# COMMENTED SLIDES / CONFERENCE CALL RESULTS Q1 2020

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## Results Q1 2020 Schaeffler AG

Conference Call
May 6, 2020
Herzogenaurach

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## Company Representatives

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Dietmar Heinrich, CFO
Renata Casaro, Head of Investor Relations

## Conference Call (Active) Participants

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Victoria Greer, *Morgan Stanley*
Kai Mueller, *BofA Merrill Lynch*
Akshat Kacker, *JP Morgan*
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Operator

Dear Ladies and Gentlemen, welcome to the Q1 2020 Results Conference Call of Schaeffler AG. (Operator instructions)
At research our customer's request the conference will be recorded and a 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.

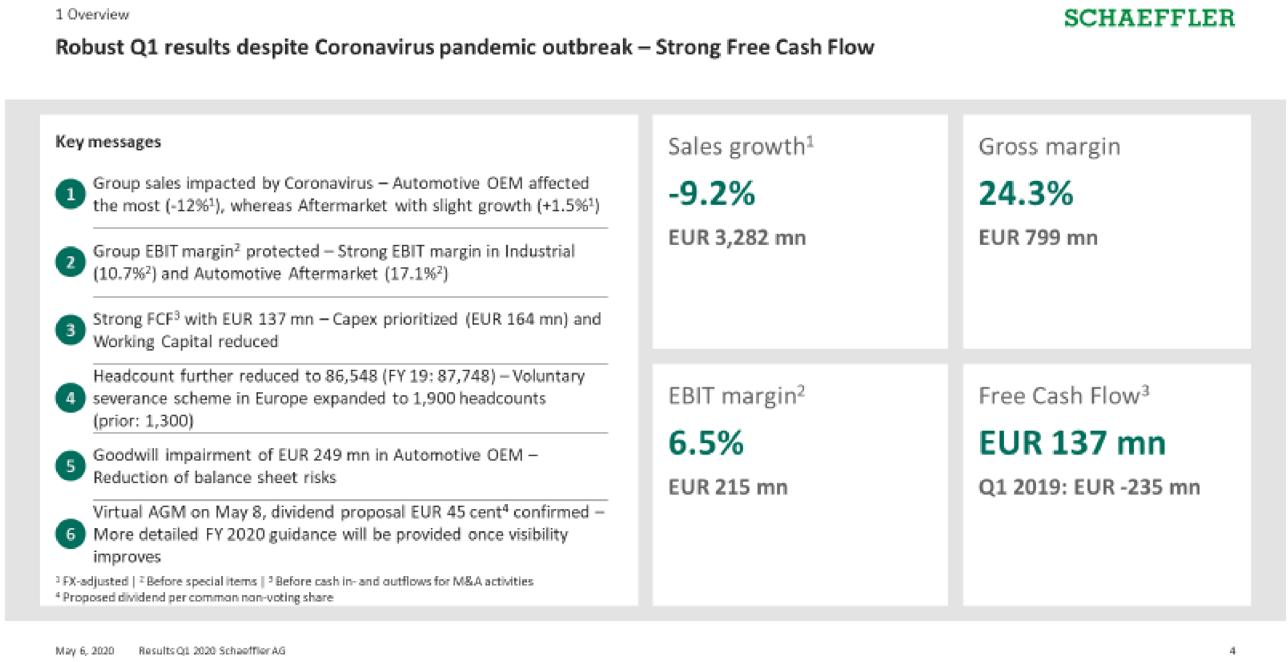
Renata Casaro

Thank you very much, operator.
Dear Analysts, dear Investors, thank you very much in this busy day for your time.
Mr. Rosenfeld, the CEO of the Schaeffler Group and Mr. Heinrich, the CFO, will lead you through the first 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

Thank you very much, Renata.
Ladies and gentlemen, thanks for joining the call this morning. We're happy to present our Q1 results in this uncertain and challenging times. Let me, without further introduction, immediately go to our first page.

**Agenda**




Page #4 has the key messages. I think it's fair to say that the results of Schaeffler AG in the first quarter are robust despite the Coronavirus pandemic outbreak. And what is clearly outstanding here is the strong Free cash flow of EUR 137 million that we will explain in more detail.

Very quickly through the key messages. Group sales, minus 9.2% are impacted by the Coronavirus environment, Automotive OEM, affected the most. Certainly, Aftermarket was a surprise here with slight growth, while Industrial kept up quite well but had also good comps in Q1 2019 that, to some extent, explains the reduction there. The margin, we basically protected the lower end of our guidance that we suspended. Here, both Industrial and Aftermarket delivered good margins with 10.7% and 17.1%.

And then on the Free cash flow, I already mentioned the number. Key drivers was Capex prioritized and also a reduction in working capital. We're clearly benefiting here from what we initiated in the last year. The Capex discipline, the focus on working capital and Free cash flow generation has helped here in that first quarter. When you look to the Free cash flow conversion ratio, that is above 40%. Don't get this wrong, this is not the new target number. That is simply a last 12 months calculation, where the fact that, typically, the first quarter in the previous years was a negative Free cash flow quarter plays an important role. However, I would like to use the opportunity here to stress how important we think is Free cash flow generation these days and how important it is to protect Free cash flow and also our very comfortable liquidity position.

There are 3 a little bit unusual things that I would like to mention that also explain the special effects in this quarter. First, you all know that we have continuously improved our headcount and further reduced it. This has also continued in the first quarter. And I'm happy to say that we were lucky that we started already end of last year to negotiate an additional voluntary severance scheme with our workers' council. We shared with you at the 10th of March, when we published our full year results, the target of 1,300. Meanwhile, we have been able to expand that number to 1,900, of which 1,700 come from Europe – from Germany and 200 from a European neighbor country. This is a little bit extraordinary because, normally, in such a crisis, it's not possible to negotiate such schemes with workers' council. Everyone is focused on saving jobs and weathering the crisis. So we just took the opportunity to extend, that triggered restructuring cost and restructuring provisions, on the one hand, but it also gives us some support for the next quarters to come that we can further optimize our cost base not only through tactical cost measures but through these structural improvements.
The second peculiar thing this quarter was this goodwill impairment. That may have come a little bit as a surprise. It is a reflection of our approach to carefully and, to some extent, proactively manage our balance sheet risk. When we started into the crisis, Dietmar and myself did a review of the full balance sheet and said where do we have potential risk, what could happen in this uncertain environment. And we decided that our balance sheet could be strengthened if we proactively impair the goodwill. We – you may recall this – we had EUR 600 million goodwill on the books end of last year, more or less half Automotive OEM, half the other businesses. This is in particular driven by historic acquisitions from the past. And we did the normal valuation work here and said the uncertainty that is coming allows us to clean up parts of this goodwill. This does not mean that we are not holding on to our Automotive OEM business. The opposite is true. We just wanted to take out risk early on because we expect that the world will not be the same in the next years and, therefore, also planning will be more challenging.
Last point is then on the dividend. We have decided to confirm our dividend proposal. The virtual AGM happens on Friday, and we think that's a justified move when you look at the strong balance sheet and also the good liquidity position. On guidance, we, like most of our other peer companies, have decided to give you a directional guidance, but the specific guidance needs to wait until the visibility improves.

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## Schaeffler Group Q1 2020 – Highlights and lowlights

- Automotive OEM sales down by 12%[3] in Q1, with strong outperformance of 11pp (vs. LVP[1] of -23%); E-Mobility business division with stable development
- Automotive Aftermarket with strong performance backed by a solid sales development in Europe and ongoing cost discipline
- Industrial with higher EBIT margin[2] yoy despite sales contraction by 7.5%[3]; sector cluster Wind with continued very strong growth pattern, especially in Greater China
- Strong FCF[4] of EUR 137 mn, driven by lower investments in previous quarters and reduced Working Capital

[1] Light Vehicle Production (IHS Markit as of April 27) | [2] Before special items | [3] FX adjusted | [4] Before cash in- and outflows for M&A activities

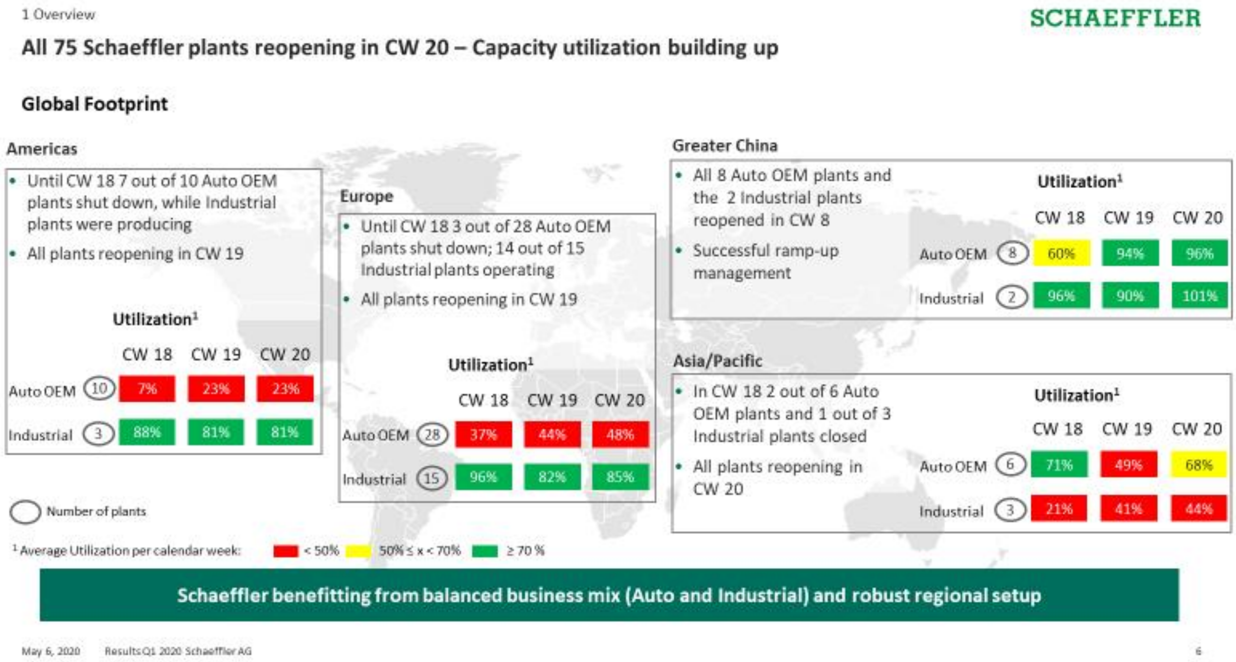
- Group gross margin further declined albeit on the back of significantly lower organic growth due to the Coronavirus pandemic
- Automotive OEM gross margin subdued driven by Coronavirus-triggered rapid sales drop overcompensating cost flexing measures
- Cyclical sectors in Industrial with continued double-digit sales declines, especially in Industrial Automation, Offroad and Two-Wheelers
- Coronavirus implications trigger EUR 249 mn goodwill impairment in Automotive OEM; conservative valuation results in reduced balance sheet risks



I think I can do page #5 rather quickly, it's the usual page that explains the pros and cons, only highlighting 2 or 3 issues here. Our E-Mobility business is continuing well. We see a lot of demand coming in for new projects. The guys have worked even with helm cameras to go through testing during the last weeks and months. So that is clearly something that is on the positive.

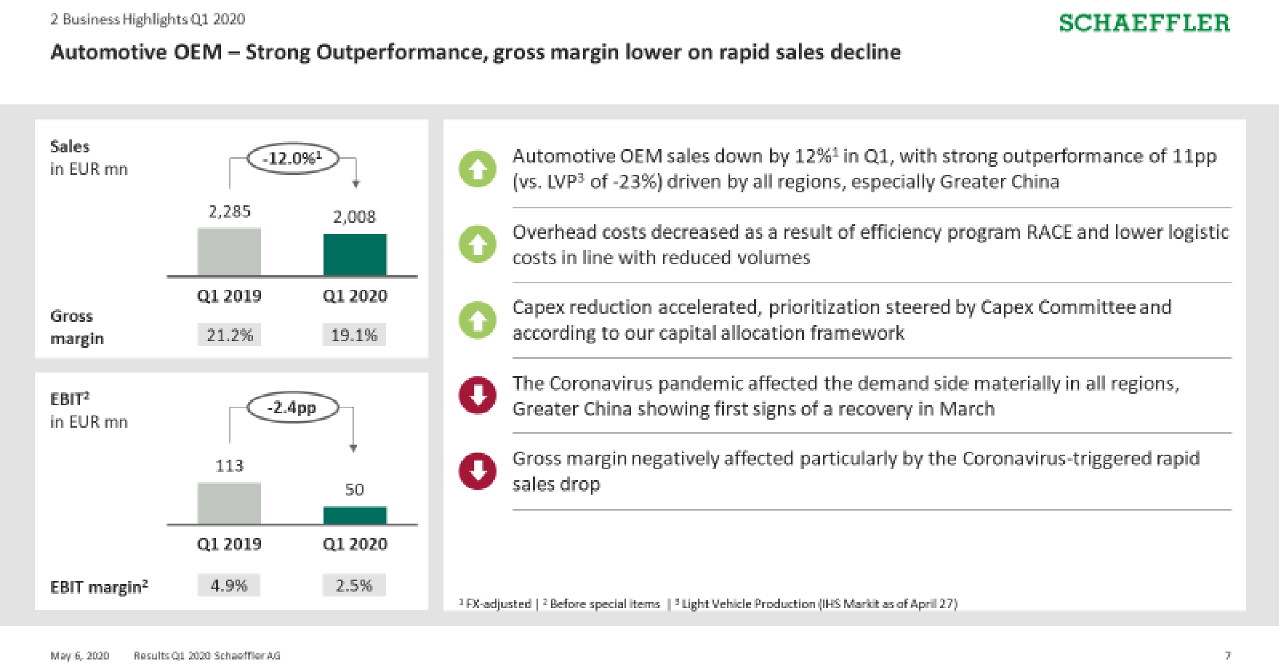
Outperformance these days, we need to be a little bit careful. The 11% should not be used to extrapolate, but it shows that we are slightly better than the market. Automotive Aftermarket, I touched here, the first quarter is not representative for the quarters to come because the shutdowns in the industry, the garages and the other workplaces and stations could not work in the last week, so that will also show an impact in the second quarter.

Industrial, Wind is exceptional. And as we're expecting a recession, also Industrial will see some more difficult weeks ahead. However, the order intake that we measure on a 12-month basis, Dietmar, is good and shows that the Industrial business will serve also going forward as a diversification element in our business mix. Free cash flow mentioned already. Clearly, on the negative side, the crisis hits us. We are expecting lower organic growth. It triggered the goodwill. And on the Automotive OEM, we don't expect that the sales will come back that quickly, so it's even more important that we continue to flex our cost base.

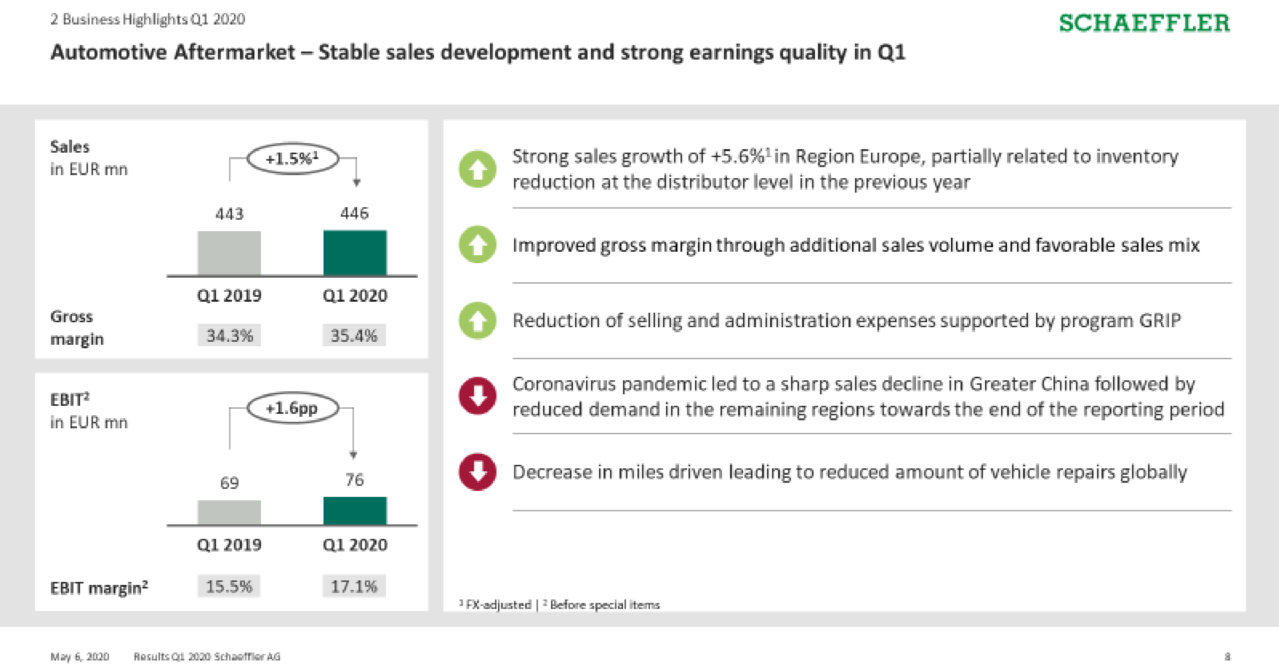



Maybe more interestingly is page #6 to give you some color. That's a new page out of our standard – outside of our standard reporting. What we want to bring across here, and some of you remember that from the last quick capital market update, this is a page for our global footprint. I'm proud to say that [next, *IR annotation*] week, all our 75 Schaeffler plants are [planned to reopen, *IR annotation*] and capacity utilization is building up. If you see this green, red and yellow, it shows again that we are benefiting from the fact that we are not an Automotive supplier only but that we have a more balanced business mix. And also the regional setup helps us to manage this crisis. Just to explain the table very quickly, you see in the circles the number of plants we have in the region and for the Divisions there. For example, 10 plants in Automotive OEM Americas, including Mexico, all are working again. And the boxes then give you the capacity utilization that we saw in calendar week 18 that we are now expecting for calendar week 19, 23%; and also in calendar week 20, you see the number. What this page shows is that China is in this calendar week, but also for the next calendar week, well on track to go back to the normal capacity utilization, 100% plus for Industrial driven by Wind and more than 90% for Auto. I would say China is probably 8 to 10 weeks ahead of the other regions. So Europe is building up in Auto, while Industrial is coming in a little bit softer for the next weeks, not a surprise. Asia Pacific, our smallest region, is very much also impacted by India. The Auto business is small there, pretty stable. This is, in particular, Korea, where we have 3 plants that are performing well. On the Industrial side, the yellow there is a little bit driven by the India experience, where the plants had to be shut and where our capacity is rebuilding. And then on the Auto side, in Americas, you see that they are lagging behind, and that we need to see how that builds up, while the Industrial, that is a smaller business there, is running somewhere between 80% and 90%. Hopefully, that gives you an idea of how this is going forward. We are monitoring this on a weekly basis, and I'm happy to share this information also going forward.

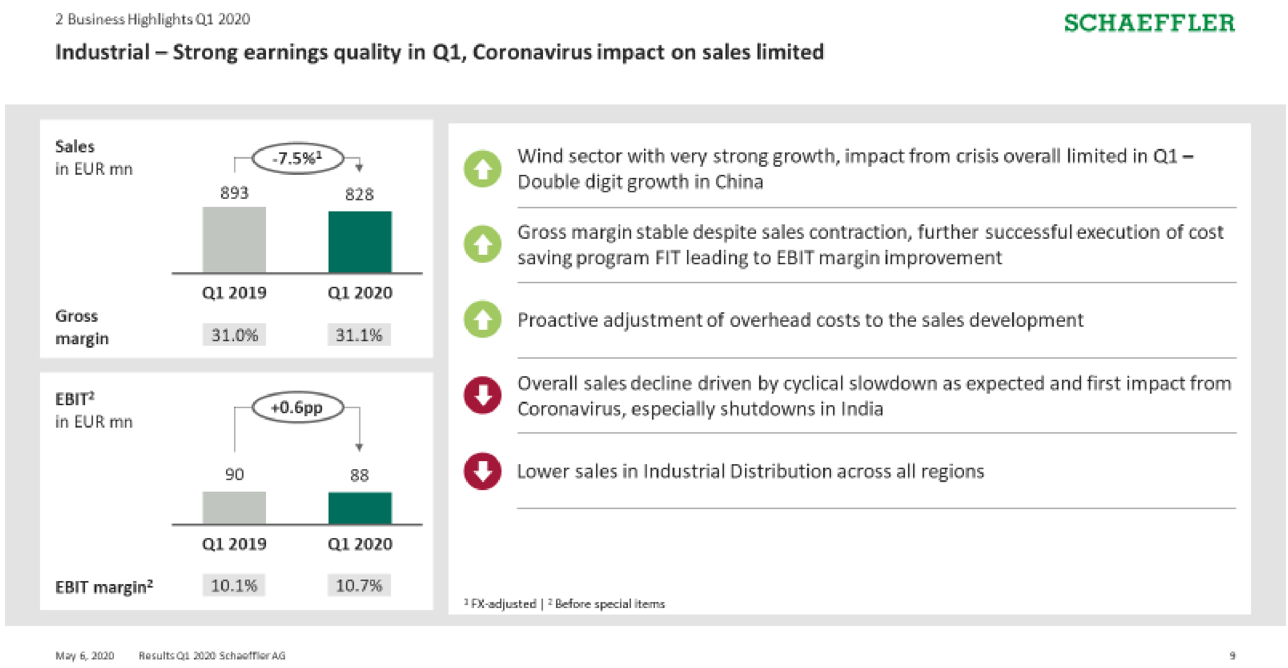
Let me say here this ramp-up is a managerial challenge. We haven't done this before. But I can assure you we are a strong operationally oriented team and have our hands upon the wheels and the eyes on the road, so I think we will get this done quite successfully. However, we do expect that the ramp-up will go step by step and that will not reach the pre-crisis levels soon.



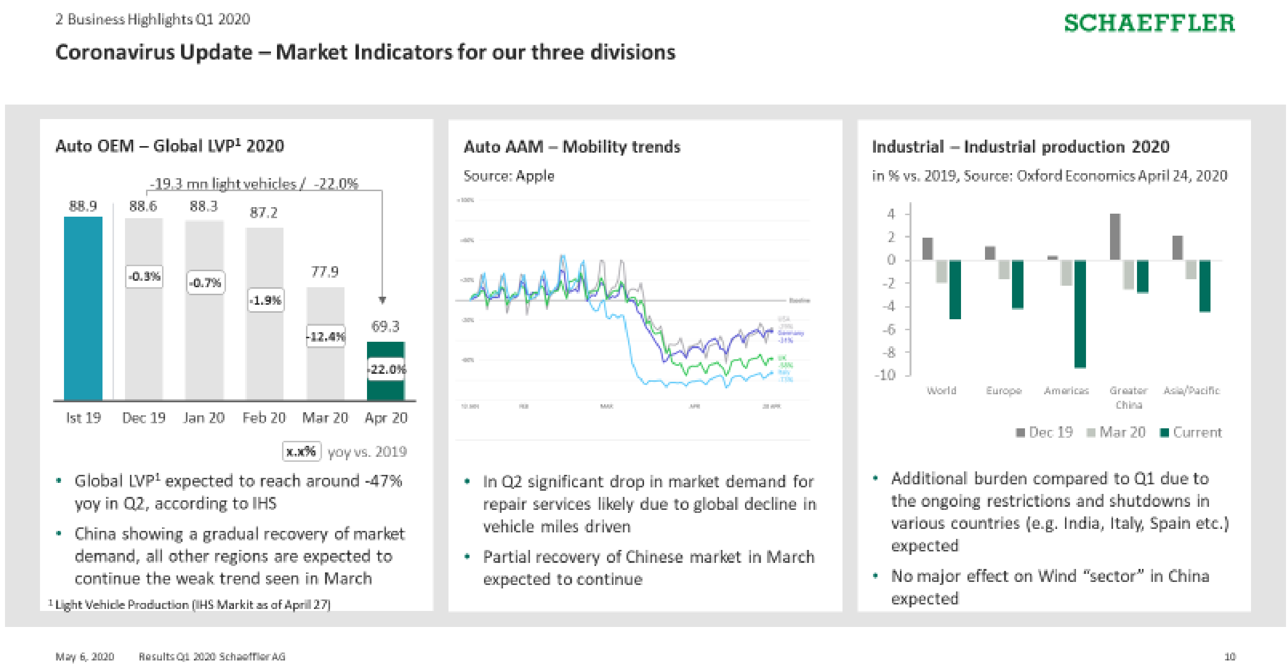

Now on the Automotive OEM part, I think I will do this rather short to allow more time for your questions. You can read the messages here. The outperformance was strong, and Dietmar will talk about this later on. The focus here is clearly on flexing the cost base in the right manner.




Automotive Aftermarket, next page. I think what we can say is that the first quarter clearly benefited from strong sales growth in the region Europe. The margin was 17.1%, definitely points in the right direction. And here also, our efficiency programs, the program GRIP, started to pay off with the reduction of selling and admin expenses. However, going forward, do not expect that this continues in the second quarter. Also, the Aftermarket will be hit by the environment.




Industrial, also here the key messages have been shared, and Dietmar will show this later on. We clearly benefited from the very strong growth in the Wind sector. The impact from the crisis is limited in the other sectors so far. And the big question is how it will build up going forward. Again, if I look at our order intake, it looks to me that the situation that comes from this global recession may sound a little bit more dramatic than what we are going to experience in the next quarters.




#10 is also a new page, just to share with you some insight on how we look at market indicators at the moment. I think you all follow as we do IHS figures. Global LVP numbers are somewhere around 70 million cars, a drop of 22% for the full year with a dramatic drop in the second quarter. We need to see how we can decouple from this.

Then Aftermarket, an interesting chart here that shows a source from Apple, the level of mobility, similar indicator like congestion indices. And it's obvious, take the light blue line at the end, that mobility in terms of people driving around has clearly dropped and is now recovering in China first. So that will be an important indicator for also the activity in the Aftermarket because the more people drive cars, the more they need to be repaired.

Industrial, the latest Oxford Economics projection, minus 5% for the world, stronger in the U.S., less strong in China. So this minus 5%, from my point of view, is not a bad indicator.

2 Business Highlights Q1 2020

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**Coronavirus Update – Countermeasures on Group and divisional level**

| | |
|---|---|
| **Health & Safety** | • Strict health and safety measures implemented worldwide<br>• Continued disciplined execution during ramp-up phase |
| **Cost discipline** | • Flexing of cost base (e.g. short-time work) and structural improvements<br>• Strict spending control measures (e.g. consultancy costs, R&D projects) |
| **Capital discipline** | • Reprioritization and reduction of Capex<br>• Working Capital management |
| **Liquidity** | • Robust liquidity position<br>• No redemptions until 2022 |
| **Balance Sheet** | • Goodwill impairment results in reduced balance sheet risks<br>• Low complexity is an advantage |

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In this environment, and this is also a page outside the normal reporting package, what counts is the disciplined execution of countermeasures. This, on page #11, is like a CEO dashboard that I wanted to share with you. First priority clearly is to make sure that people stay safe and healthy. We are on a solid track here. The number of cases has dramatically reduced. And the most important thing is now that the health and safety measures are in a very disciplined manner applied when we start to ramp up.

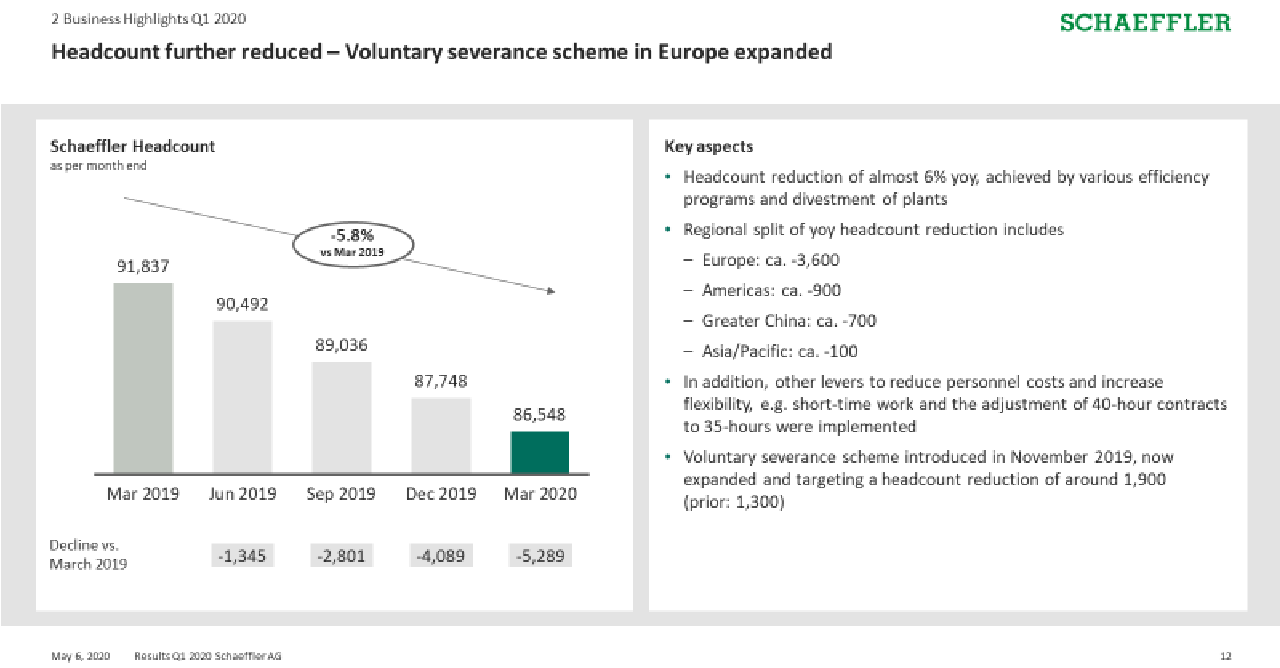
Second key priority is to support our customers. Before I come to capital discipline, let me say this very clearly, this crisis is also an opportunity. It will come to an end at some point in time, and it's now the time to understand how the world will change, what the market and our customers will do and how we best adjust to it. So one of our key priorities is clearly to support our customers where they need us. That's part of our supplier mission.

However, there are ample opportunities to address the key levers of profitability and, in particular, Free cash flow. We have shown last year that we can flex our cost base, and that's what we're doing. With great focus, in particular, short-time work not only in Germany but also similar instruments in other jurisdictions. Just to give you a flavor here from our around 30,000 people in Germany, we have applied for about 45% short-time work. That in itself says not really very much because for the financial impact, it's important to understand the intensity of the short-time work. You can apply for 1 day of a week. You can apply for 5 days of a week. So you are very flexible in doing that. And we'll come back to that later on. But I think we have really set up a system that helps us here to react in a very flexible manner – to also the potential ramp-up.

Talked about the structural improvement, that's a good thing. It will help us on a mid- to long-term to further optimize the cost base, what is definitely necessary and possible. And then on top of this, we have put in place a strict regime regarding spending control measures. Let me explain that in a little detail. What we have done, we have basically looked at the different components of our cost base and said we want to save a percentage – a significant percentage of what we call the non-production material. The non-production material covers the corporate services, think about travel expense, think about consultancy cost. It also covers the plant areas. It covers tooling. It covers maintenance. And I think I can say this here, we want to go up to 15% [reduction, *IR annotation*] of this non-production material. That is not 100% directly P&L relevant. There's also a little bit of inventory here. Think just for about buying grease or something like that. So that's a pretty strict measure. And I think we'll see the benefits from this rolling in the next quarters.

Capital discipline, it's all about reducing but, in particular, reprioritizing Capex. I indicated this already this morning. We think we can run this year with 2/3 of last year's Capex. So last year was EUR 1 billion. If you extrapolate the EUR 164 million of the first quarter, that's probably a good indicator, and it will help us to manage the rest of the year. Working capital is more an art than a science, Dietmar. It's probably the most challenging part of the equation because, in some areas, you cannot assume – like you cannot do structural headcount reduction programs these days – that it's possible to further increase working capital efficiency. But clearly, lower volumes will also reduce working capital need. You have some distortion because of the receivable sales programs. So that's something that I think we can do. And the idea is that we, in total, should end up with lower working capital than end of last year.

Liquidity, already mentioned, is the most important thing. The liquidity position is robust, very comfortable. And really a big thank you to Dietmar that he increased our working capital lines, our revolvers end of last year as part of the refinancing of bonds. The balance sheet is strong, and goodwill impairment is a proactive balance sheet risk management step. I always praise the low complexity of Schaeffler balance sheet. There are no really unusual transactions on it, and therefore, low complexity is an advantage these days.




In the interest of time, let me do the next pages rather quickly. They just give you further information about what I said before. This is the headcount figure, another drop here in the first quarter, and this will continue to go down.

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## Prioritization of Capex – Reduction and re-phasing of investments resulting in lower spending

**Investment[1] allocation** | in EUR mn

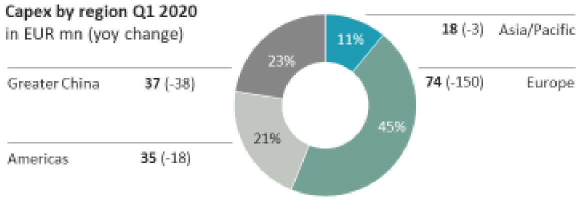
| | FY 18 | FY 19 | Q1 19 | Q1 20 |
|---|---|---|---|---|
| Automotive OEM | 1,049 | 702 | 223 | 88 |
| Automotive Aftermarket | 56 | 68 | 39 | 1 |
| Industrial | 170 | 163 | 34 | 69 |
| **Schaeffler Group** | **1,275** | **933** | **296** | **158** |
| **Capex** | **1,232** | **1,045** | 373 | 164 |
| **Capex ratio[2]** | **8.7%** | **7.2%** | 10.3% | 5.0% |

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

**Key aspects**

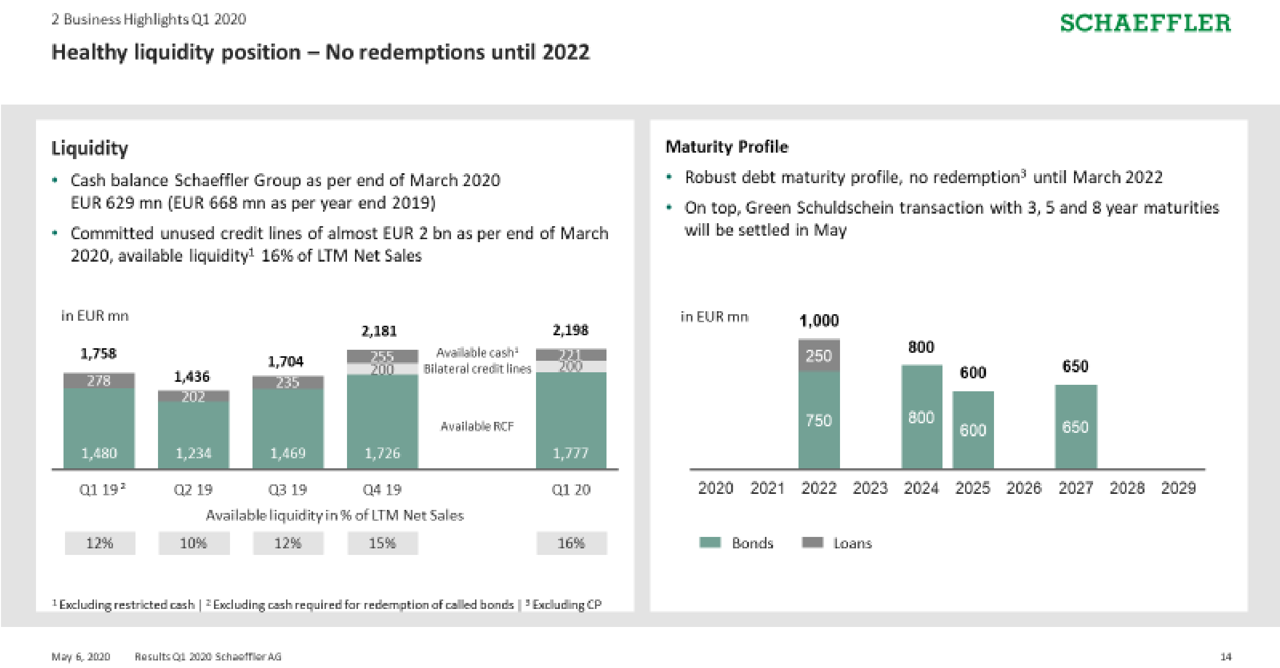
- Capex in FY 2020 reprioritized and to be reduced by at least one third compared to previous year
- Capex prioritization properly balanced between divisions
- Capex phasing to be equalized across quarters, no hockey stick

**Capex by region Q1 2020**
in EUR mn (yoy change)






Page #13 gives you the usual table with some additions to intangible assets, property, plant and equipment. You see the EUR 164 million, the 5%. And you also see in Q1 that there is a more balanced allocation of Capex between Automotive OEM and Industrial. Industrial is building up, in particular, also outside Europe because we want to improve our footprint. This includes also some of the Wind localization projects.




Next one is then on liquidity. I think everything is already said. The 16% available liquidity of last 12 months net sales, Dietmar, is a good and solid figure. It has improved. You see it here compared to the previous quarters. And we have a robust debt maturity profile going forward.

With this, I hand over to you, and thank you for your attention.

Dietmar Heinrich

3 Financial Results Q1 2020

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## Key figures Q1 2020

| in EUR mn | | Q1 2019 | Q1 2020 | Q1 2020 vs. Q1 2019 |
|---|---|---|---|---|
| **Sales** | 1 | 3,622 | 3,282 | -9.4% / -9.2%[1] |
| **Gross Profit** | 2 | 913 | 799 | -114 mn |
| ***Gross Margin*** | | *25.2%* | *24.3%* | -0.9pp |
| **EBIT**[2] | 3 | 272 | 215 | -57 mn |
| ***EBIT Margin***[2] | | *7.5%* | *6.5%* | *-1.0pp* |
| **Net income**[3] | 4 | 137 | -184 | -321 mn |
| **EPS**[4] **(in EUR)** | | 0.21 | -0.27 | -0.48 |
| **Schaeffler Value Added**[5] | 4 | 422 | 328 | -94 mn |
| **ROCE**[6] | | 15.0% | 12.8% | -2.2pp |
| **Free Cash Flow**[7] | 5 | -235 | 137 | +372 mn |
| **Capex** | 6 | 373 | 164 | -209 mn |
| **Net financial debt** | 7 | 2,805 | 2,414 | -391 mn |
| **Gearing ratio**[8] | | 88.5% | 93.8% | +5.3pp |
| **Headcount** | | 91,837 | 86,548 | -5.8% |

[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] Ratio of net financial debt to equity incl. non-controlling interests

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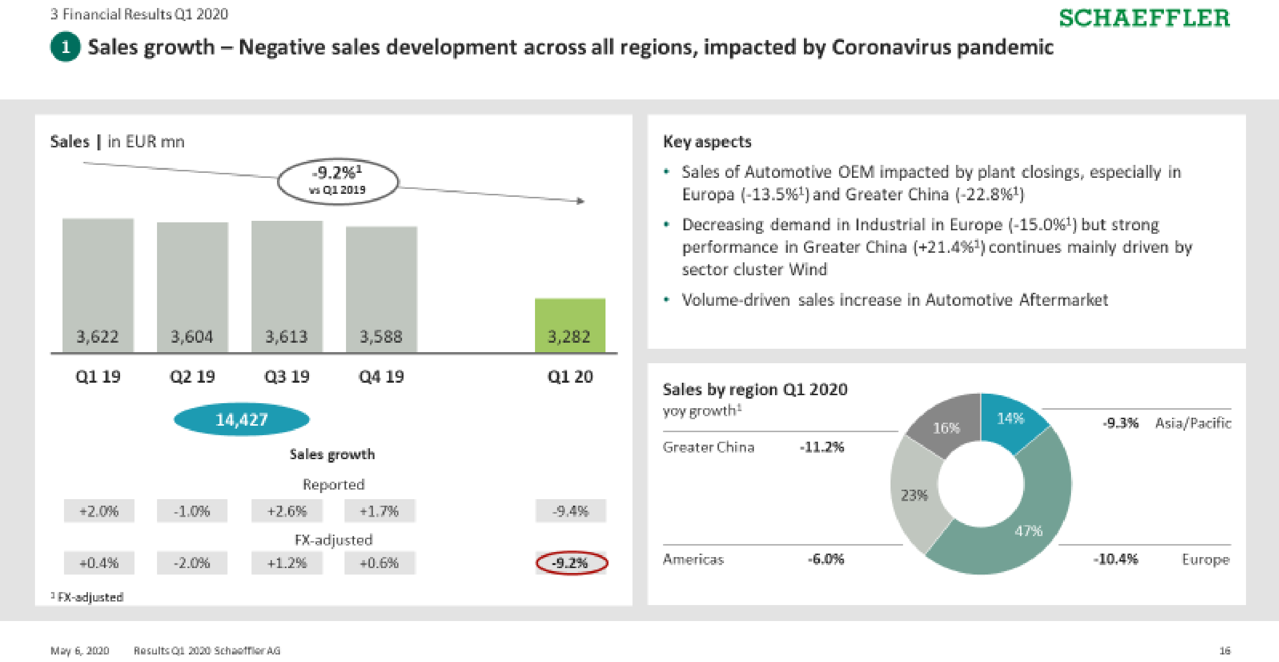
Klaus, thank you very much. Good morning, and welcome also from my side. I'm glad to have the opportunity to provide you insight into the details of our financial development one more – but also the last – time today.




And let me jump directly to page #16, where you can actually - some more information on the sales development. We ended up in first quarter with EUR 3.3 billion, which is a decline of minus 9%, and Klaus already indicated, major impact coming from the Automotive OEM side with the plant closings of our customers and, subsequently, also our reaction especially in Europe and Greater China. On the Industrial side, we have the decline, the decreasing demand in Europe, but also, and this was also already highlighted, the very strong performance in the Wind industry not only in China but especially in China, with a really good development considering especially the market condition in the Automotive Aftermarket. I will get back to later as well.

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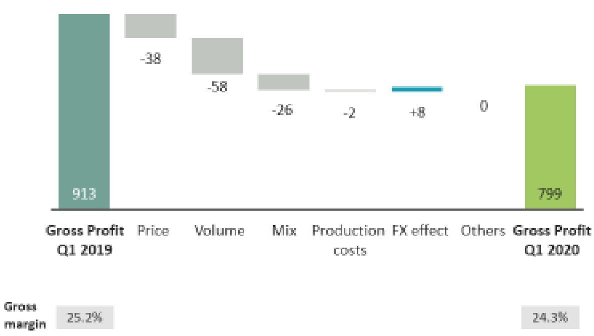
## 2 Gross Profit – Severe volume losses leading to lower gross margin

**Gross Profit Q1 2019 vs. Q1 2020 | in EUR mn**




**Key aspects**

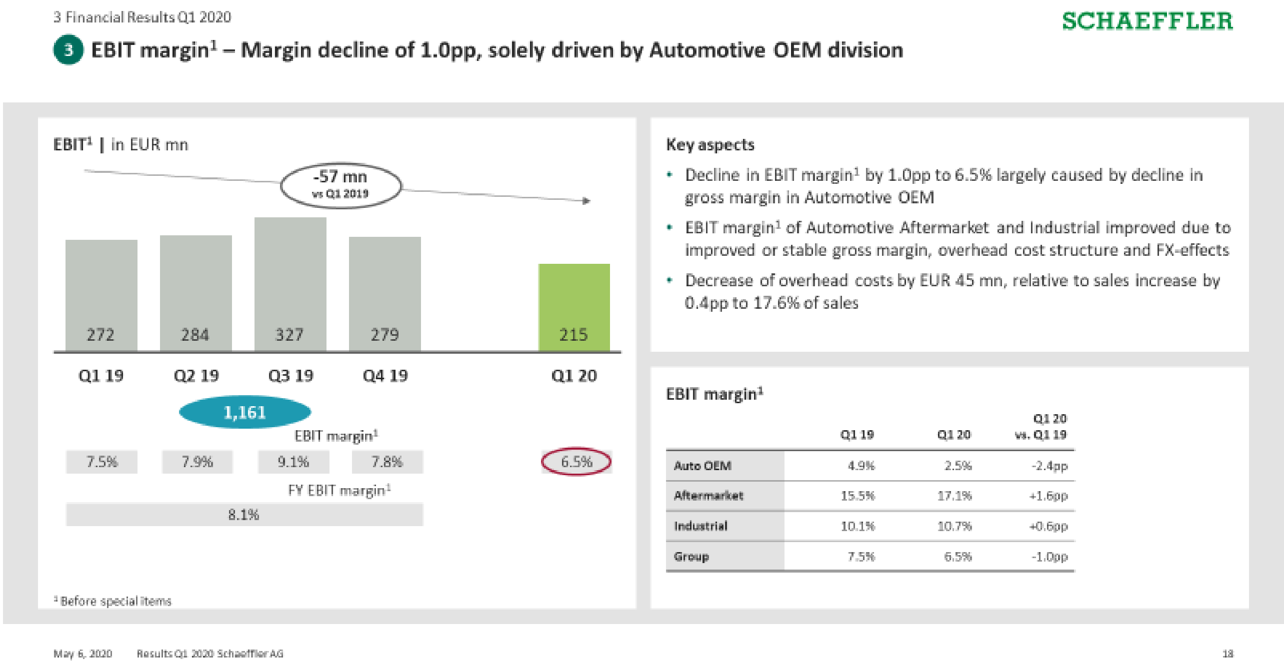
- Normal negative price effect in Automotive OEM, Industrial continued the positive price momentum
- Negative volume effects in Automotive OEM and Industrial due to demand drop triggered by the Coronavirus pandemic, hindering a realization of production cost improvements
- Ramp up costs in E-Axle and Hybrid systems account for large portion of mix effects

**Gross Margin**

| in % of sales | Q1 19 | Q1 20 | Q1 20 vs. Q1 19 |
|---|---|---|---|
| Auto OEM | 21.2% | 19.1% | -2.1pp |
| Aftermarket | 34.3% | 35.4% | +1.1pp |
| Industrial | 31.0% | 31.1% | +0.1pp |
| Group | 25.2% | 24.3% | -0.9pp |



Let's move on to page #17. And then there you can see the Gross profit development. And for sure, it's no surprise that the volume decline on the top line on the sales side is also having an impact on the gross profit development. We see a drop in the Gross profit to EUR 799 million, which is equal to 24.3%. and is dropped by around 1 percentage point. And as you can see, the majority of impact is coming from volume loss but also partially on the mix side with ramp-up costs in E-Axle and Hybrid systems. In regard to pricing, it's normal pressure or normal price reductions that we have in Automotive OEM, and we could even continue the positive development on the Industrial side. Finally, that leads to the situation that gross margin Auto OEM is at 19%; Aftermarket, 35%; and Industrial at 31%.




And then let's move on to page #18, where you see the EBIT margin development. EBIT in the first quarter of EUR 215 million, being equal to 6.5%, major impact coming from the already explained decline in the gross margin development, especially in the Automotive OEM area. On the Automotive Aftermarket and Industrial side, our EBIT margins even improved. But we compensated the impacts coming from gross margin developments as well with savings on overhead costs and having had some positive FX impact. Nevertheless, overall, looking at the 3 divisions, Automotive with an EBIT margin before special items of 2.5%; Aftermarket with 17% has had an increase compared to previous year; and also Industrial with 10.7%, compensating the negative volume impact as well as realizing the growth.

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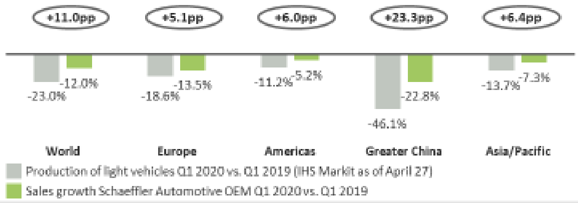
**Automotive OEM – Very strong outperformance, improved overhead cost control**

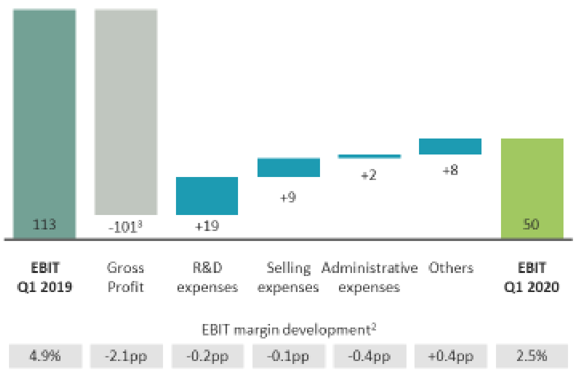
Sales by business division | yoy growth

| | Q1 2019 | Q1 2020 | Δ[1] |
|---|---|---|---|
| E-Mobility | 147 | 144 | -1.8% |
| Engine Systems | 699 | 604 | -13.8% |
| Transmission Systems | 1,038 | 902 | -13.5% |
| Chassis Systems | 401 | 359 | -9.9% |
| **Total** | **2,285** | **2,008** | **-12.0%** |

Outperformance: Sales[1] vs. market development in Q1




EBIT[2] Q1 2019 vs. Q1 2020 | in EUR mn




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

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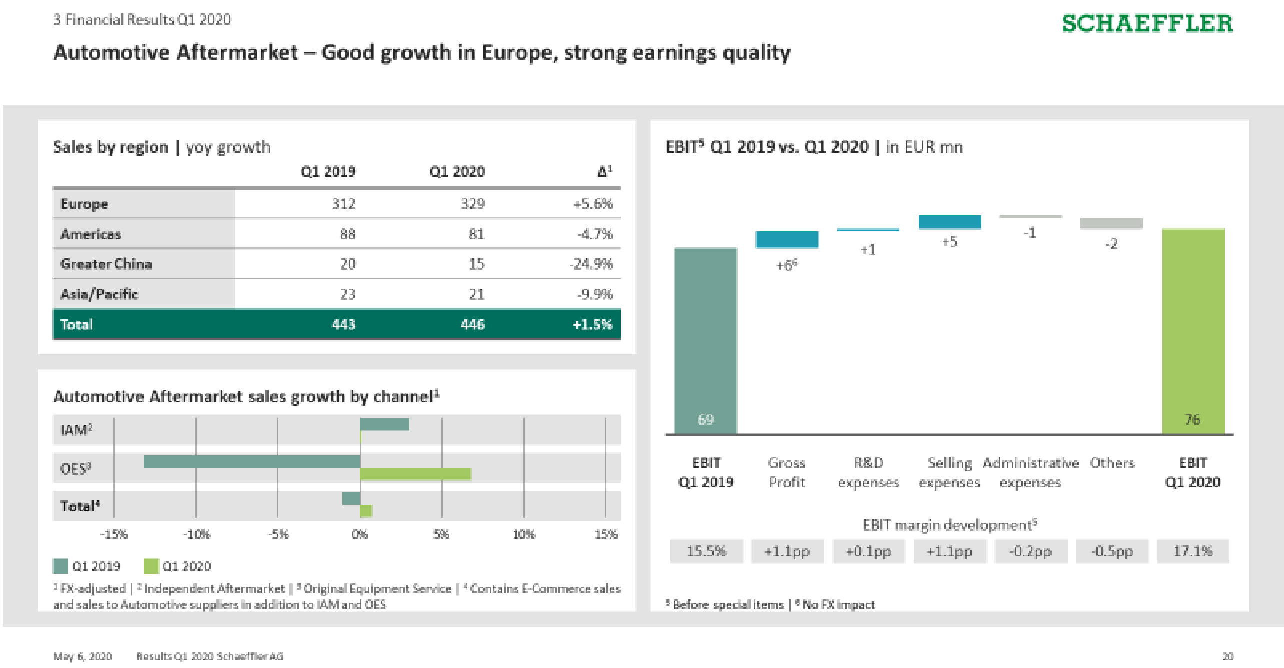
When we go then into the details of the Divisions, and we look to page #19. On Automotive OEM, we see the sales that was achieved amounting to EUR 2 billion, which is a drop of minus 12%, but we can also see that our business division E-Mobility could well perform in that market, just realizing a drop of minus 1.8%. And Klaus also already indicated and you can see here more details that we had a strong outperformance against the market in the first quarter especially driven by outperformance in China. And on the right side, you can see then when looking through the overall picture of Automotive OEM that we, on one side, have the negative gross profit impact, but to at least a significant amount, we could compensate this with savings in the overhead areas and with some positive FX impact as well. So that finally, we already mentioned 2.5% EBIT margin could be achieved.




| | Q1 2019 | Q1 2020 | Δ[1] |
|---|---|---|---|
| Europe | 312 | 329 | +5.6% |
| Americas | 88 | 81 | -4.7% |
| Greater China | 20 | 15 | -24.9% |
| Asia/Pacific | 23 | 21 | -9.9% |
| **Total** | **443** | **446** | **+1.5%** |

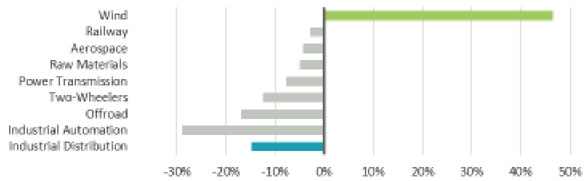
Then let's move to Automotive Aftermarket, page #20. Sales development, as said, plus 1.5%. So sales amounting to close to EUR 450 million especially driven by Europe with a plus of 5.6% and having had to face the declines in the other 3 regions. You can see that on one side, the Independent Aftermarket was basically flat. OES increased compared to previous years or year, but we have to be aware that last year, there was especially in the first half of the year and in the first quarter, weak OES market. So this is also explaining that we have a positive base effect now for this year. When looking to profitability, as already mentioned, EBIT margin of 17.1% actually being generated, the improvement by positive sales mix, that led to an improvement in Gross profit and savings on the overhead cost side. So this is from a sales but also from a profit development a positive development in the current market in the first quarter, but being aware that the second quarter will be even more challenging.

## Industrial – Strong sales growth in sector cluster Wind, strong earnings quality in Q1

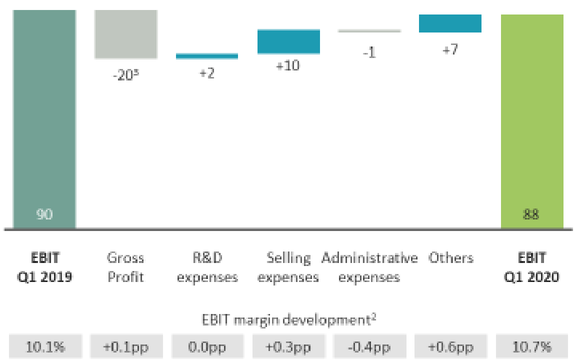
**Sales by region** | yoy growth

| | Q1 2019 | Q1 2020 | Δ[1] |
|---|---|---|---|
| Europe | 438 | 372 | -15.0% |
| Americas | 162 | 149 | -9.5% |
| Greater China | 155 | 189 | +21.4% |
| Asia/Pacific | 138 | 118 | -14.1% |
| **Total** | **893** | **828** | **-7.5%** |

**Industrial sales growth by sector cluster Q1 2020[1]**



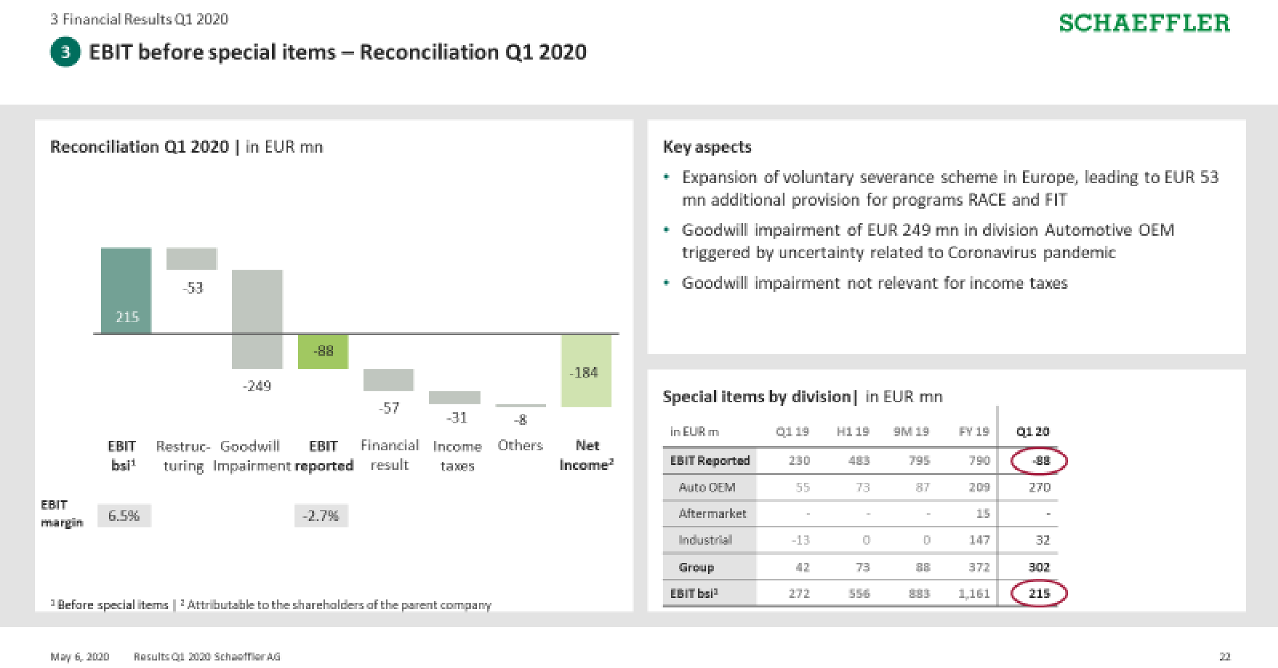

**EBIT[2] Q1 2019 vs. Q1 2020** | in EUR mn



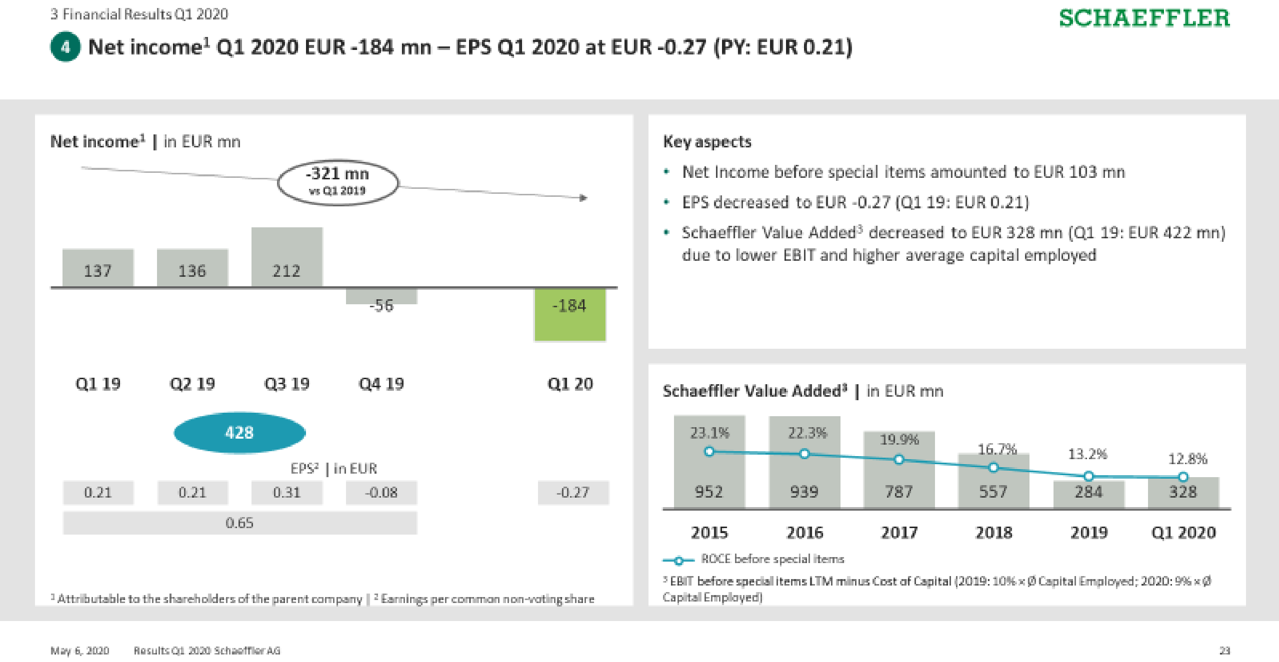

[1] FX-adjusted | [2] Before special items | [3] Includes positive FX effects of EUR 4 mn



On the Industrial side, page #21, we achieved sales of EUR 828 million, which is a decline of 7.5% compared to previous year. We can see that with the exception of China, all regions have been hit, and China was especially strong, growing by 21%. And you can see on the lower left side, what we already explained that especially Wind was supporting in an excellent way, compensating the decline in sales in the other more cyclical sectors. So on the right side, you can see the development of the EBIT. As mentioned, EBIT up to 10.7%. And you can see that basically, the decline in Gross profit being caused by volume decline was compensated by savings in the overhead area with some positive FX impact. So then finally, we could increase then the EBIT margin even compared to the first quarter of previous year.




Then when moving on to page #22 and now picking up what Klaus already explained, Two special impacts that we recorded in the first quarter. It's on one side, additional restructuring expenses for the voluntary severance scheme in Europe, especially we increased the provision here in conjunction with the programs RACE and FIT related to Automotive OEM and Industry. And the second topic that we see in here is the goodwill impairment that we did in the division Automotive OEM triggered especially by the uncertainty related to the Coronavirus pandemic.




And yes, with this, I would move on then to the Net income development on page #23. And first of all, our Net income before special items amounted to EUR 103 million, plus EUR 103 million. Yes, it's a decline compared to previous year, where we recorded EUR 169 million. And of course, then as already explained on the previous page, then the special impact, restructuring, the enhancement or expansion of the voluntary severance scheme and the goodwill impairment had a negative impact to that. When looking to the net income after these special items, we see a drop of the net income to minus EUR 184 million. But it is nevertheless, even in this more challenging market environment, we could now realize the Schaeffler value-added in the first quarter on the last 12 months consideration of EUR 328 million.

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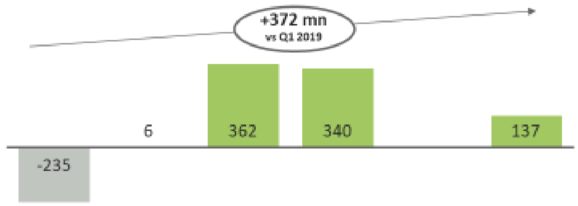
## 5 Free Cash Flow before M&A[1] FY at EUR 137 mn (PY: EUR -235 mn)

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




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

[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**

- Strong Free Cash Flow[1] of EUR 137 mn despite lower EBIT
- Working Capital, especially lower trade receivables, contributed to strong Free Cash Flow
- Strict capital discipline reduced cash outflows from Capex to EUR 164 mn (Q1 19: EUR 373 mn)

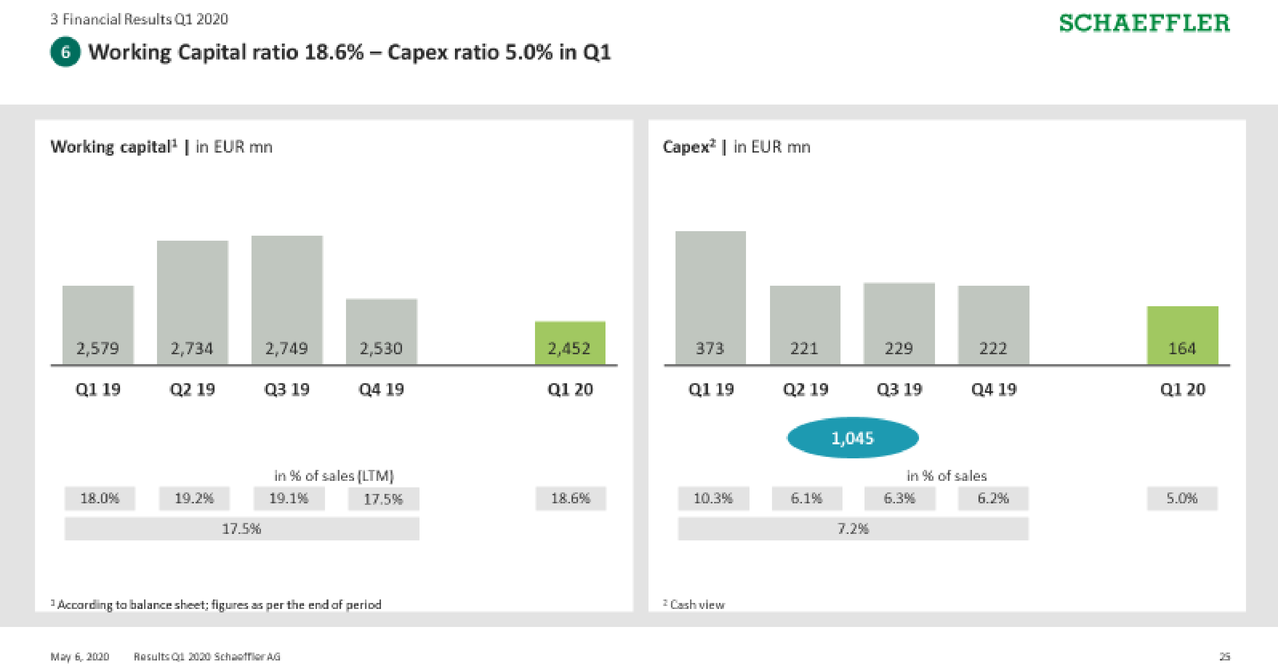
**FCF Details | in EUR mn**

| | Q1 2019 | Q1 2020 | *Δ Q1 20/19* |
|---|---|---|---|
| **FCF as reported** | (300) | 137 | *437* |
| M&A | 65 | 0 | *(65)* |
| **FCF before M&A** | (235) | 137 | *372* |
| Non recurring items[4] | 14 | 71 | *57* |
| Investments[5] | 51 | 0 | *(51)* |
| Receivable Sale Program | 0 | 0 | *0* |
| | (170) | 208 | *378* |

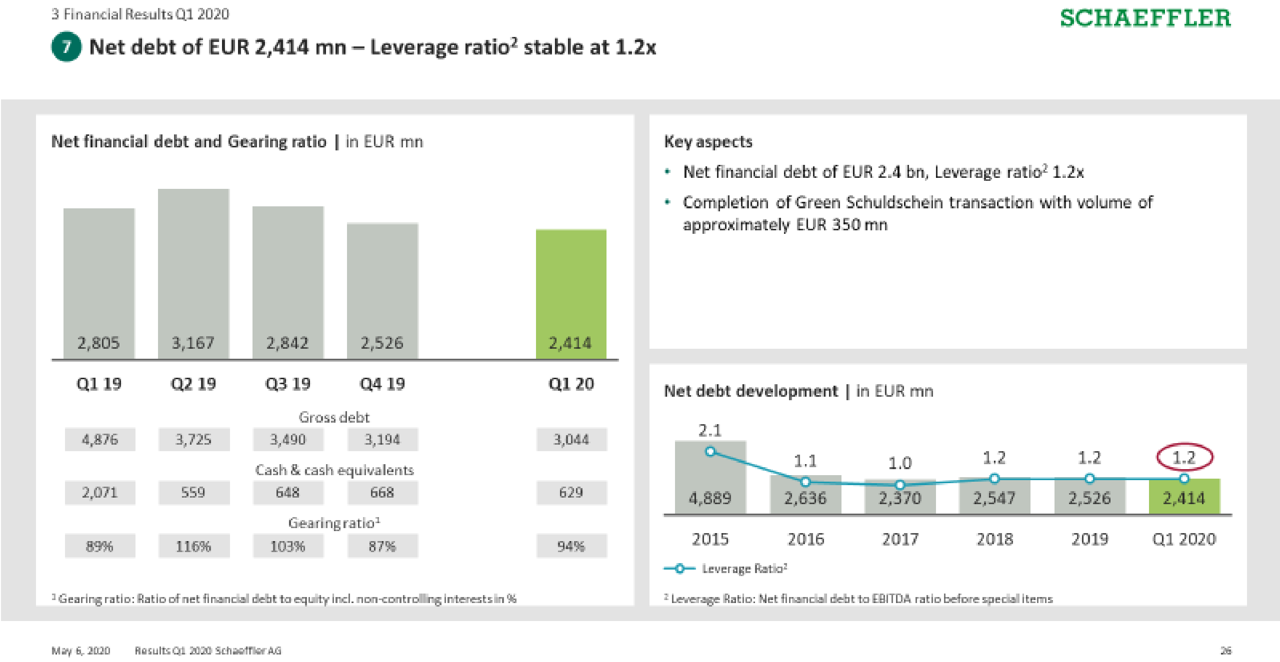
[4] Including payments for legal cases and restructuring measures | [5] Capex in major strategic projects, e.g. Agenda 4 plus One (AKO Europe, EDC, Focus)



Then moving on to the next page, Klaus, yes, already talked about the Free cash flow as well, and we are really – yes, I would say, proud, maybe, is wrong, but we are really satisfied with the development that could be realized a positive cash flow of EUR 137 million, even being equal to a Free cash flow conversion ratio of 41%. Capex ratio being down to 5% with strong capital discipline but also with a strong focus on the important topics and not sacrificing on the future and also keeping a strong eye on the working capital development.



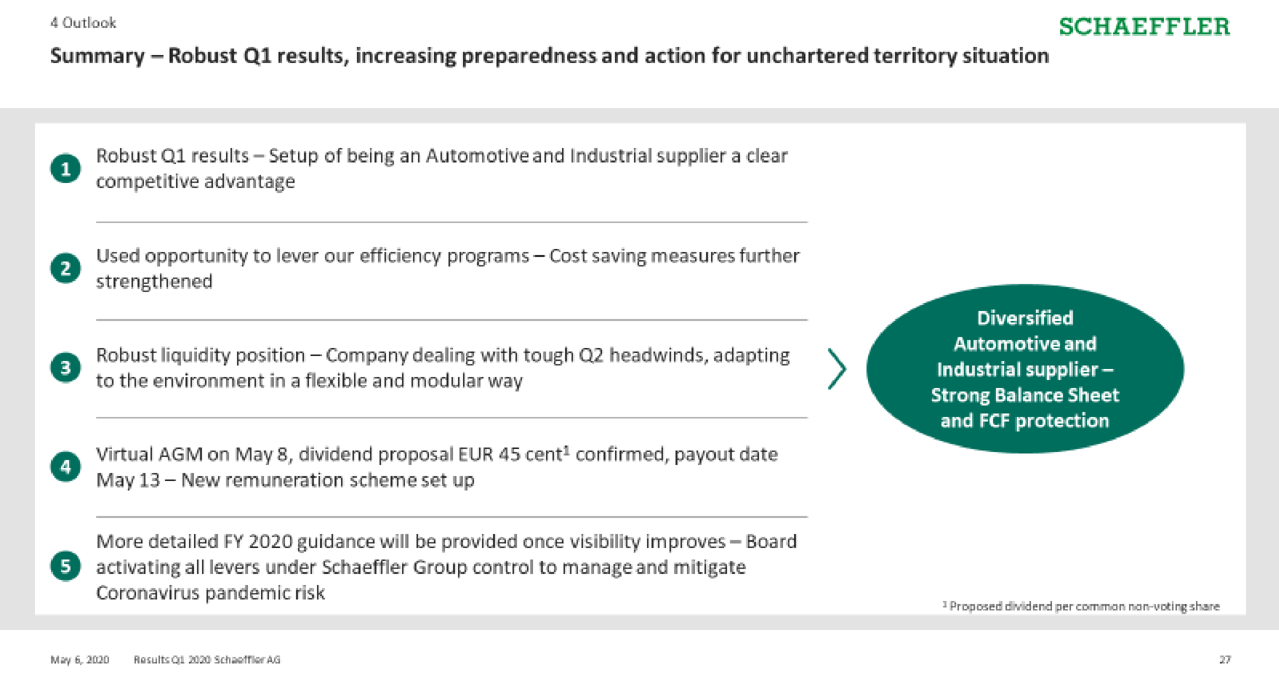

On page #25, you can see more details, but we already explained this, so I would move on directly to page #26.




You can see there the Net debt development. Net debt as per end of first quarter, EUR 2.4 billion, being reduced compared to end of the year due to the positive Free cash flow development.
In addition, we could complete our Green Schuldschein transaction with a volume of around EUR 350 million. Then – so this was also successful in the current, really difficult market conditions for the debt market, leverage ratio at 1.2. So that also highlights that we are currently working in an area where we do feel comfortable. We are prepared for the future.

And this being said, I would hand back to you, Klaus.

Klaus Rosenfeld




Dietmar, thank you very much.

#27 it's now. Ladies and Gentlemen, just a quick summary. Q1 result is robust. You heard it several times, we see our current setup as a clear competitive advantages in this environment.
We use the opportunity to further lever our efficiency programs and are now fully focused on the technical cost and Free cash flow protection measures that have been further strengthened without jeopardizing our customer business.
Liquidity is robust, and that's necessary because the Q2 will be tough, certainly not a walk in the park, but a quarter that requires a very flexible and modular response. That's what we are prepared for. And that's also where I see the managerial challenge. AGM will happen. There's – apart from the dividend that we mentioned, one important other aspect that you may have noted from the invitation, we will – or we have presented to our shareholders a new remuneration scheme for the executive Board team. And you have more detail on this in this backup of the presentation. I'm not going to go into all details here. The only thing I would like to mention in careful negotiations with our Supervisory Board and Mr. Schaeffler as a Supervisory Board Chairman, I think we have further upgraded this compensation scheme, took into account all the considerations and recommendations of the various agencies. Just 1 or 2 remarks. We are moving from a defined benefit scheme to a defined contribution

scheme. We have incorporated a share ownership guideline that forces the management team to invest onetime fixed annual salary. In my case, 2 times my fixed annual salary directly into shares, with a payout prerequisite for the LTV, so a pretty strict scheme. We have also improved the long-term bonus requirements with a little bit more generous target achievement ratios and replacing cumulative Free cash flow by EPS. So if you go into detail here and if you're interested in more detail, let's wait for the 8th of May. But I think it's definitely a good scheme to further foster shareholder value creation.
Let me finish here by once again saying guidance will be provided once the visibility comes back. What is more important these days is clearly 3 things. What counts is liquidity. What also counts is that our DNA, let's call it DNA, is intact. The fighting spirit, the technology, the brands, the customer intimacy, with all the headwinds, I think this is a proven team of colleagues that can weather such a crisis. And that is not only the Board, it's the whole organization. We invested a lot in our leadership teams at the moment with lots of internal communication. And I'm happy to say that the organization is prepared and resilient enough to come out of this crisis, hopefully, even stronger than we went in.
This is it. We are now open for your questions. Thank you very much.

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## Financial calendar 2020 – Virtual AGM on May 8, new CMD date to come

**Roadshows / Conferences**

| | |
|---|---|
| May 11 | Frankfurt, Virtual Roadshow |
| May 12 | London, Virtual Roadshow |
| May 13 | Paris, Virtual Roadshow |

**Regular capital market communication**

| | |
|---|---|
| May 6 | Q1 2020 Earnings Release |
| May 8 | Virtual AGM |
| Aug 4 | H1 2020 Earnings Release |
| Nov 10 | 9M 2020 Earnings Release |
| To come | Strategy CMD 2020 |

## Q&A SESSION

### Gabriel M. Adler, Citigroup

My first question is around the operating leverage. Clearly, the restructuring programs that you put in place and the cost reduction has really helped reduce the drop-through and the operating leverage in the business. And we can see that in the margin resilience in these quarterly results. My question is do you think that this level of under 20% operating leverage for the Group is sustainable even as we move through Q2 and the impact from this crisis intensifies. And then I'll take my second question after.

### Klaus Rosenfeld

Well, clearly one of the most interesting questions, but it's a ratio that is very difficult to predict because it depends on a variety of different things. Our 3 businesses have all different operating leverages. The regions show different reactions. It's a question of how flexible the colleagues who react to the buildup of demand and capacity, so please accept, I can't give you a final number here. What I can say is that we are fully committed to flex the cost base further, and that is what counts. On top of this, addressing also the fixed cost base and trying to protect the cost base by a strict spending control, that will also help. But on the other hand, we also need to make sure that we follow the customer demand. So it's a qualitative answer to a question that you would like to put in your model, but I cannot just say, yes, it will be in the next quarters the same logic and the same outcome as in the first quarter.

### Gabriel M. Adler, Citigroup

Sure. Understood. And my second question is around the Auto...

### Klaus Rosenfeld

And maybe I can add here for all ratios in this environment, it's always at risk because this is unchartered, unprecedented. It's a little bit difficult just to apply historic relationships to the future. So the most important thing is that you really understand the data here and that we do the right things going forward. What is sacred is definitely the leverage ratio. That's the one we look at.

### Gabriel M. Adler, Citigroup

Okay. Understood. And then on outperformance in the Auto division, it would be very good if you could expand on the main drivers that supported the strong outperformance. I understand that China was clearly the key regional driver, but some more detail on what the broader drivers for that trend were and particularly whether you were seeing OEMs building inventory ahead of shutdowns that perhaps could reverse in Q2, meaning that upfront weakness in the second quarter?

Klaus Rosenfeld
Maybe I start and then Dietmar adds a little bit of color. Also, to be honest, also the outperformance, it's something that we need to put a little bit into a crisis perspective. The outperformance at the end of the day is very much a function of what happens with big key accounts. And I think VW is, as you know, one of our biggest accounts, Geely is a very important account. The second thing is what kind of projects are running and how does that help. I can, for example, indicate that in several main projects related to Transmission and Engine business, we gained a higher delivery share that helps. We have in some areas preordering of OEMs to build some safety stock. In general, there's always a tendency that customers put sort of too optimistic data into the system where you need to be careful that you're not now building too much safety stock yourself. Clearly, I think, and that's what Dietmar said, the strong presence, the strong sales organization the fact that we have some of our large projects in China in these days helps for the outperformance. Let's see how this rebalances.
You want to add something?

Dietmar Heinrich
Well, I think this was a very comprehensive explanation.

Klaus Rosenfeld
I mean, in general, we said we always told you, it's somewhere around 400 basis points. So take this as an outlier, and let's see how – when it normalizes, how we then understand it from there. Order intake will come in the first half. And maybe that is then a good basis for further discussion.

Christoph Laskawi, Deutsche Bank
The first one will be on working capital. You already said it's more art than anything. But still, looking at Q1 print, which was quite good, but also helped by, I think, an uptick in the receivable sales program, which you alluded to is seeing some adverse impacts currently. The first one would be do we have to expect a headwind in Q2 and Q3 from that program. And looking more on a full year basis, should we expect inventories, which have been up in Q1, a bit to come down with the lower demand situation? And given your spread between receivables and payables, overall, should we expect a decent cash inflow from the lower activity actually?

Klaus Rosenfeld

Thank you very much. It's a very good question. Let me give you some color. As you all know, working capital is basically 2 things. It's the financial supply chain, that is receivables and payables, and it's the inventory side. Then we all know working capital is basically driven by volume, and it's driven by, let's say, the working capital efficiency. And I would – and then you have the third components – are things like a receivable sales program. When I mentioned this at the beginning, I'm not saying that we stopped that. But I think we have just to take into account that going forward, it will be more difficult to have the same volume of receivables to be sold into the program than before because simply the volume of receivables and of eligible receivables goes down. So I think you will expect from most of the players that have these programs that the volume will come down a little bit, and that means nothing else that there is a little bit of liquidity outflow. Our program, Dietmar, is not very large. It's a new program. We've always been careful to handle it in a certain range. And I would say if we can keep it at 50% of what we had in the previous year, then it's probably not a bad target. So that will impact a little bit.

Now if you then look at the 2 other components, I think in these days, when you look at receivables and payables, there will be a volume impact in a second quarter when all of a sudden sales come down dramatically, you also see then cash inflow because the receivables get lower. And others get paid. So that's an impact that we're expecting in the second quarter. On the other hand, on the payable side, again, I think it's not really wise to assume that you can further optimize your efficiency on the payable side by extending what is called your DPOs because no supplier in this environment would not cry if you now say we're paying you later. So managing that carefully -- if this is a wash in terms of the efficiency, then it's already very good.

I think, Dietmar, we have to be a little bit more conservative on the financial supply side. Then on the inventories, it's a question how you manage the quarters. And here, my view is that if you want to compensate the positive cash inflow from lower receivables, that is out of the financial supply chain, it may make sense to build up a little bit more inventories in the second quarter because when sales come back, let's say, third, fourth quarter, there will be a cash drain. If you then have the inventories there, then that could be something how you organize and manage the phasing of the different elements of the working capital. That's why I said it's more an art than just mathematics. And again, our view is that we should be able to bring, except for this compensatory impact from the sales programs, that we should be able to bring working capital below what was the end of last year. Whether this is 10% or more or a little bit less remains to be seen, but that's at the moment how we look at this. With these volumes drops that we're expecting, except for the impact from the sales receivable program, it should be possible to control working capital below previous year level.

Christoph Laskawi, Deutsche Bank

It's well understood. The second one would be on Capex. You point towards the cut of around 30%. Now that there is a couple of ramp-ups coming in the second half and Capex most likely will be committed for that, can you go much lower than the 30%? Or is it essentially where you would see the need for a smooth ramp-up of new projects and also coping with the ramp-up of the OEMs now.

Klaus Rosenfeld

Well, also here, I mean, don't forget, we are cruising through an environment where, from my point of view, flexibility is and, let's say, a modular detailed approach is the most important. Can you go much lower? Yes, maybe, but the consequence is that you then just start to jeopardize your future opportunities, and that's what we definitely don't want to do. It's completely foolish now to think that the crisis will never come to an end, so it is really critical here to see how you adjust this big portfolio of investment projects. Some of our orders that we have put out can at the moment not be fulfilled because of the environment. Some we may even push harder. We have a situation in China where in the Wind area, our Chinese colleagues say, can you move faster because we get all this demand and we need to build up faster. So it's a -- it's not black and white. It's very much about flexibility, modular and a differentiated approach.

On the other hand, if I don't -- if we don't give Dietmar a type of a target here and say this is what we want to see, then it's also wrong. That's why we said 2/3 of last year as a ballpark number where we want to go to is what we can also share with you. But it may change over the course of the year. It definitely needs to be in synch with the customer demand. But people now understand also since last year, and that's the beauty of this Capex Committee that Dietmar and myself run, that this is very serious. And the controls we have that nothing is overspent and that people don't follow what we are saying are strong, and the commitment to do this right is definitely there.

Christoph Laskawi, Deutsche Bank

Last one from my side and probably also tough one to answer. Looking at the mix and the negative impact due to the E-mobility business, do you expect that negative mix impact to improve in the second half or rather worsen given that you ramp up scale, it might have potential to ease a bit?

Dietmar Heinrich
Well, I think -- I can step in. So first of all, the ramp-up costs then will ease. That will be a potential for improvement. On the other side, we need to see the volume developments and how this unfolds in regard to the demands of the OEM. So it's difficult to predict right now.

Christoph Laskawi, Deutsche Bank
Absolutely. Understood, yes.

Klaus Rosenfeld
Fully agree. It's a long term, mid-term investment, we are well on track with our E-Mobility projects. And it's not a question of half year, it is a question of 2 or 3 years.

Henning Cosman, HSBC
It's Henning from HSBC. Yes, I mean the question has been asked, but obviously, excellent to see how much you were able to variabilize the costs and the drop-through on the Automotive side and protect cash. So that's great to see. Can I just maybe ask a little follow-up with respect to the R&D, and that's something that stands out. You were able to save a lot of overhead there. And I think, Klaus, you said it just now with respect to the Capex at what level that starts to impact future business. So if you could just maybe say a few more words on the ability to save R&D there going forward as a part of variabilizing that overhead costs, that's my first question, please.

Klaus Rosenfeld
Henning, thanks for the clarification. I mean R&D is part of the overall exercise. And also here, the most important thing is to do this in synch with customer projects. We have not put out a number here in a sense that it's also 2/3. But I think you saw from the numbers that they are, to some extent, driven by what we did last year. That first quarter is not only what happens in March. So also here, we have gone through a detailed project review with Uwe Wagner and have said these are the ABC projects. These need to be prioritized and pushed through. I think I mentioned this in the last capital market update. We had projects where large customers said please continue, where certain testing things were done with helm cameras in the office where meetings were not possible. So it's also here the same differentiated approach. R&D, in particular, in the large E-mobility things is definitely out of any spending control sense that we are cutting here just proportionately. But in other areas, yes, we can be a little bit more cost conscious and we can also postpone. So that's what I can say at the moment. But I'm not going to say 2/3. This is for Capex.

Henning Cosman, HSBC
No, that's great. One small housekeeping one. Maybe it is great that you're breaking out now the adjustments with respect to the restructuring programs. Could you just share if there's anything more budgeted for the remaining quarters of the year? Or should we not expect any adjustments for restructuring in the further course of 2020?

Klaus Rosenfeld
I think, Dietmar, the answer is you never say no. But I think the large adjustment that we now made with this EUR 53 million for that basically impacts all the 3 divisions. That should be it. I don't see any larger restructuring at the moment, at least nothing that is planned. Whatever happens in the rest of the year, we need to see. But I can say, if you target -- if you're asking about layoffs, I think with this 1,900, we have, I think, already paved the way for further structural improvement. And I can only share with you to discuss at the moment layoff problems, unless you are forced to, with workers' council is nearly impossible because they definitely want to make sure that you save jobs and first go through the crisis. Whatever happens in the second half, I don't know, but I think we are very comfortable with this 1,900 jobs that we can further reduce with the blessing and all contracts signed by employees. So that's a good thing.

Dietmar Heinrich
Maybe, Henning, just to add briefly, we continue, of course, with our programs RACE and FIT and also provided some insight in that conjunction at the beginning. The crew is prepared. The provisions are built up already last year, but we need to see them moving forward in case things change, we will, of course, anticipate that.

Henning Cosman, HSBC
Sure. And lastly, maybe if I can ask about this Automotive Summit with the Chancellor yesterday. I don't know, Klaus, if you were part of the meeting yourself but if you could maybe share a little bit your perspective, either some feedback, maybe what was discussed, if you were there, or if you've heard feedback? And also maybe your general view, if you don't mind, as to whether you think incentives would be a good thing or not in Germany.

Klaus Rosenfeld
Thank you very much for the question and thank you very much for being so respectful that you think I was there. There were no suppliers there. There were only OEMs. So I was not part of it, but we have a very strong new lady [Mrs. Hildegard Müller, *IR annotation*] who runs the VDA, and we have been informed afterwards.

What I can say is what the VDA officially says, it was a good meeting. It was very constructive. There is a sense that the German government should support the German Automotive industry. There was no conclusion and no final agreement on the best instrument, but I think the overall mood there and the willingness to cooperate is what counts. And let's see what comes out of this. It's good that people really carefully think what's the best instrument and how do we kick-start and restart demand in this environment.

Sascha Gommel, Jefferies

The first one would actually be, again, on your cost cutting execution. We touched most of the cost lines, and I understand that selling is a bit more flexible because there's logistics involved. But can we also talk a bit about admin because that was more or less flat, around EUR 140 million over the last quarters. Do you think there's some more potential going into Q2 to cut those costs as well? Or am I right to assume that those are a bit more fixed?

Klaus Rosenfeld

Let me respond to this. When you rightfully look at the P&L structure and look at cost of goods sold and overhead and then R&D, selling and admin, what we look at, we look at the internal structure, how we allocate cost to functional responsibilities. And the fact that admin was not coming down compared to the previous year, maybe a result of certain IT spending, it may be a result of certain investments into future projects there. But it doesn't mean that we are not 100% cost-conscious on the indirect areas. Parts of the indirect costs are anyhow in the costs. And I can only sort of mention here once again the impact of short-time work. We have on purpose said short-time work is not only relevant for the plants, it's also relevant for all the indirect areas. My areas, Dietmar's areas, we have all sent people in these admin functions home in short-time work, and you will see the impact of that in the second quarter. But don't forget, this is not like that there is a big fat corporate center that sits there and does nothing. We have gone through various exercises to streamline certain things. It's not about headcount so much, it's more about getting certain structures even further optimized. This is about processes. This is about better backups in certain areas. And we're definitely targeting this area. So don't get this wrong. It's a good point. You don't see this in the first quarter, but you will see it in the next quarters to come.

Sascha Gommel, Jefferies

Very clear. And then my second question. It's related to what you already talked about with Capex being reduced. How should I think about the impairment in that regard?

Have you kind of decided to stop certain products or exit certain markets, and that's where you can save Capex and be more prudent, but that's now what we've seen in the impairment? Or is it just related to you took down volume, and that's why you have to write it off, so no kind of exit decisions?

Klaus Rosenfeld
Thanks for the question on impairment no one has asked it so far. I mean you all know how impairment works. Typically, that happens in -- towards the end of the year when people do replanning exercises because you normally need a triggering event. And here, we argued with our auditors that the crisis as such is a triggering event. As I mentioned, we looked at the balance sheet in the first quarter and said where do we have risk, how can we address these and mitigate these risks. And as you know, from the annual report, we had about EUR 600 million goodwill on the books. Broadly speaking, half-half, Automotive OEM, Industrial and Automotive Aftermarket. So we then looked at where is this goodwill coming from. And in the Automotive side, you all know that we have not been a company that has acquired in a very expensive manner big companies. We have acquired small companies in the last years with a very modest level. So you will not be surprised if I share with you that most of this goodwill was historic goodwill. We then said, if we can avoid a situation where we are coming out of this crisis and all of a sudden we are conservative to be planning going forward and the impairment test then leads to the fact that we have to write off something, then let's rather take the hit now and be proactive and clean up the balance sheet and be out of the woods with these situations. That's why we basically wrote off most of the goodwill, but it has nothing to do with Capex allocation in a sense. It has nothing to do with how we prioritize investment. It's a more sort of thoughtful risk averse, proactive approach to manage a potential risk on the balance sheet to clean it up, to run it in a very low complex basis and to make sure that this doesn't come up, whatever the crisis is going to bring, we all don't know at the wrong moment in time.

Sascha Gommel, Jefferies
Understood. Very clear. And then my last question. I mean, in China, there are plenty of battery electric vehicle manufacturers. So I was just wondering about the health of your EV order book. How much of that is actually with kind of smaller startup companies and how much is like with large, well-established players? Just wondering about the risk in your order book given the kind of hit that China took in Q1.

Klaus Rosenfeld
It's a good point. Dietmar, maybe you need to help me. We have in our risk analysis not seen any insolvency risk from customers in China. We're doing some things with the bigger players, we've always been careful there. But I would assume that you would not put Geely in that bucket. So I would say, from my point of as far as I know, we can definitely look at this one more time, there is no risk in that area.

Victoria Greer, Morgan Stanley
Just one, please. Could you help us a little bit thinking about where Auto Aftermarket has been trending in April and May? Obviously, we can get a good feel from the production numbers on the Auto OEM side. Do you think that's also a reasonable guide for how we should think about Auto Aftermarket? Obviously, just looking at the -- looking more at the Europe production there? Or should we think about that differently?

Klaus Rosenfeld
Victoria, it's a very good question. And we don't have similar market production forecast as we have for light vehicle production. Generally speaking, I think we can say, Dietmar, it's more in synch with the production numbers for OEM than I thought. And the drivers are different because here, the shutdown has, at the end of the day, led to a situation where even if people wanted to repair their cars, they couldn't. And our businesses, as you know, very much an Independent Aftermarket, our customers could simply not get the material and, therefore, maybe slightly softer than what you're expecting from the IHS numbers, where the second quarter globally is 47%. I would say in Europe, that is for Europe, that's probably a little bit too much, but it's definitely a hit in the, whatever, 30% to 40% range. But that was April. Now the second part of the answer is if something comes back quickly, then the Aftermarket is definitely one of these areas because, structurally, you could argue people will save money and not spend to buy new cars and rather repair. That's one of the arguments. And also the way back is easier because it's let's say, it's a faster delivery-driven business where if now the whole shutdown situation, all the restrictions disappear, then you have to be there.

Kai Mueller, BofA Merrill Lynch
The first one is really following up from some of the questions that were asked earlier with regards to the Kurzarbeit [short-time work, *IR annotation*] or short-time working schemes. Can you quantify maybe a little bit how much that benefited you in Q1 already? Because you said, obviously, that will be mainly a benefit in the second quarter as a first question.

Klaus Rosenfeld

Okay. Let me start with this. I mean in Kurzarbeit, the March impact was I wouldn't say minimal but not really big. We had some Kurzarbeit that we already used at the beginning of the year, but it's a small number. It all started -- it will start -- it will impact stronger in April and May. That has also to do, Kai, with the fact that we agreed with workers' council that we would -- before we go into a more broader application of Kurzarbeit, we would run down existing -- overtime, we would think about Urlaubstage [holidays, *IR annotation*]. We, for example, negotiated something where we said people will be sent, whether they like it or not, in some sort of forced holiday, to reduce holidays that we normally reserve for. And that, I think, explains why the phasing of this is slightly different than the discussion we have at the moment. So the bigger impact will come in April, where probably half of the month is where it really started to count, and in May. And then also, if you really want to go into detail in terms of cash flow, we go and pay in advance and then get repaid by the agency. So the P&L impact and the Free cash flow impact, it has also a little delay. In general, if you say I think we can use it as a rule of thumb, if we have EUR 200 million per month personnel-related costs in Germany for 30,000 people, we have applied for 40% to 50% of that workforce Kurzarbeit across all the different levels. That's also different maybe for other companies. It's not only for the workers in the plants, it's also for what is called the Germany AT-Mitarbeiter. So it's a pretty broad spectrum with a very disciplined spending control behind it.

And if you can save through something like this with all these extra payments you have, 10% of your cost base in a month, then that's not bad because, don't forget, not everyone works full short-time. There are people that work only 2 days, some work 3 days, some go back. We need to see how the phasing now works. But maybe that gives you a little bit of a ball-park figure.

Kai Mueller, BofA Merrill Lynch

Okay. Okay. And then just coming back to your write-downs, you obviously outlined them quite well earlier. But just you obviously said you used COVID-19 as a trigger moment. Is that -- give you an answer to your accountants that, that obviously changes the long-term growth outlook for the industry as a whole? And can you actually specify what these businesses were where you wrote down the goodwill? You said these were old transactions, but were they particular product groups that they were relating to?

Klaus Rosenfeld

No. In our case, it's pretty easy because our cash-generating units are structured in a way that we can look at the overall Automotive division. That's what we did. So this is not that Engine is impaired and Transmission is not. This is the whole mix that we looked at. And it was, from my point of view, a reflection of the fact that the pressure on Automotive OEM in terms of volume and future development in the next year is there. So that's how we try to solve that.

Kai Mueller, BofA Merrill Lynch
Okay. Perfect. And then maybe just one follow-up is we obviously saw price has been in the third quarter slightly lower what is always expected. Has there been any changes in terms of pricing that you can update us with also your customers? Obviously, especially in regard to the much lower volumes you're experiencing. And when we think about your projects when you now tender for projects, I don't know if there's much happening anyhow, are there higher hurdle rates you're looking at just simply because of the uncertainty you're facing with in the coming years?

Klaus Rosenfeld
I think, Kai, to those 2 very relevant questions. I think I can say on the pricing front, this was not a priority. I have not heard about anything where the pricing was dramatically different in particular and also than before, also applies for projects. The situation at the moment is that we try to help our big customers. They want to see that we perform. They are here and there concerned about stability of the supply chain. We have always said we will be a very good citizen in that respect. And therefore, I think this is a premature question, if I may say so. This is not what we're dealing with at the moment.
In Industrial, we're more driven by decisions from the past, there is a positive development in terms of prices, but that's more a reflection in the first quarter of what we decided, discussed end of last [year, *IR annotation*].

Akshat Kacker, JP Morgan
Just 2 left on my front, please. The first one on the order intake under the RACE program. Just wondering once things normalize, when do you expect the bidding process or the RFQs to pick up for the second generation of EVs especially in Europe. That's the first one. And the second one is on raw materials. Do you expect any benefits across the 3 divisions? Or are they mainly passed through index contracts there? And on that front, if you could also discuss the pricing environment in the Industrial division, please.

Klaus Rosenfeld

Yes. I think on raw materials, maybe, Dietmar, you can add. But what I would say as a more general direction, there is a little bit of support from the material cost side at the moment, in particular on the steel side. How this will unfold during the rest of the year, we need to see. And pricing on Industrial, I already said. Maybe Dietmar can add there. The lower oil price is helpful in certain areas. So -- but let's not expect too much there. It's still -- it should not deviate us from the fact that we need to actively manage the cost base.

In terms of RFQs, I would contradict it a little bit. That's not -- it's not the case that there are no RFQs anymore. There are -- in this situation from the various customers' requests for projects, probably fair to say, even more than we ever had. And not only from the big ones, but in our case, we get more and more interest, in particular, from the E-Motor side and we have big ones that we have done there. So we feel quite happy with the capacity utilization of our R&D teams and of the -- what's happening there on the sell side. So let's wait what the order book will look like. Again, don't forget, these large contracts don't come every quarter. But as far as I know from Jochen Schroder, we feel quite comfortable that we can again deliver on our promise with the EUR 1.5 billion to EUR 2 billion.

Dietmar Heinrich

And maybe just to add in that regard, the momentum that we gained last year stems from the acquisitions that we did on the Elmotec side, the usage of our Compact Dynamics entity, this is really very positive, was perceived. We are working on a couple of new projects together with existing customers, but also with new customers. And as Klaus mentioned, Jochen Schroder is confident that we can continue the track that we actually did last year and also be successful with new orders and accordingly this year.

And maybe on the raw material side, very briefly, yes, we have tailwind in the first quarter, and we at least expect to continue to a certain extent also for the remainder of the year. And pricing environment in Industrial, we could realize or continue positive development. But of course, with the positive tailwind by the raw material, then argumentation to support our position actually is getting weaker, and we will then actually see customers getting back to us, and also considering the current situation ask for concessions.

Jemma Permalloo, JP Morgan

I just have 2 questions left. The first one is on your bonds that are due in 2025. If you could share some color on the plans regarding these bonds and if you would be potentially considering any additional liquidity raising in the future.

Klaus Rosenfeld
I have to say the line was somehow interrupted. Would you please repeat your question? I didn't get the first part. I understood liquidity event, but to be answered precisely, can you please repeat?

Jemma Permalloo, JP Morgan
Sure. I hope the line is better now. I was wondering if you could share any color on your plans regarding your bonds that are due in 2025?

Klaus Rosenfeld
Again, the bonds in 2025, we have not decided what we do with that. You know that there was an intention to use the Schuldschein inflow maybe to further optimize the maturity profile, but that decision has not taken and has been postponed for the time being. The profile is robust, the credit is sound, so we'll come back when the dust has settled.

Jemma Permalloo, JP Morgan
Right. And just finally, how comfortable do you feel regarding your covenants especially as we navigate the short-term impact in Q2 from COVID-19?

Klaus Rosenfeld
The covenants -- well, we're doing our liquidity stress test. I don't see any risk at the moment at the covenant level. But once again, it's unprecedented territory. As I said before, we need to be flexible and modular. And it doesn't change what I said before, the liquidity position is sound. And I think our credit stance is in good shape.

Markus Schmitt, Oddo
Yes. Just one quick one. It's on your Industrial segment. I mean Wind was obviously a stellar performer in Q1, but certain wind turbine manufacturers have cited in the last days still for coming supply chain disruptions and some headwinds, although the situation in China is maybe different. But from your perspective, how will Wind develop for Schaeffler for the remaining year?

Klaus Rosenfeld
Well, what we see in particular from China is that the demand for wind turbines, for even larger projects is intact. And I don't see any deviation from this trend at the

moment. And there's obviously enormous growth potential in this area. There are not many other companies that can provide bearings and solutions for these onshore/offshore turbines. And I think this is one of the positive opportunities for us.

Klaus Rosenfeld

Okay. Then let me finish this call with a big thank you very much to my colleague Dietmar. You all know that he is leaving us, unfortunately, end of July. This will probably be his last call. Dietmar, you have always been a great support and a great colleague in getting these calls done. And I call out a big thank you for all your support also to me personally. And I think I'm allowed to say this here in this group. So thank you very much for listening. And thank you very much for following this last release for Dietmar.

Dietmar Heinrich

Klaus, thank you very much for this appreciation. Thank you very much from my side for your attention, for the good and intensive interaction that we had over the course of last 3 years. We will have additional opportunities during the coming days with the virtual roadshow, so I'm already looking forward to that. Yes. Let's move on.

Klaus Rosenfeld

Thank you. Thank you very much. All the best. Stay positive. Bye-bye.

# Backup

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**Backup 1**

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## Backup 1
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## Usual information top-up

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## Automotive OEM outperformance by quarters

Q1 20

| | IHS[1] | Auto OEM[2] | Outper-formance |
|---|---|---|---|
| World | -23.0% | -12.0% | +11.0pp |
| Europe | -18.6% | -13.5% | +5.1pp |
| Americas | -11.2% | -5.2% | +6.0pp |
| Greater China | -46.1% | -22.8% | +23.3pp |
| Asia/Pacific | -13.7% | -7.3% | +6.4pp |

New regional structure for 2019 and 2020 figures applied

FY 19 Outperformance: +4.8pp

| | Q1 19 | | | Q2 19 | | | Q3 19 | | | Q4 19 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | IHS[1] | Auto OEM[2] | Outper-formance | IHS[1] | Auto OEM[2] | Outper-formance | IHS[1] | Auto OEM[2] | Outper-formance | IHS[1] | Auto OEM[2] | Outper-formance |
| World | -5.8% | -1.7% | +4.1pp | -8.2% | -4.2% | +4.0pp | -3.9% | +1.4% | +5.3pp | -4.4% | +1.2% | +5.6pp |
| Europe | -6.7% | -3.2% | +3.5pp | -8.4% | -6.7% | +1.7pp | -0.7% | -4.1% | -3.4pp | -4.2% | -8.3% | -4.1pp |
| Americas | -3.4% | +12.4% | +15.8pp | -2.2% | +4.7% | +6.9pp | -1.4% | +8.7% | +10.1pp | -8.2% | +3.8% | +12.0pp |
| Greater China | -11.4% | -14.5% | -3.1pp | -18.7% | -10.7% | +8.0pp | -7.7% | +7.1% | +14.8pp | +3.2% | +24.6% | +21.4pp |
| Asia/Pacific | -0.4% | +1.2% | +1.6pp | -0.9% | -0.8% | +0.1pp | -4.9% | -2.1% | +2.8pp | -10.5% | -9.7% | +0.8pp |

[1] Light Vehicle production growth according to IHS Markit as of April 27] | [2] FX-adjusted sales growth of Automotive OEM division





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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 |
|---|---|---|---|---|---|
| Sales | 3,622 | 3,604 | 3,613 | 3,588 | 3,282 |
| *Sales Growth*[1] | +0.4% | -2,0% | +1.2% | +0.6% | -9.2% |
| EBIT Reported | 230 | 253 | 312 | -5 | -88 |
| EBIT bsi | 272 | 284 | 327 | 279 | 215 |
| EBIT bsi margin | 7.5% | 7.9% | 9.1% | 7.8% | 6.5% |

**Automotive Aftermarket** | in EUR mn

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

**Automotive OEM** | in EUR mn

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

**Industrial** | in EUR mn

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

[1] FX-adjusted

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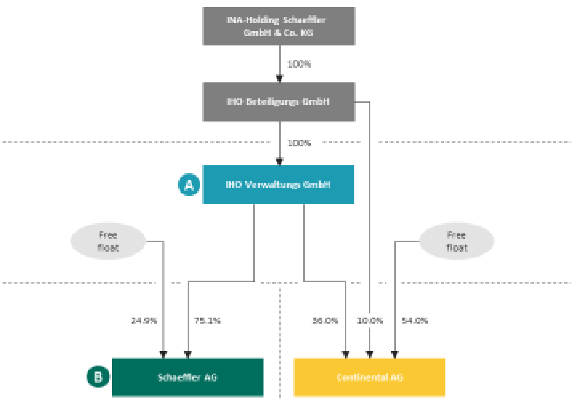
## Overview Corporate and Financing Structure

**Corporate structure (simplified)** | as of March 31, 2020




**Financing structure** | as of March 31, 2020

**A IHO Verwaltungs GmbH**

| | Debt instrument | Nominal (USD m) | Nominal (EUR[1] m) | Interest | Maturity | Rating (Fitch/Moody's/S&P) |
|---|---|---|---|---|---|---|
| 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 | 456 | 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 | 411 | 6.00% | May-27 | BB+/Ba2/BB+ |
| | 6.375% SSNs 2029 (USD) | 400 | 365 | 6.375% | May-29 | BB+/Ba2/BB+ |
| | **Total IHO Verwaltungs GmbH** | | **3,882** | **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) |
|---|---|---|---|---|---|---|
| Loans | RCF (EUR 1,800 m) | - | - | E+0.50% | Sep-23 | Not rated |
| | Investment Facility (EUR 250 m) | - | 250 | E+1.00% | Dec-22 | Not rated |
| CP | Commercial Paper Program (EUR 1,000 m) | - | 15 | ø 0,00% | Jun-20 | Not rated |
| Bonds | 1.125% SNs 2022 (EUR) | - | 750 | 1.125% | Mar-22 | BBB-/Baa3/BBB- |
| | 1.875% SNs 2024 (EUR) | - | 800 | 1.875% | Mar-24 | BBB-/Baa3/BBB- |
| | 3.25% SNs 2025 (EUR) - SFBV[4] | - | 600 | 3.25% | May-25 | BBB-/Baa3/BBB- |
| | 2.875% SNs 2027 (EUR) | - | 650 | 2.875% | Mar-27 | BBB-/Baa3/BBB- |
| | **Total Schaeffler Group** | | **3,065** | **ø 2.19%**[3] | | |

[1] EUR/USD = 1.0956 | [2] After cross currency swaps | [3] Incl. commitment and utilization fees
[4] Bond issued by Schaeffler Finance B.V., guaranteed by Schaeffler AG



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## Backup 2

# Backup 2
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# Additional information

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## AGM proposal – New remuneration scheme, fostering sustainable value creation

**Total Target Remuneration**

**40%** Fixed components

- Fixed annual salary
- Retirement benefits
  Defined contribution plan
- Fringe benefits
  e.g. D&O insurance and company car

**60%** Variable components

Short-term bonus (STB) **29%**

- *Schaeffler Value-Added (SVA)**
- *Free Cash Flow (FCF)**
- *Strategic targets (e.g. sustainability)*
- *Individual performance*

Cap at 150% of target bonus

Long-term bonus (LTB) **31%**

- *Service condition*
- *Total Shareholder Return (TSR)*
- *Earnings Per Share (EPS)*
- *Possibility to define additional sustainability targets*

Cap at 300% of grant value

**Function and responsibility**

**Incentivizing the contribution to the business strategy and the long-term company's value appreciation**

**Subject to Clawback**
(possibility to reclaim variable remuneration)

**Share ownership guidelines**

For the CEO:
2x fixed annual salary

For the remaining Managing Directors:
1x fixed annual salary

Payout prerequisite for the LTB

**Total remuneration cap per role**

The weightings of remuneration components as a % of total target remuneration (provided above) may slightly vary for various Managing Directors depending on the individual amounts of fringe benefits.
For the divisional CEOs, division-specific performance indicators Schaeffler Value Added of the Division (SVA Division) und Divisional Cash Flow (DCF Division) are considered in addition to the above performance criteria
Deviation in the Financial Year 2020: Managing Directors received a special one-of grant of virtual shares (PSUs) as a compensation for the decreased level of pension benefits due to the system change as of 1 January 2020. The value of the special one-of grant is equivalent to 50% of the gross fixed annual salary. PSUs are settle in cash in three tranches.





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## Remuneration scheme – Comparison previous system vs. new system

| | System until 2019 | System from 2020 |
|---|---|---|
| **Fixed annual salary** | Contractually agreed, monthly payment | *No change* |
| **Fringe benefits** | Contractually agreed, company car etc. | *No change* |
| **Short-term bonus (STB)** | Free Cash Flow (FCF Group*) and Schaeffler Value Added (SVA Group*) at group level (weighted equally) | *No change* |
| | Possibility to annually define other strategic targets by Supervisory Board | Sustainability targets for 2020 (improvement of CDP-Rating and implementation of measures in order to increase energy efficiency) |
| **Long-term bonus (LTB)** **Performance Share Unit Plan** | Components: 50% service condition, 25% TSR condition, 25% FCF condition | Components: 50% service condition, 25% TSR condition, 25% EPS condition<br>Additional sustainability targets could be defined at a later stage |
| | Peer Group: MDAX | Peer Group: weighted Sector Basket (SXAGR/ SXNGR)** reflecting the industry focus of Schaeffler AG |
| | Target achievement for TSR and FCF condition: 0 – 100% | Target achievement for TSR and EPS condition: 0 – 200% |
| **Share ownership guidelines** | No | Yes, used as a prerequisite for the payout within the LTB |
| **Clawback** | No | Yes, in relation to the variable components |
| **Pension plan** | Defined benefits plan | Defined contribution plan |
| **Maximum remuneration (cap)** | STB and LTB are capped | In addition to STB and LTB caps, a cap of total remuneration per role is defined |

*For the divisional CEOs the performance criteria are completed by the division-specific performance indicators Schaeffler Value Added of the Division (SVA Division) und Divisional Cash Flow (DCF Division).
** SXAGR: STOXX Europe 600 Automobiles and Parts Gross Return (weighting: 75%); SXNGR: STOXX Europe 600 Industrial Goods and Services Gross Return (weighting: 25%)

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## Goodwill impairment in Automotive OEM – Conservative valuation approach applied

1. The Schaeffler Group goodwill impairment test is conducted on a divisional level – the goodwill is impaired when the carrying amount exceeds the recoverable amount of a division
2. The higher uncertainty for the future course of business of Automotive OEM triggered by the Coronavirus pandemic resulted in changed assumptions for the calculation of the recoverable amount
3. As a result a goodwill impairment of EUR 249 mn in Automotive OEM was accounted for, the impairment is adjusted on EBIT level

**Conservative valuation leading to a goodwill impairment in Automotive OEM**