of more long term, clearly with your order intake on the E-Axle contract, which is of a 3 in 1 E-Axle. When you speak to your customers and you talk about some of your other contracts, I understand that's ramping in 2024, what is their debates with regards to what they want to buy externally, i.e. from suppliers like you versus how much they want to do it in-house? Because there is always this debate of how much do you do in-house or by the parts versus buying the full component? Now this is obviously a full solution that you offer there. When you are in negotiations or when you are in RFQs, what do you think is the ratio between people wanting to do most of it in-house versus buying the full item externally from the supplier like you?

Klaus Rosenfeld
That's a very interesting question, but I can't give you such a ratio. It's very different by demand, by car, by platform, by customer and also by their own competence and it's a question of how competitive is the offering and what can be in-house competition really do. And we have always claimed to be a supplier that is innovative and also good with Industrialization. Don't forget there is a hell of a difference between designing an E-Axle and making it in a sustainable growing high-volume manner. And it's also a question of how much risk is an OEM going to take when the necessary experience is not there in-house. So this is not one-dimensional. It's a case by case thing and I can say we are proud of this new prestigious contract, it has been a long negotiation and it's something that will take some years to take off. But, again, we will give you more insight on the Capital Market Update, what this is and why it's so important to us.

Kai Mueller, BofA Merrill Lynch
Perfect. And maybe just a quick follow-up on that. Can you give us any sort of sense in terms of the margin levels of these contracts compared to your existing business?

Klaus Rosenfeld
Well, it's one of your questions that always comes. And I have to ask for your understanding. I also have to say here, we are not giving that information on a case by case basis. What I can tell you, and you know this from the past, we have now nearly a year of experience with our new capital committee. Klaus will join us, and he said all the right things about performance management. It's not only the existing business that counts, but making the new business even stronger and making it stronger is a function of our competitive position and that's what we have built over the last years. We are definitely seen as a trusted partner in these much more complex products and you know that we want to make money with this and that is not a function of the first year. It's a function of a long-term view on how to further improve offerings cost, but also Industrialization benefits.

Stephanie Vincent, JP Morgan

All right. Just thank you for taking my question. Just two very quick ones for me. The first is about digital distribution channels in the Aftermarket. And I was hoping that you could clarify that. I guess in context of a lot of these small distribution channels are having more issues during COVID-19 and more people going to DIY?

And then my second question is related to your outlook on just the general structure at Schaeffler, especially given the volatility in the Conti share price, maybe any comments on deleveraging the IHO entity over time, that would be helpful too?

Klaus Rosenfeld

Okay. Let me let me tackle the second question. Again, this is a Schaeffler AG call and you all know that Schaeffler AG is not invested in Conti anymore since several years. If you are asking about the IHO, I can only say what we said before. No comment on any transaction before we launch it. And therefore any speculation on Conti or selling shares whatsoever it's definitely nothing I can comment on.

Digital service in the Aftermarket is something where I have to refer back to Renata and maybe for a separate conversation with Michael. What we indicated in this deck is I think on page number 11, there you see that our rep service, that is a digital service, for garages and workshops, it is a portal that, you know, people can access from the outside, “RepEx” it it's called. And that clearly shows that the activity is increasing. And I can also say as part of our overall strategy, we see that in particular the Aftermarket, but also in Industrial, the digitization is a positive trend for us. But if you want more detail on digital services, I think it's better to take it off-line and discuss with Renata and Michael directly.

Klaus Rosenfeld

Okay. If there are no further questions, ladies and gentlemen, thanks for all your question.

Thanks for following us. I would like to close the call here with some two or three sentences. Again, it was an exceptional quarter. I think we showed that we know how to run a business in this crisis. I'm very pleased and look forward to the cooperation with Klaus. I think we will form a strong team and share the complete same view on how a CEO and CFO team should work together. So that's really for me personally a big step forward.

And thanks Klaus for participating today.

I also would like to extend my personal thanks to Renata and her team, but also all the other teams and divisions, regions and functions for the continued hard work in this crisis. Don't forget, it's still a crisis. There are many people suffering around the globe from the impact and we are blessed with some resilience and a strong team approach to drive and to continue to drive what we want to achieve in this environment. So thanks a lot to everybody and we look forward to the next encounter and our next conference call on the Q3 results. Thank you very much.

Backup

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Usual information top-up

Backup

Gross Profit – Severe volume losses could not be compensated by cost flexing

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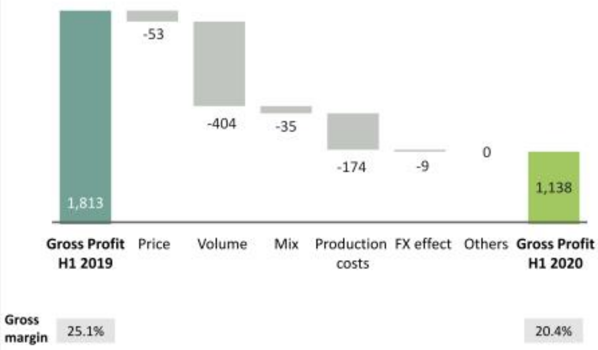
Gross Profit H1 2019 vs. H1 2020 | in EUR mn



Key aspects

- Normal negative price effect in Automotive OEM, Industrial still with positive price momentum
- Negative volume effects across all divisions representing major impact on Gross Profit development
- Cost flexing measures could not fully compensate the negative volume related production cost development, especially in Automotive OEM

Gross Margin

in % of sales	Q2 19	Q2 20	Q2 20 vs. Q2 19	H1 19	H1 20	H1 20 vs. H1 19
Auto OEM	20.6%	3.8%	-16.8pp	20.9%	13.2%	-7.7pp
Aftermarket	33.6%	30.3%	-3.3pp	34.0%	33.4%	-0.6pp
Industrial	31.1%	27.2%	-3.9pp	31.1%	29.2%	-1.9pp
Group	25.0%	14.8%	-10.2pp	25.1%	20.4%	-4.7pp

Backup

Automotive OEM – Strong Outperformance achieved in all regions, negative EBIT

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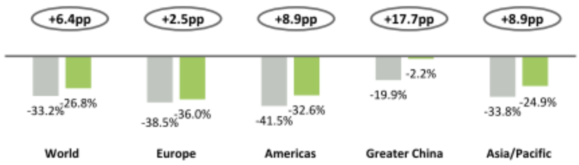
Sales by business division | yoy growth

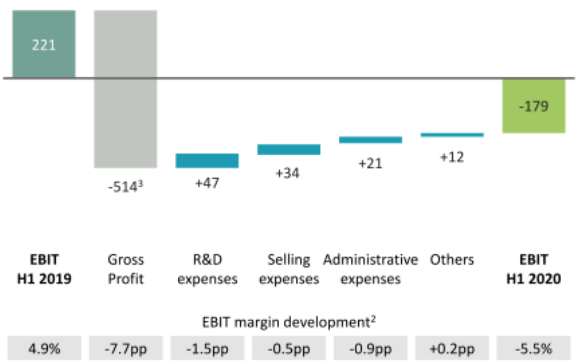
	H1 2019	H1 2020	Δ[1]
E-Mobility	306	271	-10.6%
Engine Systems	1,388	988	-28.6%
Transmission Systems	2,026	1,450	-27.9%
Chassis Systems	798	555	-29.4%
Total	4,517	3,264	-26.8%

Outperformance: Sales[1] vs. market development in H1



Production of light vehicles H1 2020 vs. H1 2019 (IHS Markit as of July 16)
Sales growth Schaeffler Automotive OEM H1 2020 vs. H1 2019

EBIT[2] H1 2019 vs. H1 2020 | in EUR mn



[1] FX-adjusted | [2] Before special items | [3] Includes negative FX effects of EUR 2 mn

Backup

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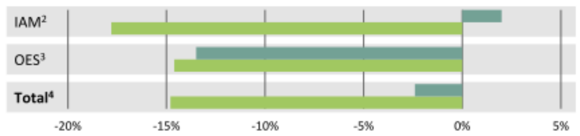
Automotive Aftermarket – Sales decline in all regions, robust earnings quality

Sales by region | yoy growth

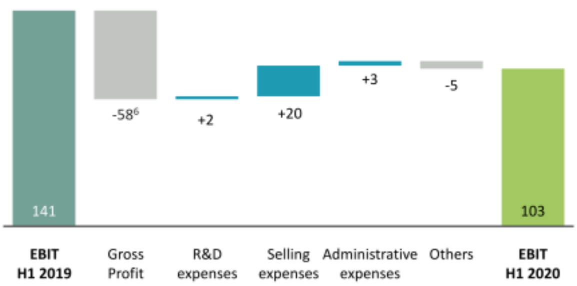
	H1 2019	H1 2020	Δ[1]
Europe	632	541	-13.3%
Americas	183	137	-19.5%
Greater China	41	35	-12.3%
Asia/Pacific	48	34	-27.0%
Total	**904**	**747**	**-14.8%**

Automotive Aftermarket sales growth by channel[1]



[1] FX-adjusted | [2] Independent Aftermarket | [3] Original Equipment Service | [4] Contains E-Commerce sales and sales to Automotive suppliers in addition to IAM and OES

EBIT[5] H1 2019 vs. H1 2020 | in EUR mn



EBIT margin development[5]

15.6%	-0.6pp	+0.0pp	+0.0pp	-0.4pp	-0.8pp	13.8%

[5] Before special items | [6] Includes negative FX effect of EUR 8 mn

Backup

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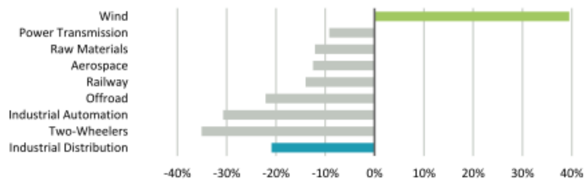
Industrial – Sales decline in all sector clusters except Wind, earnings quality robust

Sales by region | yoy growth

	H1 2019	H1 2020	Δ[1]
Europe	860	680	-20.6%
Americas	322	269	-16.8%
Greater China	346	407	+17.6%
Asia/Pacific	276	207	-23.4%
Total	**1,804**	**1,562**	**-12.8%**

Industrial sales growth by sector cluster H1 2020[1]



EBIT[2] H1 2019 vs. H1 2020 | in EUR mn

EBIT margin development[2]

10.8%	-1.9pp	-0.1pp	+0.1pp	-0.3pp	+0.4pp	9.0%

[1] FX-adjusted | [2] Before special items | [3] No FX impact

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Automotive OEM outperformance by quarters

YTD 20
Outperformance: +6.4pp

	Q1 20 IHS[1]	Q1 20 Auto OEM[2]	Q1 20 Outper-formance	Q2 20 IHS[1]	Q2 20 Auto OEM[2]	Q2 20 Outper-formance
World	-22.2%	-12.0%	+10.2pp	-44.5%	-42.0%	+2.5pp
Europe	-16.1%	-13.5%	+2.6pp	-61.1%	-59.5%	+1.6pp
Americas	-11.6%	-5.2%	+6.4pp	-70.8%	-62.5%	+8.3pp
Greater China	-45.7%	-22.8%	+22.9pp	+8.5%	+17.3%	+8.8pp
Asia/Pacific	-13.3%	-7.3%	+6.0pp	-55.4%	-41.9%	+13.5pp

New regional structure for 2019 and 2020 figures applied

FY 19
Outperformance: +4.7pp

	Q1 19 IHS[1]	Q1 19 Auto OEM[2]	Q1 19 Outper-formance	Q2 19 IHS[1]	Q2 19 Auto OEM[2]	Q2 19 Outper-formance	Q3 19 IHS[1]	Q3 19 Auto OEM[2]	Q3 19 Outper-formance	Q4 19 IHS[1]	Q4 19 Auto OEM[2]	Q4 19 Outper-formance
World	-5.7%	-1.7%	+4.0pp	-8.2%	-4.2%	+4.0pp	-3.8%	+1.4%	+5.2pp	-4.2%	+1.2%	+5.4pp
Europe	-6.5%	-3.5%	+3.0pp	-8.3%	-7.5%	+0.8pp	-0.1%	-3.6%	-3.5pp	-3.7%	-7.1%	-3.4pp
Americas	-3.4%	+12.4%	+15.8pp	-2.2%	+4.7%	+6.9pp	-1.3%	+8.7%	+10.0pp	-8.0%	+3.8%	+11.8pp
Greater China	-11.3%	-14.5%	-3.2pp	-18.7%	-10.7%	+8.0pp	-7.7%	+7.1%	+14.8pp	+3.1%	+24.6%	+21.5pp
Asia/Pacific	-0.4%	+1.2%	+1.6pp	-0.9%	-0.8%	+0.1pp	-5.0%	-2.1%	+2.9pp	-10.5%	-9.7%	+0.8pp

[1] Light Vehicle production growth according to IHS Markit as of July 16 | [2] FX-adjusted sales growth of Automotive OEM division

Backup

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Key figures by Group and division

Adjusted comparative figures 2019

Group | in EUR mn

	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Sales	3,622	3,604	3,613	3,588	3,282	2,292
Sales Growth[1]	*+0.4%*	*-2.0%*	*+1.2%*	*+0.6%*	*-9.2%*	*-34.5%*
EBIT Reported	230	253	312	-5	-88	-135
EBIT bsi	272	284	327	279	215	-150
EBIT bsi margin	7.5%	7.9%	9.1%	7.8%	6.5%	-6.5%

Automotive Aftermarket | in EUR mn

	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Sales	443	461	482	462	446	301
Sales Growth[1]	*-1.1%*	*-3.6%*	*+0.1%*	*+0.1%*	*+1.5%*	*-30.5%*
EBIT Reported	69	72	87	62	76	27
EBIT bsi	69	72	87	77	76	27
EBIT bsi margin	15.5%	15.6%	18.1%	16.7%	17.1%	9.0%

Automotive OEM | in EUR mn

	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Sales	2,285	2,232	2,254	2,272	2,008	1,256
Sales Growth[1]	*-1.7%*	*-4.2%*	*+1.4%*	*+1.2%*	*-12.0%*	*-42.0%*
EBIT Reported	58	90	143	-5	-220	-225
EBIT bsi	113	108	158	117	50	-229
EBIT bsi margin	4.9%	4.9%	7.0%	5.1%	2.5%	-18.2%

[1] FX-adjusted

Industrial | in EUR mn

	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Sales	893	911	877	853	828	734
Sales Growth[1]	*+6.9%*	*+5.0%*	*+1.2%*	*-0.6%*	*-7.5%*	*-18.1%*
EBIT Reported	103	91	83	-63	56	63
EBIT bsi	90	104	83	84	88	52
EBIT bsi margin	10.1%	11.4%	9.4%	9.9%	10.7%	7.1%

Overview Corporate and Financing Structure

SCHAEFFLER

Corporate structure (simplified) | as of June 30, 2020

Financing structure | as of June 30, 2020

A IHO Verwaltungs GmbH

	Debt instrument	Nominal (USD m)	Nominal (EUR[1] m)	Interest	Maturity	Rating (Fitch/Moody's/S&P[5])
Loans	Term loan (EUR)	-	600	E+2.75%	May-24	Not rated
	RCF (EUR 400 m)	-	-	E+2.75%	May-24	Not rated
Bonds	3.625% SSNs 2025 (EUR)	-	800	3.625%	May-25	BB+/Ba2/BB-
	3.75% SSNs 2026 (EUR)	-	750	3.75%	Sep-26	BB+/Ba2/BB-
	4.75% SSNs 2026 (USD)	500	447	4.75%	Sep-26	BB+/Ba2/BB-
	3.875% SSNs 2027 (EUR)		500	3.875%	May-27	BB+/Ba2/BB-
	6.00% SSNs 2027 (USD)	450	402	6.00%	May-27	BB+/Ba2/BB-
	6.375% SSNs 2029 (USD)	400	357	6.375%	May-29	BB+/Ba2/BB-
	Total IHO Verwaltungs GmbH		**3,856**	**Ø 3.68%[2,3]**		

B Schaeffler AG

	Debt instrument	Nominal (USD m)	Nominal (EUR[1] m)	Interest	Maturity	Rating (Fitch/Moody's/S&P[5])
Loans	RCF (EUR 1,800 m)	-	100	E+0.50%	Sep-23	Not rated
	Investment Facility (EUR)	-	238	E+1.00%	Dec-22	Not rated
	Schuldschein Loans (EUR)	-	507	Ø 1.52%	May-23, 25 & 28	Not rated
CP	Commercial Paper Program (EUR)	-	297	Ø 0.16%	Ø Aug-20	Not rated
Bonds	1.125% SNs 2022 (EUR)	-	750	1.125%	Mar-22	BBB-/Ba1/BB+
	1.875% SNs 2024 (EUR)	-	800	1.875%	Mar-24	BBB-/Ba1/BB+
	3.25% SNs 2025 (EUR) - SFBV[4]	-	600	3.25%	May-25	BBB-/Ba1/BB+
	2.875% SNs 2027 (EUR)	-	650	2.875%	Mar-27	BBB-/Ba1/BB+
	Total Schaeffler Group		**3,942**	**Ø 1.91%[3]**		

[1] EUR/USD = 1.1198 | [2] After cross currency swaps | [3] Incl. commitment and utilization fees
[4] Bond issued by Schaeffler Finance B.V., guaranteed by Schaeffler AG | [5] Downgrade on 20 July 2020

SCHAEFFLER

Backup 2

Backup 2
–
Additional information

Backup

Coronavirus Update – Market Indicators for our three divisions

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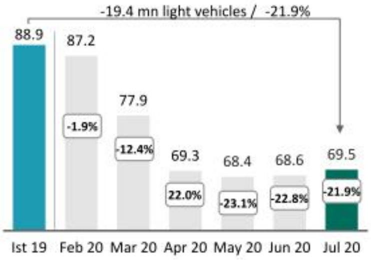
Auto OEM – Global LVP[1] 2020



- In June, the global LVP[1] stabilized/slightly increased for the first time since the Coronavirus pandemic
- Global LVP[1] expected to continue to decline in H2 20, however less severe than in H1 20

[1] Light Vehicle Production (IHS Markit as of July 16)

Auto AAM – Mobility trends

Source: Apple

- Increasing mobility rates across all regions, partly related to increasing preference towards individual mobility
- Positive mobility development is expected to be offset by restricted consumer spending

Industrial – Industrial production 2020

in % vs. 2019, Source: Oxford Economics June 2nd, 2020

- Further deterioration of the 2020 outlook. Q2 potentially the trough point due to lockdowns and various restrictions
- Majority of G7 economies amongst the hardest hit countries (e.g. Italy, France, Germany). China as a clear bright spot.

Backup

Strong liquidity position of more than EUR 2.4 bn at the end of June – Schuldschein loans successfully raised in Q2

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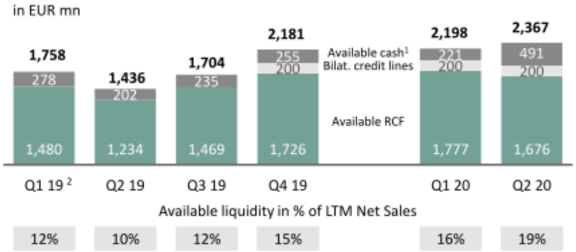
Liquidity

- Cash balance Schaeffler Group as per end of June 2020 EUR 919 mn (end of March EUR 629 mn, year end 2019 EUR 668 mn)
- Committed unused credit lines on Group level of almost EUR 1.9 bn as per end of June 2020, available liquidity[1] 19% of LTM Net Sales



[1] Excluding restricted cash | [2] Excluding cash required for redemption of called bonds

Maturity Profile

- Robust debt maturity profile, no major redemptions until March 2022; Commercial Paper maturities fully covered by available cash[1]
- Schuldschein transaction with 3, 5 and 8 year maturities in a total volume of EUR 507 mn settled in Q2 2020