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Q4 and FY 2022 Schaeffler AG earnings

Earnings Call
March 7, 2023
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Claus Bauer, CFO
Renata Casaro, Head of Investor Relations

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Sanjay Bhagwani, *Citi*
Horst Schneider, *Bank of America*
Himanshu Agarwal, *Jefferies*
Stephanie Vincent, *Bank of America*

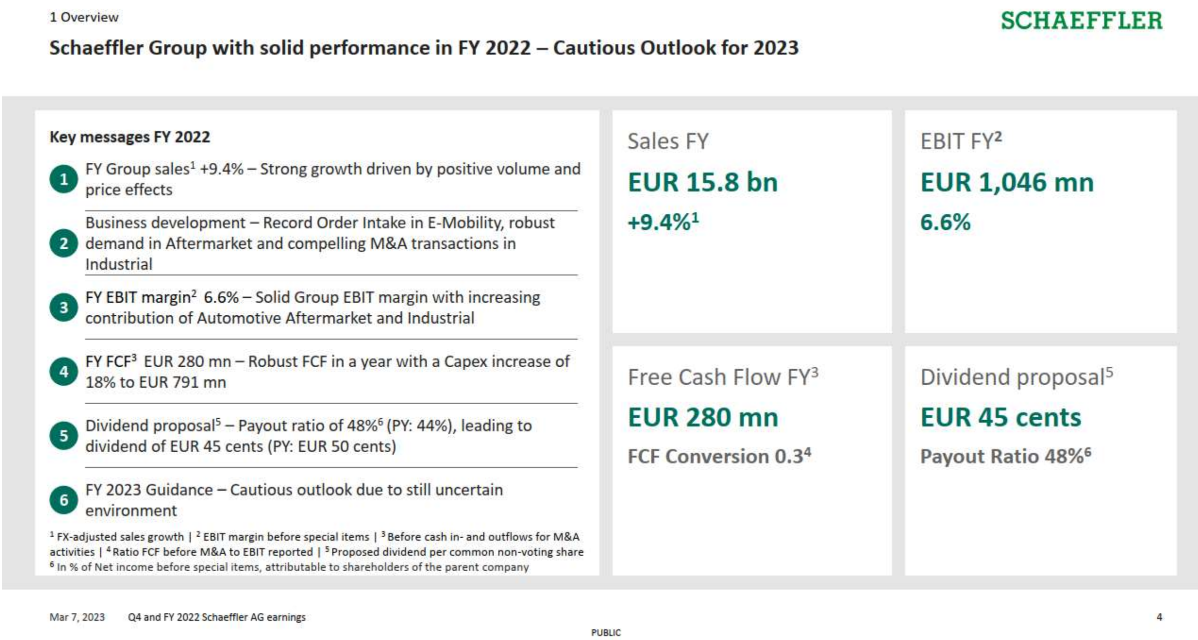
Renata Casaro

Dear investors, dear analysts, thank you for joining the Schaeffler Group 2022 earnings call. As usual our call will be conducted under the disclaimer. Without further ado, I will pass the floor onto Mr. Klaus Rosenfeld, CEO of the Schaeffler Group, and Mr. Claus Bauer CFO. Klaus, the floor is yours.

Klaus Rosenfeld

Thank you, Renata. Ladies and gentlemen, welcome to our call to everyone on the call and also in the web. You have the presentation in front of you, will quickly guide you through the main topics and then leave as much room as possible for questions and answers.

Agenda



Klaus Rosenfeld

Let me start on Page 4 with the key messages. The Schaeffler full year 2022 performance is definitely solid in a challenging year, 9.4% growth driven by volume and price. Significant positive work on price to make that also sustainable. The margin with 6.6% is in the upper quartile of what we guided for 5% to 7%, so also in line with expectations.

I can say that Free Cash Flow was a EUR 280 mn is also more or less on the spot what the consensus indicated. Consensus was EUR 287 mn. And here we can say that if you look into the fourth quarter, there was more Capex than we expected, because we see future growth in the year that we're in. We decided for a dividend proposal of EUR 0.45, that's slightly below last year, but definitely at the upper end of the range was 48%, and I think that's a sign of strength, it reflects the balance sheet, but also our positive expectations going forward. The expectations going forward, I think are backed off the business development in particular towards the end of the year, record Order Intake in E-Mobility with EUR 5 bn speaks for itself. Robust demand in the Aftermarket. I think you will see also in the first quarter a continuously positive trend in Aftermarket, driven by the increasing demand for Aftermarket parts. And also, in Industrial, I think we have met expectations for the full year. Certainly, in the fourth quarter, there were some issues that Claus is going to explain that are one-off issues.

And that altogether then forms our judgment for '22, solid and delivered what we promised.

In terms of Guidance, we have decided to be cautious, or let me use another word, this is a rock-solid Guidance that protects the downside. We have now gone through three years of unexpected challenges and a very uncertain environment. That's why we have decided to be transparent with our assumptions, you have them on page 30. These assumptions are conservative. If the assumptions that one of our biggest customers has laid out yesterday come into place with 10% to 15% growth, then we will definitely benefit from that as well. So read this not in the line of we are shy and we don't know what to do, we know very well what to do, and we want to protect the downside, but we will definitely benefit from the upside, if there is growth in particular, in the Automotive area. And let me also say upfront, our transformation approach with a more balanced view on how powertrain solutions will develop over time, I think is absolutely the right approach. We have never said that we're going to only bet on E-Mobility, we have always said, the world is a global market. There are different trends in the markets and the idea of doing battery electric, where we made significant progress plus hybrid, and also be available for the certainly decreasing demand in the combustion engine world is definitely the right strategy.

1 Overview

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FY 2022 Guidance – Group metrics and divisional EBIT margins achieved

Group Results FY 2022

	Guidance[4]	Actuals	
Sales growth[1]	6 - 8%	**9.4%**	✓
EBIT margin[2]	5 - 7%	**6.6%**	✓
Free Cash Flow[3]	> EUR 250 mn	**EUR 280 mn**	✓

[1] FX-adjusted | [2] Before special items | [3] Before cash in- and outflows for M&A activities
[4] As of May 10, 2022 | [5] As of November 8, 2022 | [6] LVP (S&P Global Mobility ©, January 2023)
[7] LV Parc for PC and LCV <3.5t (S&P Global Mobility ©, November 2022)

Divisional Results FY 2022

Automotive Technologies ↔		Automotive Aftermarket ✓		Industrial ✓	
Guidance[4]	**Actuals**	Guidance[4]	**Actuals**	Guidance[4]	**Actuals**
Outperf. 200 - 500 bps	**150 bps**	Moderate growth	**7.0%**	Considerable growth	**14.7%**
> 2.5%	**3.1%**	> 12%	**12.5%**	> 11%	**11.7%**

Actual market development vs. assumptions[5]:

- Automotive Technologies: LVP 2022 reached 82.0 mn according to S&P[6] (Assumption: 80.3 to 81.8 mn)
- Automotive Aftermarket: Growth of Global LV Parc[7] of 2.1% (Assumption: 2.1%)
- Industrial: Increase of relevant Ind. Prod. of 3.7% (Assumption: ~2%)

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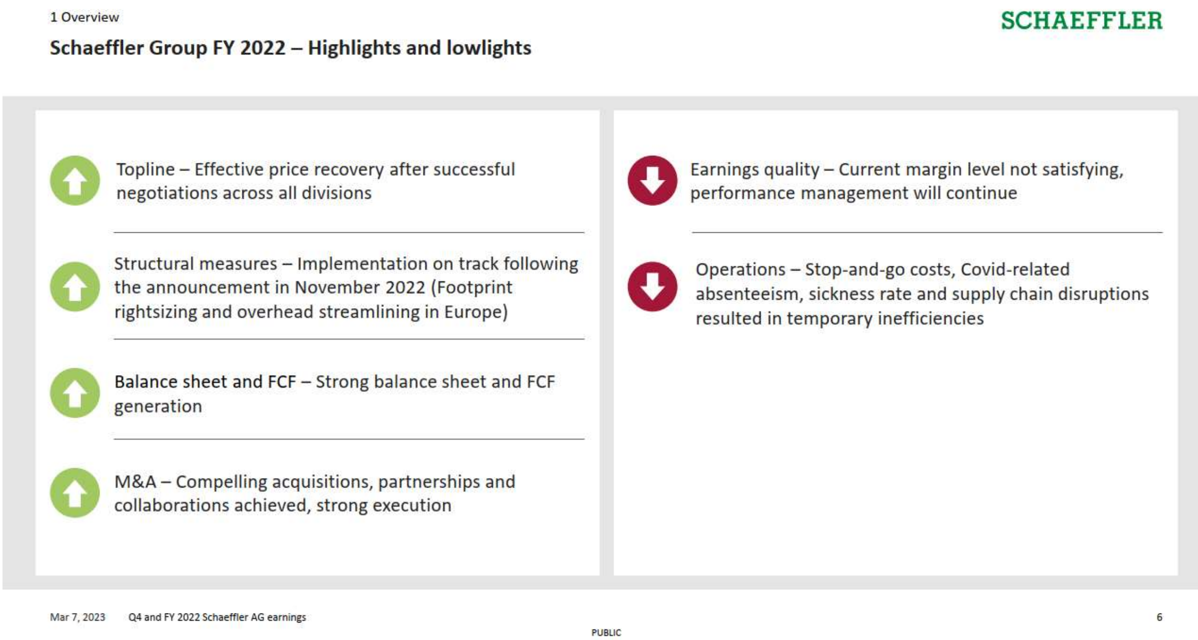
Let me go to number five. That's the full year Guidance. I think you can do that more or less on your own. We met the Guidance, and it is, if I may remind you of what we said in January, definitely in line with our first indications.



If I judge the year, on page six, what is on the positive side, on the positive side is the top line, 9.4% growth, predominantly volume and price driven. And I think I can say, Claus, you can explain that in more detail. Our price recovery measures have been successfully implemented. We have more or less closed all the negotiations with our big customers, and we have refrained, as much as possible, from one-time payments. So, this should be something that also helps us going forward, certainly also in the markets, with different implications.

The structural measures, you saw one of the other big competitors here in Germany announcing something this morning. We have been more proactive on this. We have decided, as all of you know, in November 22, to do more, right-size and further streamline our overhead in Europe. That was exactly right, and the package is under negotiation. We're expecting a closure in the next months of the negotiations, and then the normal speedy implementation according to the experience of the last years.

Balance sheet and Free Cash Flow is strong, and we met clearly what we wanted to achieve on Free Cash Flow conversion. If you look at the numbers, I just want to stress here again, the EUR 280 mn includes around EUR 300 mn restructuring payout. If you add that back, if you look at one of the tables, you see an adjusted Free Cash Flow without these one-offs of more than EUR 500 mn. And maybe that helps you to also analyze and understand the Free Cash Flow generation promise that we are making.

M&A. Again, you know all the things that we have done there, partnerships, collaboration, things like Innoplate and SPT up to Catena-X, where I think we were successful in the last year here. Strong execution and exactly what we promised. No

big elephant hunting. Rather, the small things that make a difference. Just want to highlight here and mentioned the little acquisition we have done in France. You will see that that will strengthen the Industrial business in the area of condition monitoring significantly.
On the negative side, clearly, earnings quality, we're not happy with the 6.6%. This is not where we want to be. For the year 2022, with war, China lockdown and significant inflation, that's acceptable, but long term, that's not what we want to see. You all know our mid-term targets, and this is what we strive for. So, performance management in the company is clearly one of the key things to look for going forward.
On the negative side as well is the operational performance, in particular, of plants. In such a year, you have to absorb certain costs that we call the stop-and-go cost. It starts from replacing steel from other sources than Russia. It goes into the fluctuations we had. It's related to absenteeism, sickness rates, so all sorts of things. If I have to say, the second thing where I'm unhappy is that all these things have led to temporary inefficiencies that we could not compensate for. But that should go away as soon as the environment becomes a little bit more predictable.

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Agenda

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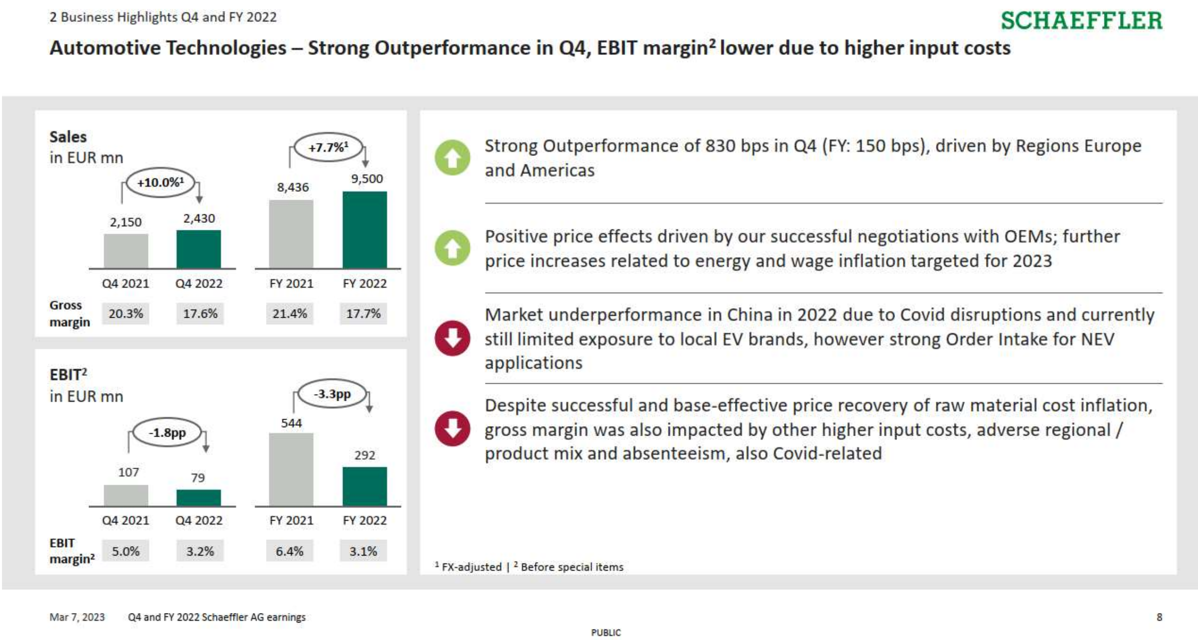
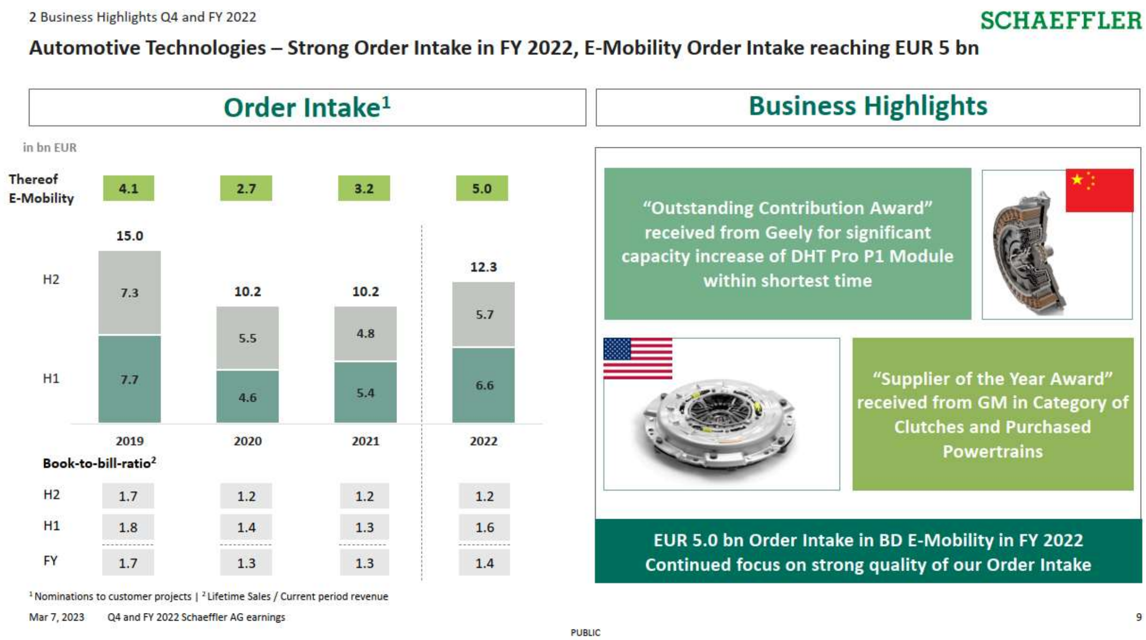
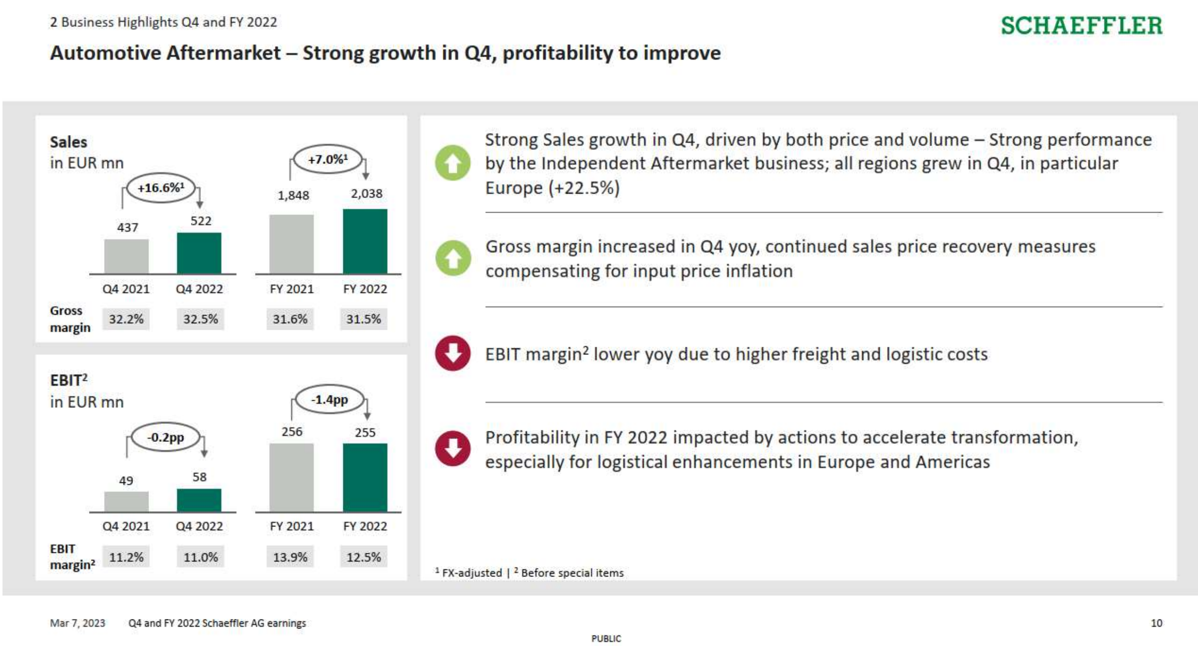


Now, let me quickly run through the divisions. I'm not going to do this long so that Claus can spend most of the time. You see Automotive on page eight, a growth of 7.7%. Outperformance was strong in Q4. It was weak, as you know, before. So, the full year is slightly below the 200 basis points that we promised for this year. The positive price effects have come through.

And on the negative side, I would like to just mention China, that what you all know, and clearly also the continuous volatility in markets and material cost inflation. Fourth quarter was in line with expectations, with 3.1% [IR Note: 3.2%], and the overall EBIT for the year is more or less on the same level.

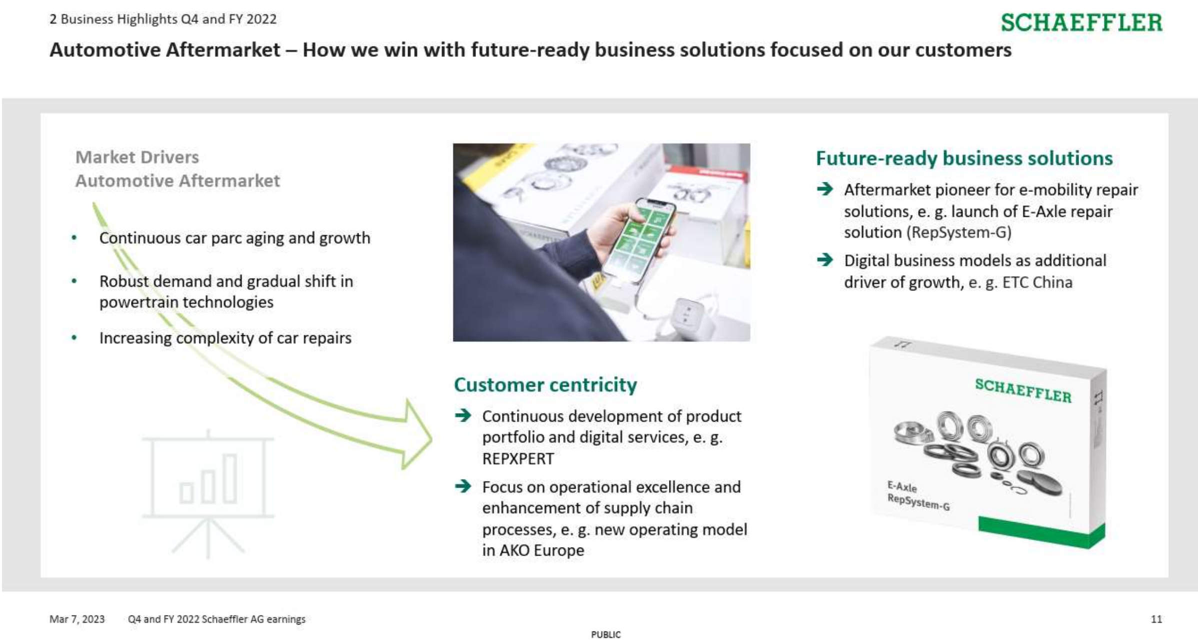


I already talked about the Order Intake. I think you have seen that.

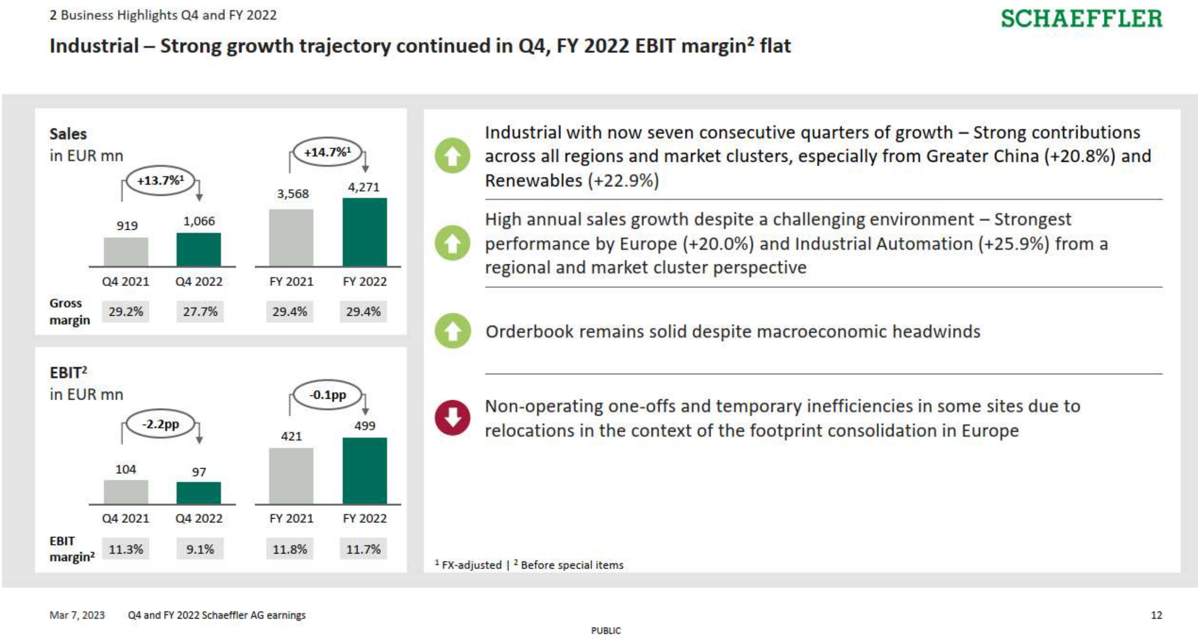


Automotive Aftermarket is one of the interesting places going forward, because in this environment, with inflation being more persistent, it's obvious that people rethink or think about their buying power. And many people, that's what we know from history, will rather repair cars than buy cars. That is good for us. Jens is very well positioned now, with this new strategy regarding electrification and digitalization, to make use of that trend.

And you see when you compare the numbers, there was a little bit of a setback in Q4. That is extraordinary, and that Claus will explain. But the overall logic, with 7% growth and 12.5% margin throughout the year, was definitely pointing in the right direction. If you compare this to 2021, just remember, there was a significant one-off in there. If we take this out, the profitability of the year is more or less in line with 2021.

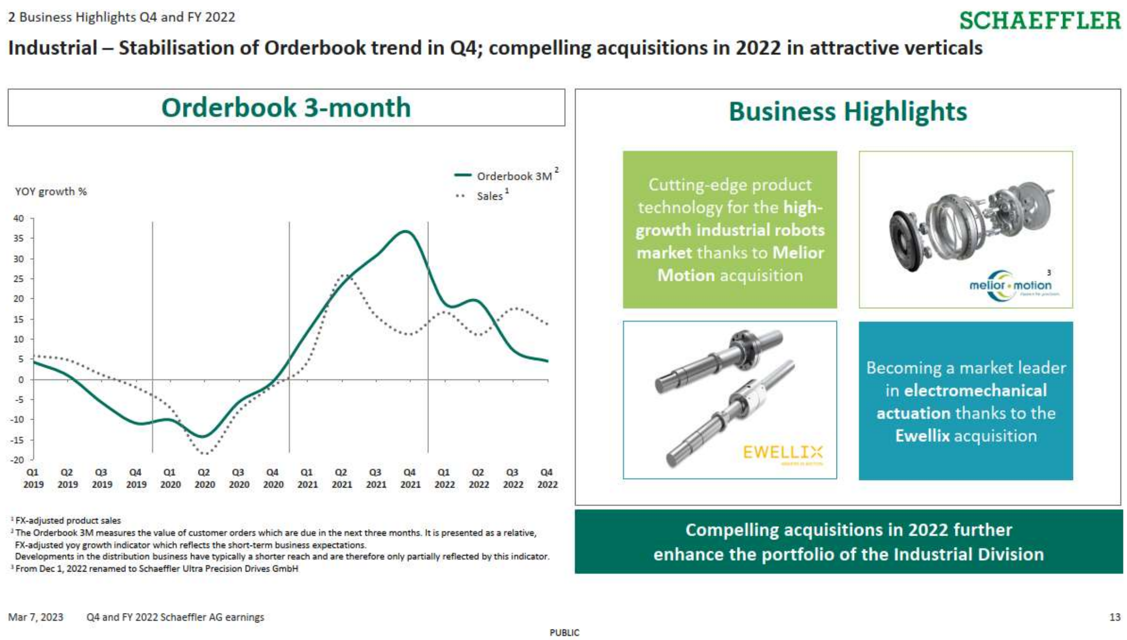


Page 11 is more for illustration purposes. I just want to highlight again that Aftermarket is not just selling some clutches that we have. It is a separate business that we make future-ready with more focus on customers and, in particular, on electrification and digitalization.



Industrial, page number 12. Growth, significant growth, in the full year, 14.7%. This is predominantly organic growth. A little contribution from Melior Motion and Ewellix, as you all know, was consolidated beginning of this year. So, it shows the underlying growth strength that the business has.

We made, at the end of the year, 11.7%. Yes, that is slightly below expectations, and that was, as I said before, a one-off in Q4. 9.1% was disappointing, but it has to do with something that is not going to come back in the year 2023. That's also here in the point with the red dot showing downwards. Non-operating one-offs and some temporary inefficiencies in some of the sites. Don't forget, we have had a massive footprint consolidation initiated in 2020 for the Industrial business, and that was in execution in 2022, and that sometimes leads to such temporary inefficiencies.



Industrial sales trend is moving a little bit sideways at the moment, but we think positive also for this year in terms of underlying growth, in particular, as the macroeconomic environment becomes more resilient.

2 Business Highlights Q4 and FY 2022

Capital allocation – Investments increased in all regions

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Investment[1] allocation | in EUR mn

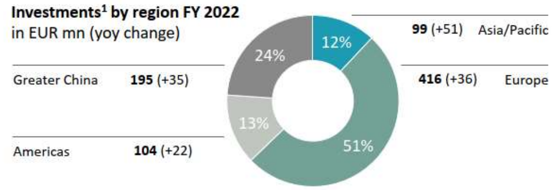
	FY 20	FY 21	Q4 21	Q4 22	FY 22
Automotive Technologies	378	428	158	205	551
Automotive Aftermarket	26	20	8	12	34
Industrial	234	223	66	74	230
Schaeffler Group	**639**	**670**	**232**	**292**	**814**
Capex	**632**	**671**	**188**	**240**	**791**
Capex ratio[2]	**5.0%**	**4.8%**	**5.4%**	**6.0%**	**5.0%**
Reinvestment Rate	**0.7**	**0.7**	**1.0**	**1.2**	**0.9**

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

Key aspects Q4 2022

- Reinvestment Rate: Continued prioritization of investments in Industrial division and New Business in Auto Tech; > 1.5 in BD E-Mobility
- Automotive Technologies: Investment in production machines and tools for E-motors and hybrid modules; new production hall in Taicang, China
- Automotive Aftermarket: Tools for production of new torque converter types in Puebla, Mexico; new photovoltaic system in Halle, Germany
- Industrial: Capacity expansion with new production hall in Savli, India

Investments[1] by region FY 2022
in EUR mn (yoy change)



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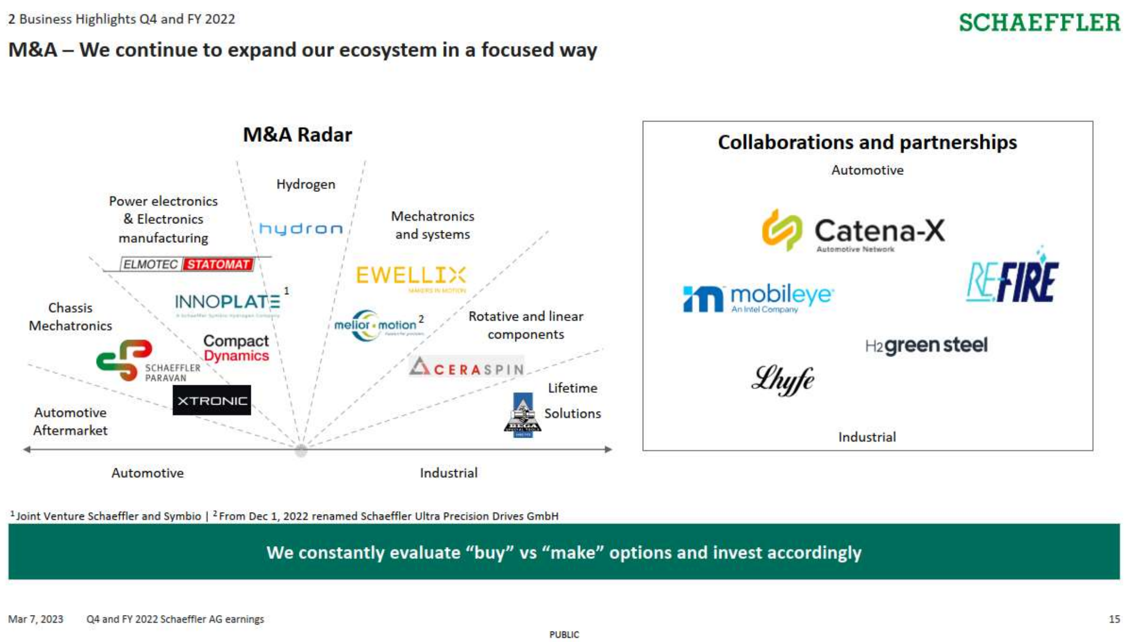
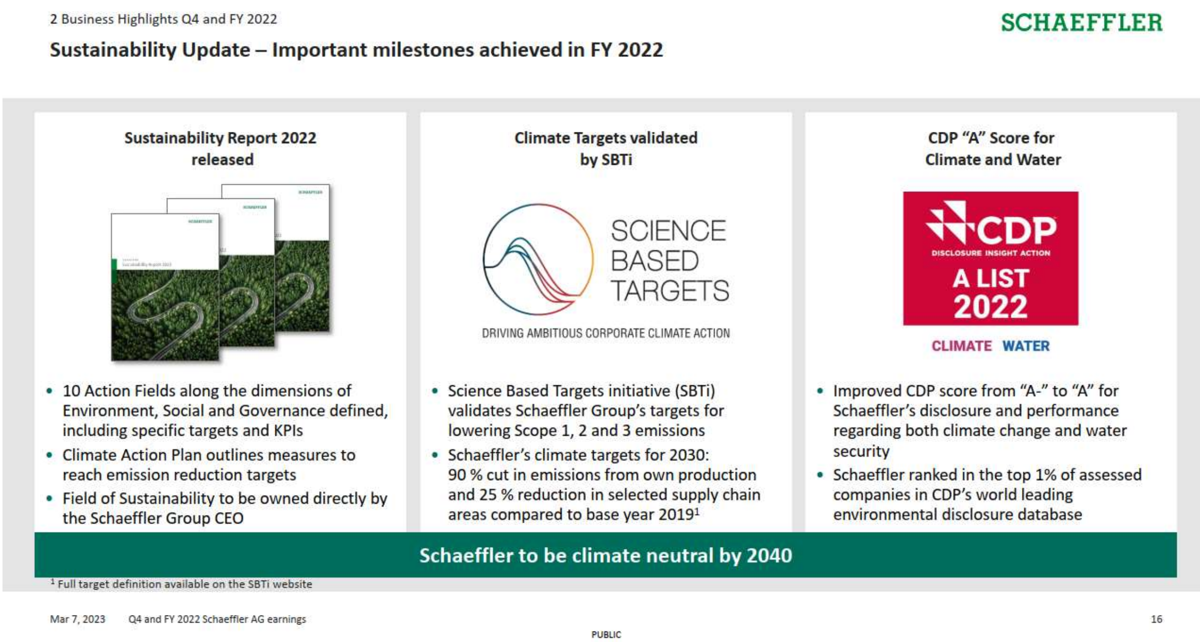
14 is then Capital allocation. Also, I think no surprises here. Capex a little bit higher than what we guided for, or what we indicated. You remember the EUR 750 mn. EUR 750 mn has become EUR 790 mn. That still is a Reinvestment rate below one, so in line with what we said. And you also see that we have the regional split here that says we are investing significant money in Greater China and also America, and that will continue to grow in the future.



My last page is then on… Or my two last pages are on M&A and Sustainability. I think I already mentioned the points. 15 has the names. Significant activity here, all of these acquisitions well thought through, strategically very rational. And as far as we know already, in particular, Melior Motion very well integrated and already contributing to future success.



16 is a page on Sustainability. You have the new Sustainability report out there. It's a newly designed report, where we have changed the format from four action fields into ten action fields. They are organized along the three dimensions of ESG. There is a lot of thought behind this. You may also know that I have decided during the year, together with my board colleagues, that sustainability should in future fall under my responsibility. It shows you that we are clearly committed to make our goals, and that is still a way to go.

If you read the report, you see details on CO2 emissions by the different scopes. I can only recommend this. We are demonstrating here also our sustainability strategy. What we do is validated by the Science Based Targets initiative, and I'm proud to say that for 2022, we get the top scores for climate and water. With that, I would hand over to Claus for more detail on the financial results. Thank you very much.

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Agenda

1 Overview

2 Business Highlights Q4 and FY 2022

3 Financial Results Q4 and FY 2022

4 Outlook

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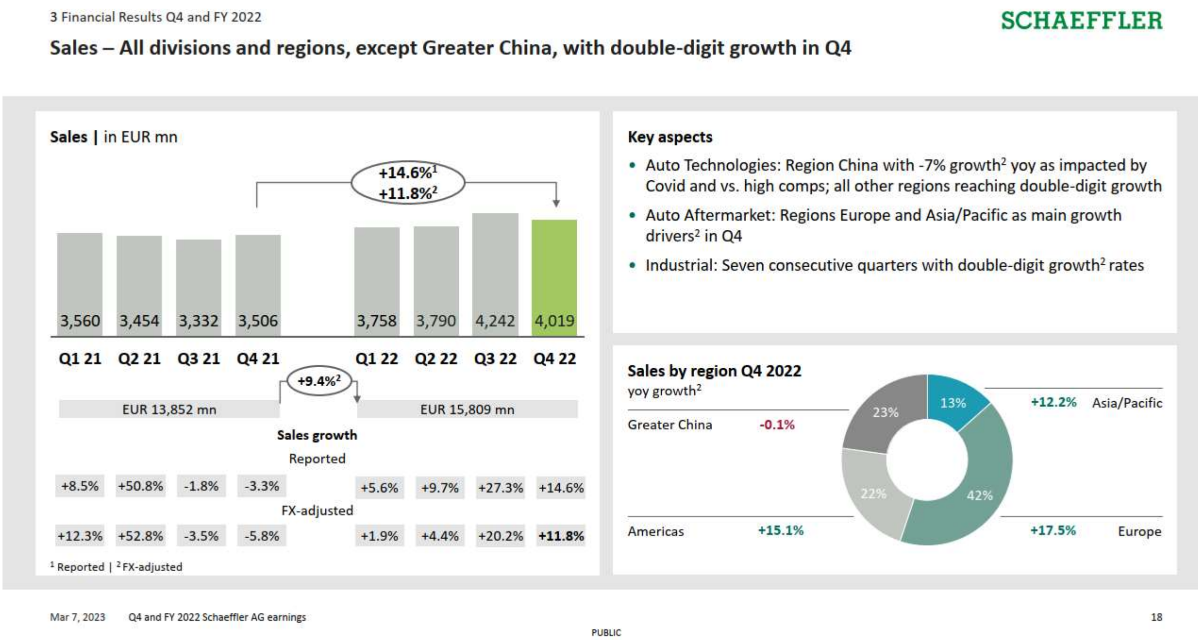
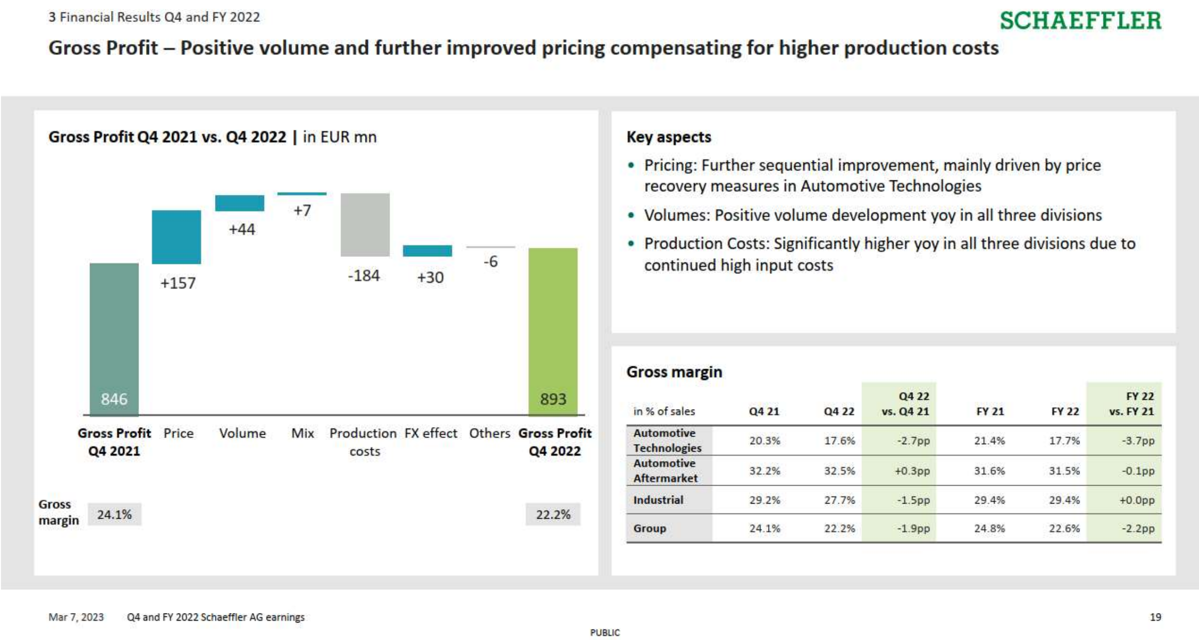
Claus Bauer

Thank you very much, Klaus.



Let's just start with page 18, Sales. Klaus already mentioned the EUR 15.8 bn for the total year, which is a foreign exchange-adjusted growth rate of 9.4%. On the left side, in the top bar chart, you see the Q4 development. All three divisions and all four regions grew with double digits, except Greater China, which we will talk about. In total, the growth for the fourth quarter was 11.8%.

You see the regional split in the pie chart. And as I already mentioned, Greater China is the only region that lacked, a little bit flat. As you might remember, there was the big Covid infection wave in December happening in China, and that definitely impacted us, has also impacted us into 2023, including the Chinese New Year, as you all can imagine. But now, things are completely normalized also in China, and we expect a good growth environment there.



On the next slide, you see the Gross Profit development. And on the bottom, on the left side, you see the Gross margin development from 24.1% to 22.2% year over year. But what I think is even more interesting than this percentage development is the Gross Profit in absolute terms, because I explained it in the past, in this environment where we have to recover cost increases with sales price recoveries, the margin deteriorates, obviously because your denominator, sales, is increasing. But you see, with the absolute development of Gross Profit from EUR 846 mn to EUR 893 mn, that is a significant growth year over year by 6%.

In the waterfall columns, you also see, between the price and production cost developments, one positive, one negative. The sequential improvement of our price recovery initiatives that Klaus already alluded to, we can report and confirm that we have achieved our targets in all three divisions. We said it in the past, that definitely in the Automotive OEM environment, this is more challenging than in, let's say, more distribution-oriented businesses like Automotive Aftermarket. But an overall satisfactory result.

Maybe if you go to the bottom right side of this chart, then what jumps into the eye on a Group level is the two percentage points that we lost quarter over quarter [IR Note: …the two percentage points that we lost year over year in the fourth quarter,…], and also for the full year. And to some extent or the biggest impact, I already explained, is the base effect of the higher sales that are driven by higher cost.

So, if you assume, for example, a 5% cost increase and also then full recovery in sales, with a 30% or with that 25% Gross Profit, that would then be in the range of one percentage point that you lose in margin, without losing any absolute Gross Profit. So, I think that's very important to understand, also for the divisions, which I will comment in a minute.

And then, as we already indicated in our Q3 call in November, we had to account for the collective bargaining agreement in Germany, where you had this very complicated mechanism with one-time payments. And this accounting actually accounted for a loss of 0.4 percentage points in margin in Q4.

3 Financial Results Q4 and FY 2022

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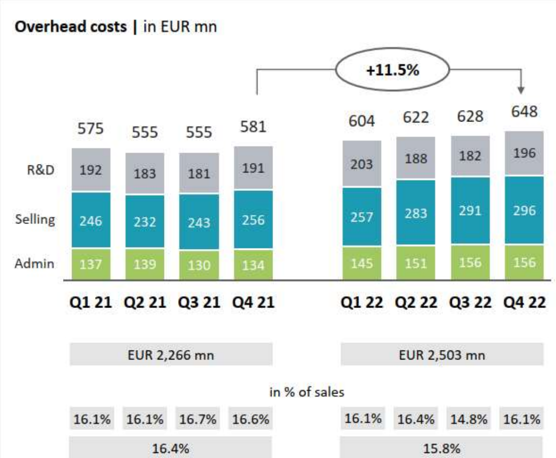
Overhead costs – Cost ratio slightly below previous year, continued high logistics costs



Key aspects

- R&D: Slight increase to previous year, driven by investments in Robotics and Hydrogen
- Selling: Increase yoy due to higher warehousing and freight costs from volume and price
- Admin: Rise yoy due to increased activities for digitalization and sustainability

Overhead cost ratio

in % of sales	Q4 21	Q4 22	Q4 22 vs. Q4 21	FY 21	FY 22	FY 22 vs. FY 21
Automotive Technologies	15.0%	14.1%	-0.9pp	15.1%	14.2%	-0.9pp
Automotive Aftermarket	21.1%	21.6%	+0.5pp	18.2%	19.2%	+1.0pp
Industrial	18.0%	18.1%	+0.1pp	18.4%	17.8%	-0.6pp
Group	16.6%	16.1%	-0.5pp	16.4%	15.8%	-0.6pp

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On the next slide, on the Overhead side, you see it was in the fourth quarter, with 16.1%, in the range, also here obviously due to the wage development in Germany, what I just explained. With the collective bargaining agreement, you lose another 0.2 percentage points here in the overhead expenses. But I think, with a total year ratio of 15.8%, we are on the right track. You see that compared to last year, that is an improvement of 0.6 percentage points.

The number that is obviously to be commented here is the selling expenses, which significantly increased over last year with EUR 296 mn, and that is due to higher volume. Remember, especially in our two divisions with significant sales growth, Automotive Aftermarket and Industrial, we are carrying most of the shipping and logistics outbound cost, and these would be reflected here in the selling expense category. So, there is a huge volume impact on the one side, and obviously also due to higher logistics cost, especially freight, also some price impact as well.

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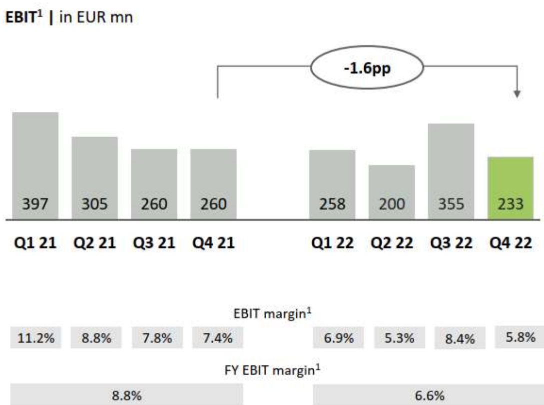
Solid EBIT margin[1] – All divisions impacted by higher input costs, despite successful price recovery



Key aspects
- Accounting for collective agreement ("Inflationsausgleichsprämie")[2] in Germany, impacting Q4 margin with -0.6 %-pts; all divisions impacted
- Auto Technologies margin lower yoy driven by higher input costs, e. g. raw materials, energy
- Auto Aftermarket margin on prior year level; increasing volume and favorable pricing, higher selling costs and one-time reorganization costs
- Industrial margin below PY, temporary inefficiencies and product/customer mix shift between Q3 and Q4 2022

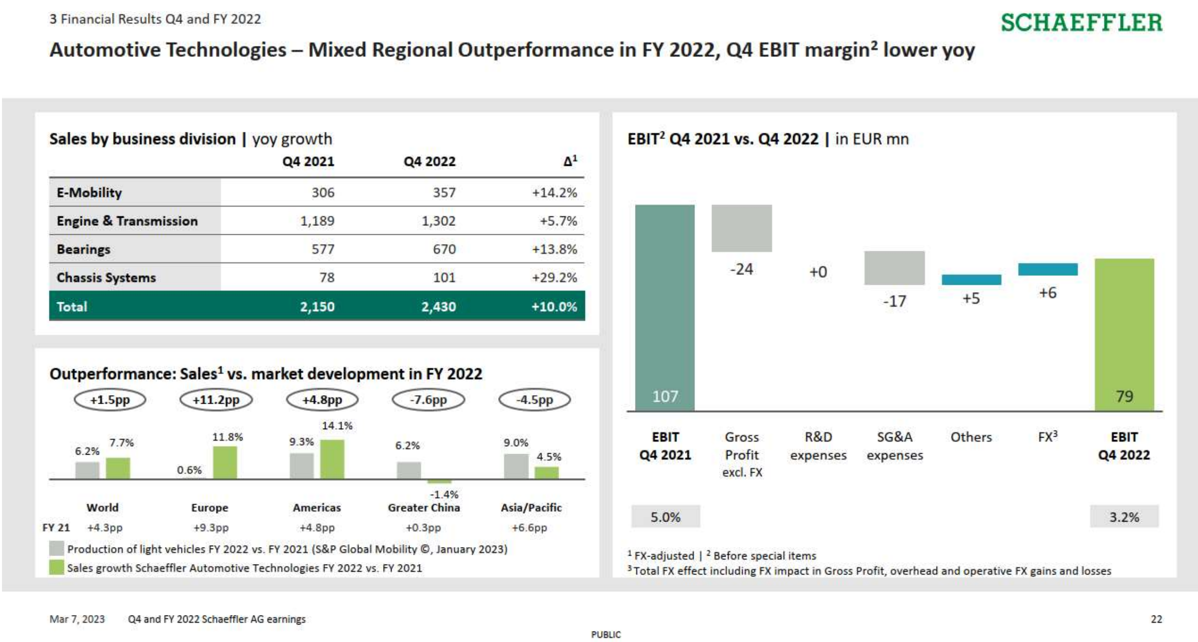
EBIT margin[1]

in % of sales	Q4 21	Q4 22	Q4 22 vs. Q4 21	FY 21	FY 22	FY 22 vs. FY 21
Automotive Technologies	5.0%	3.2%	-1.8pp	6.4%	3.1%	-3.3pp
Automotive Aftermarket	11.2%	11.0%	-0.2pp	13.9%	12.5%	-1.4pp
Industrial	11.3%	9.1%	-2.2pp	11.8%	11.7%	-0.1pp
Group	7.4%	5.8%	-1.6pp	8.8%	6.6%	-2.2pp

[1] Before special items | [2] Inflation compensation bonus, applicable for tariff employees

On the next slide, we will look at EBIT. Klaus already mentioned it, 6.6% for the total year, a little bit weaker in Q4. Remember, around 0.6 percentage points here, 0.4 percentage points coming from Gross Profit and 0.2 percentage points coming from the overhead expenses, are related to the collective bargaining agreement in Germany and the accounting of it. That would almost proportionately impact all three divisions.

And therefore then, if you look at the margin development for the entire group on the bottom right side, it would be a significant portion of the year-over-year minus 1.6 percentage points development. The rest, again, I'm repeating myself, is then the base impact based on cost inflation on the one side and price recovery with sales on the other side. I will not comment now on the divisions seen on that slide but obviously go into the detail on the following slides.



First, Automotive Technologies. You see, on the right side, the development that Klaus already commented on a high level. There is some margin deterioration, but nothing out of the unexpected. It was all expected and also indicated in our last call already. And the big drivers for the 1.6 percentage point [IR Note: 1.8 percentage point] difference here is again the base price impact and then 0.6 percentage points for the collective bargaining agreement impact that I also already explained.

Interesting on that slide, on the left side, is the outperformance Klaus already mentioned, the 1.5 percentage points that we achieved for this year. You see also at the bottom of that segment, the 4.3 percentage points that we achieved last year. We always said that this indicator is a little bit statistically volatile, especially if the base data is volatile, as you understand that obviously production volumes have been volatile, especially with the China lockdowns during the year.

And therefore, we always guided that our outperformance of two to five percentage points is not necessarily to be delivered every quarter and not even every year but on average, over a longer term. And if you take full year 21 and 22 together, you are safely in the range that we think is realistic.

If we look a little bit still on the 2022 development, you see that in two of our most important regions, Europe and the Americas, in that regard, we outperformed significantly the production volumes. And the issue, as has been already last quarter, that we face here is the underperformance in China.

And we explained it last time already, that obviously with the product mix shift in China very strongly towards battery electric vehicles of the first generation and then mainly the domestic brands, we have been a little bit underrepresented in this market segment. We think that will normalize itself once we go into the second-generation E-Mobility in China, even with the domestic producers, where we are then much stronger represented than in the first wave.

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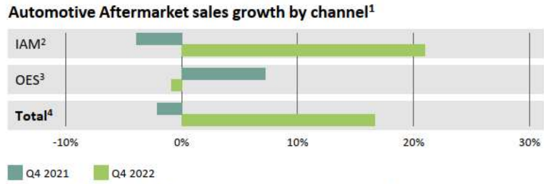
Automotive Aftermarket – Strong growth[1] in Europe and Asia-Pacific, EBIT margin[5] on prior year level

Sales by region | yoy growth

	Q4 2021	Q4 2022	Δ[1]
Europe	291	355	+22.5%
Americas	92	107	+3.0%
Greater China	24	24	+2.1%
Asia/Pacific	31	35	+12.8%
Total	**437**	**522**	**+16.6%**

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] Q4 2021 vs. Q4 2022 | in EUR mn

[5] Before special items
[6] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses

On the next slide, we will look a little bit deeper on Automotive Aftermarket. I'll start again with the EBIT development on the right side. And you see here, year over year, the EBIT for the fourth quarter. It didn’t change much. That obviously doesn’t look strange, but you also have seen, and Klaus already mentioned it, that our Q4 was definitely weaker from a bottom-line margin standpoint, as the prior quarters would have indicated. That is mainly due to a one-time reorganization effect.

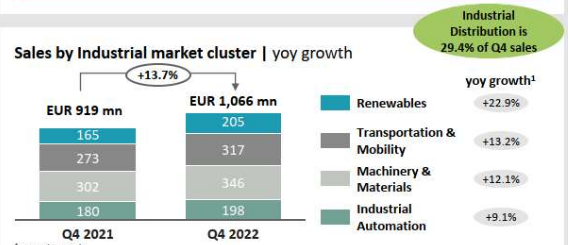
We moved some real estate property in Germany from one legal entity to another just to clean up the set-up internally, and that impacted mainly Automotive Aftermarket legal entities. And therefore, we had to absorb around EUR 6 mn in real estate transfer tax, German real estate transfer tax. And you can easily calculate that that amounts to around 1.2 percentage points that this singular, one-time impact had had on the margin for the fourth quarter for Automotive Aftermarket. So intrinsically, everything is going strong. And I think, Klaus, we can report that the first few weeks in 2023 would confirm a very strong Automotive Aftermarket performance.

3 Financial Results Q4 and FY 2022

Industrial – Strong growth[1] continued, EBIT margin[2] lower yoy

Sales by region | yoy growth

	Q4 2021	Q4 2022	Δ[1]
Europe	401	449	+12.4%
Americas	151	193	+15.2%
Greater China	226	277	+20.8%
Asia/Pacific	140	147	+4.1%
Total	**919**	**1,066**	**+13.7%**



[1] FX-adjusted

[2] Before special items
[3] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses

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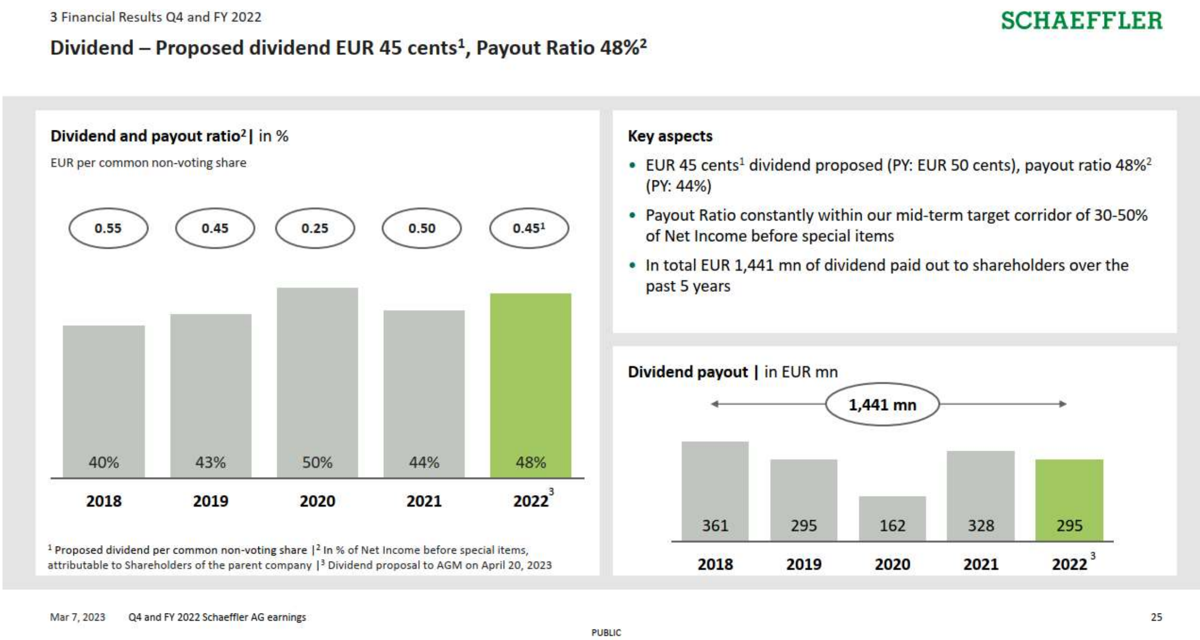
Industrial is the third division here. If you look at the EBIT development, with 9.1% for Q4, definitely lower than the underlying performance. I think you got the hint that I tried to make already in our Q3 earnings call, where we had an outstanding EBIT, if you remember, of over 14% for Industrial, and I explicitly said, don't carry that forward. There is some product and customer mix shift between Q3 and Q4.

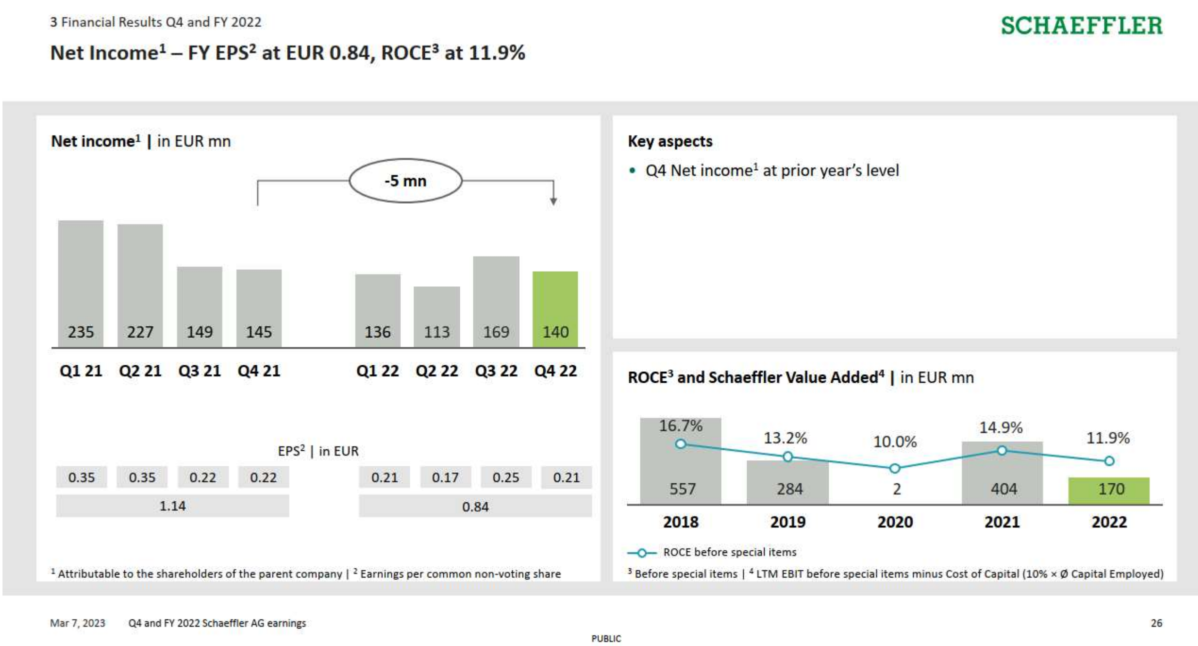
We had a very strong regional mix for the stronger margin areas, and also, for the customers, very strong Distribution sales in Q3, much more than normally, for Q3, you would see a much bigger impact, with heavy stocking orders from Distribution customers in Q4. And there was some mix shift and margin shift between the two quarters. If you take both quarters together, then you will be in the range of 11.5% to 12%, definitely something more in line with what the real performance level of this division is.

And if you then take, on top of that, this base effect with the price recovery, that obviously was very strong in Industrial, if you take that into consideration, which would be another minus 1.5 percentage points, and then on top of that, the collective bargaining agreement accounting in Germany, which impacted our Industrial division in the single quarter by another 0.7 percentage points, then you are in a range which we think will be indicative of what is achievable going forward.

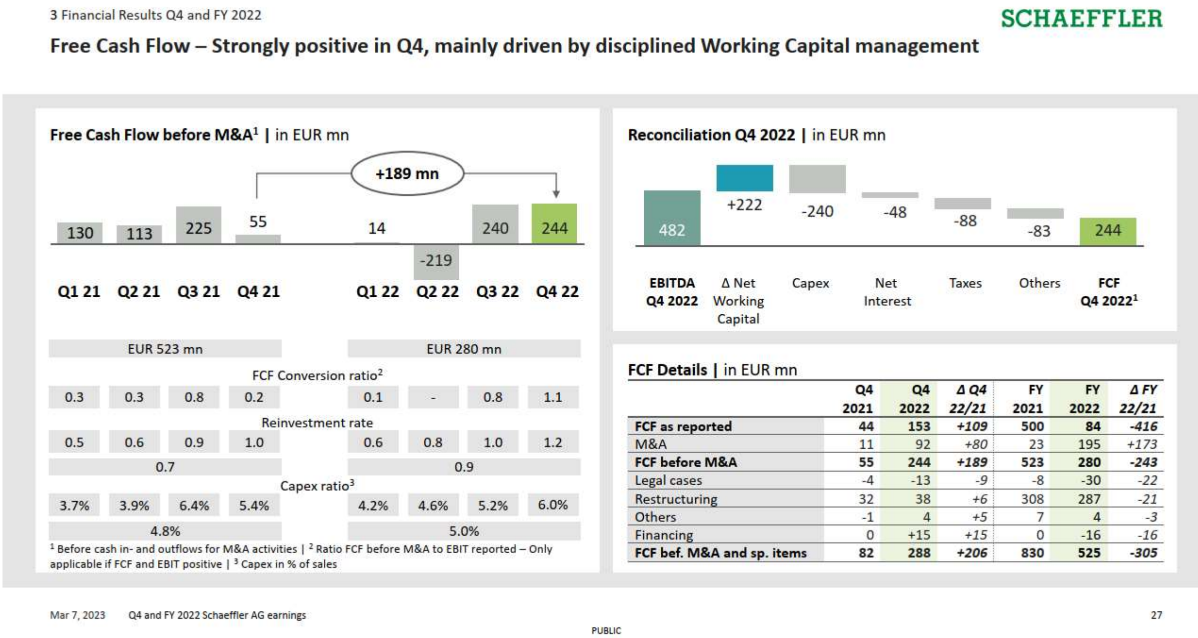


With that, I'm coming to the dividend proposal. I think Klaus already mentioned it. EUR 0.45 is our proposal to the General Shareholder Meeting, which is in line with prior years, except 2020, the high point of the Covid impact. And with a payout ratio of 48%, we are in the target corridor, at the upper end, and I think a very attractive dividend that we propose to be offered.

You see maybe, on the bottom right side, also the payouts in Euros, not just as a payout per share, and I think over the last five years, with EUR 1.4 bn in dividend payouts, a pretty convincing argument for our cash generation power. And I think Klaus also mentioned that 2021 and 2022 were challenging years, so we have proven also in challenging years to be an attractive dividend payer.



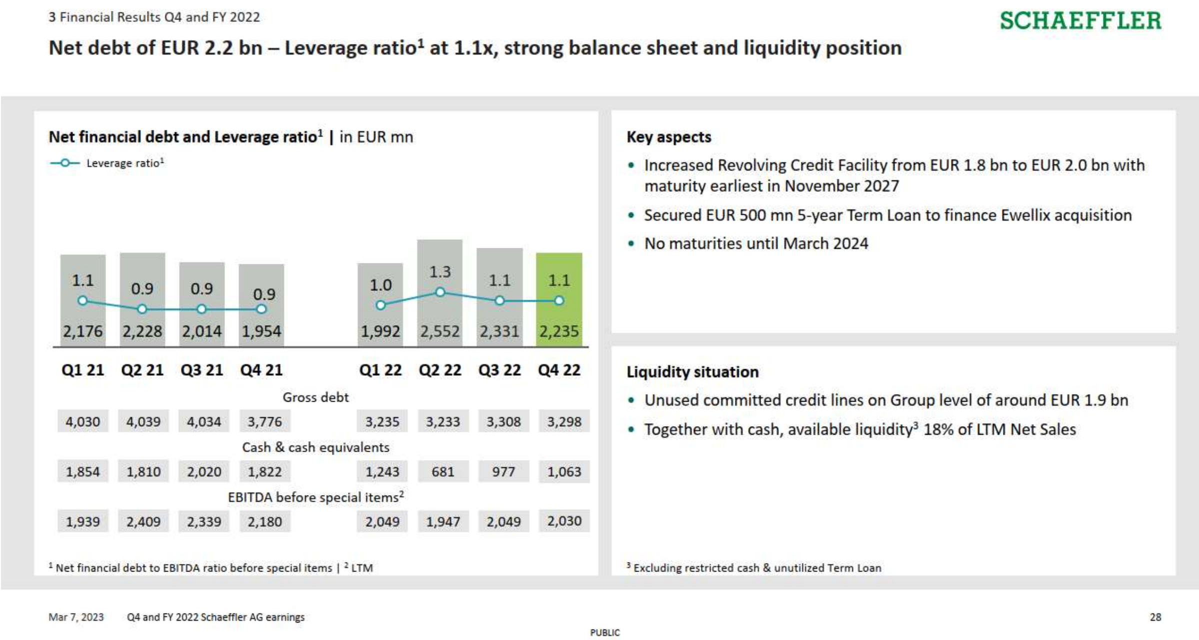
On the next slide, I think I don't need to comment very much. This is all following what I already said. It's pure maths, with the earnings per share and then also the ROCE. So, let's go to the next slide, which is Free Cash Flow.



The Free Cash Flow was, as I think we also clearly indicated in our Q3 call already, strongly positive. You see Q4 was the best quarter of the year in regard to cash flow generation. That had to do also with the timing of Working Capital. We told you in the first half of the year of 2022, we tactically increased inventory, partly to also offset the volatility of our customer call-offs, but also, of course, to manage pricing impacts. And I promised you at the half year time that that will now reverse and lead to a strong cash flow conversion in the second half of the year. And I think the chart on the left side is testimony to that delivery.

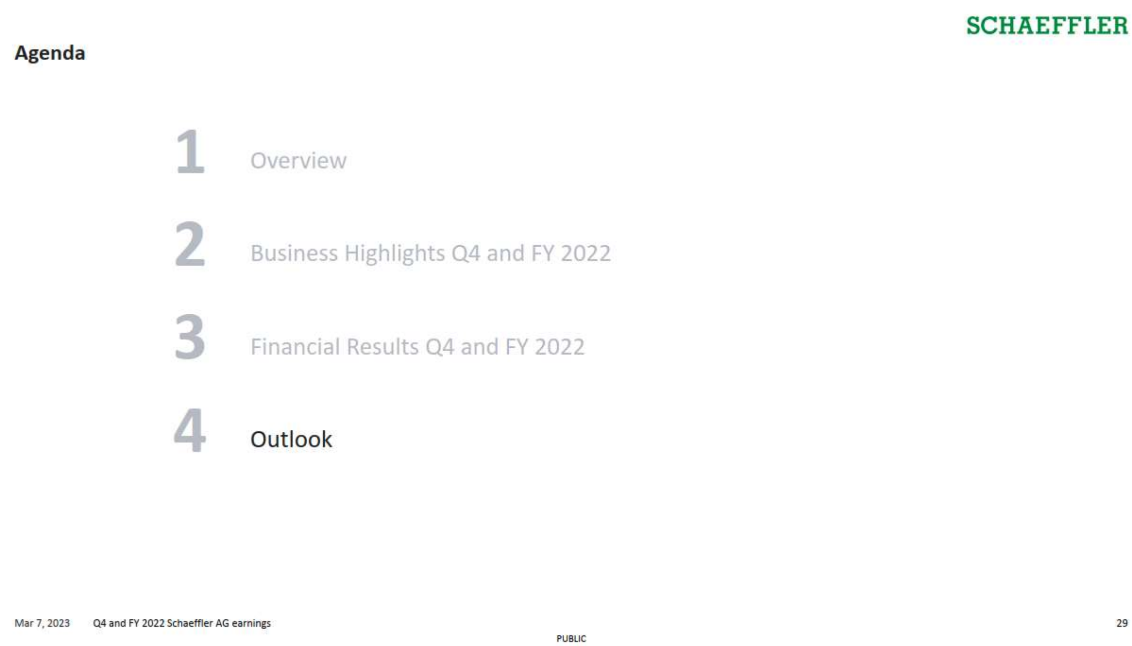
And as Klaus already said, on the bottom right, you see the, what we call, underlying Free Cash Flow. You see it for I think most interesting is the full year here, on the prior to last column. And if you take back the restructuring payouts, with EUR 287 mn, which were almost at the same level as 2021, if you would take that out, then we have a Free Cash Flow before M&A and these special items of EUR 525 mn.

Now take into consideration that we also invested around EUR 120 mn more than last year and we also invested in Working Capital still. I told you we managed inventory down, but nevertheless, sales increases, and nominally, our sales increased by 14%. That also means higher receivables and still also, from at least a valuation standpoint, higher inventory values. And that's another EUR 250 mn there. If you add that back, then you are definitely in a range that should make us very confident for the future.



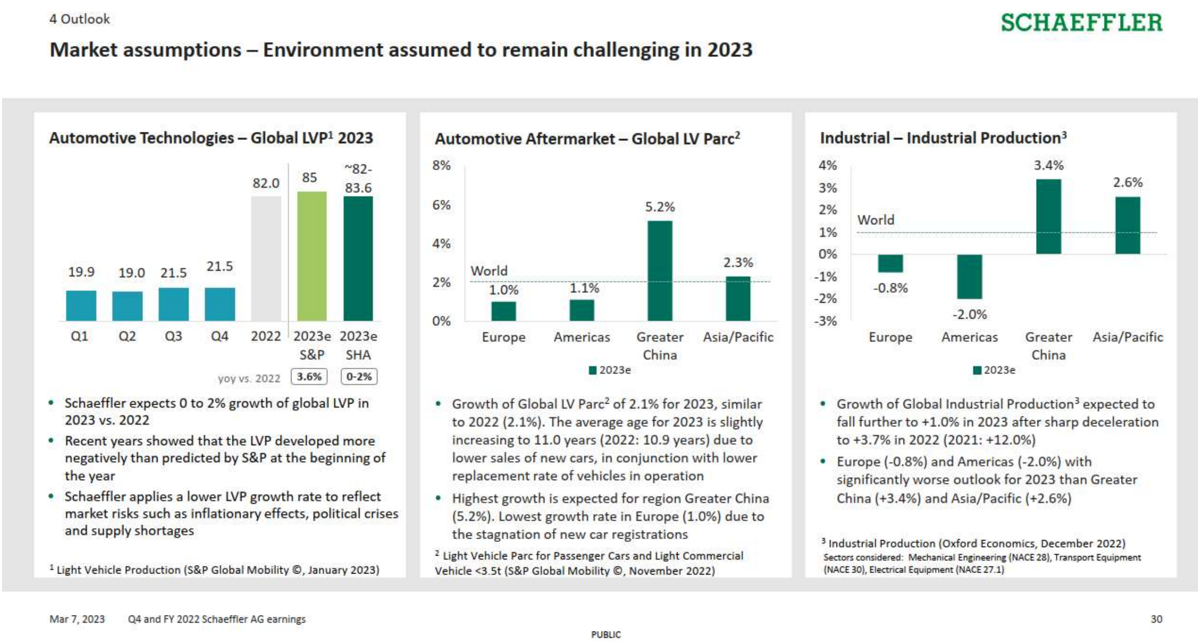
And my final slide then also talks a little bit about our balance sheet and the strength of our balance sheet. You see that, and we already reported that in our Q3 call, but we refinanced our revolving credit line, increased it a little bit to EUR 2 bn, secured a EUR 500 mn five-year term loan for the Ewellix acquisition, and last but not least, we have no maturities coming up this year. The earliest maturity is March 2024. Obviously, we have to take care about the refinancing program for that this year, but this should be doable.

The Leverage ratio, with 1.1, is speaking for itself, a very strong position. You see then calculated, down on the right side, that together with the cash and the unused committed credit lines, we have, and that's now excluding the term loan for the Ewellix acquisition. The term loan is not drawn by the end of the year obviously, because the closing was early in January, so will be drawn, but we already excluded it here in that calculation. And with that, we have 18% of the last 12 months of Net Sales in liquidity at our hand, clearly a sign that we will be on the path of looking out for interesting acquisitions, as Klaus already said in his M&A monitor and radar. And this page here indicates that we have the financial strength to execute on this. With that, Klaus, back to you.



Klaus Rosenfeld

Thank you. Let me finish very quickly with what I said before.



You have on 30, the market assumptions. Again, these are conservative assumptions. We have discounted the number from S&P of 85 mn a little bit. When you think back, what happened in the years before, our discounting logic always proved to be a good indicator. And last year, we said 81.8 mn at the upper end. It was 82 mn at the end of the day. So again, we start the year with conservative assumptions. Let's see how the year unfolds.

Aftermarket here is the key indicator the Global Car Parc growth also rather conservative. You will see that that is something that we can definitely beat. And Industrial, given the fact that there is still a mild recession to be expected, and the Fed is still working on their how to get the inflation out of the system, also here, a little bit more cautiousness.

4 Outlook

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FY 2023 Guidance – Cautious Outlook for 2023

Group Guidance

	Actuals FY 2022	**Guidance FY 2023[1]**
Sales growth[2]	9.4%	**5 - 8%**
EBIT margin[3]	6.6%	**5.5 - 7.5%**
Free Cash Flow[4]	EUR 280 mn	**EUR 250 - 350 mn**

[1] Please refer to the Annual Report for further details | [2] FX-adjusted | [3] Before special items | [4] Before cash in- and outflows for M&A activities | [5] Adjusted comparative figures 2022, for details please refer to the Annual Report | [6] Moderate growth | [7] LVP (S&P Global Mobility ©, January 2023 | [8] Light Vehicle Parc for PC and LCV <3.5t (S&P Global Mobility ©, November 2022)

Divisional Guidance

Automotive Technologies		**Automotive Aftermarket**		**Industrial**	
Actuals FY 2022	**Guidance FY 2023**	Actuals FY 2022[5]	**Guidance FY 2023**	Actuals FY 2022[5]	**Guidance FY 2023**
150 bps Outperf.	**200 - 500 bps Outperf.[6]**	7.1%	**5 - 7%**	14.7%	**9 - 11%**
3.1%	**2 - 4%**	12.8%	**12 - 14%**	11.5%	**11 - 13%**

Market assumptions for 2023

- Automotive Technologies: LVP growth of 0 - 2% vs. 3.6% in latest S&P estimate[7] for 2023
- Automotive Aftermarket: Growth of Global LV Parc[8] of around 2%
- Industrial: Increase of relevant industrial production around 1%

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You have that on 31, with the numbers. I think you saw this. I don't think I have to comment on this more.

4 Outlook

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Conclusion & Outlook

1. **Solid delivery of FY 2022** – Especially on top line and cash generation, striving for further improving operating efficiency going forward
2. **Compelling usage of cash** – Investments in growing businesses, highly fitting acquisitions, attractive dividend proposal, thanks to strong liquidity and strong balance sheet
3. **Relentless execution** – We further shaped our portfolios, organically and inorganically, while progressing with structural measures aimed at right-sizing footprint and headcount in Europe
4. **Sustainability** – Climate targets validated by the Science Based Targets initiative (SBTi), 10 ESG Action Fields including specific targets and KPIs defined
5. **Cautious outlook for 2023** – We are firmly committed to our Mid-Term Targets 2025, leveraging the strength of our Teams world-wide, the attractiveness of our businesses and the competitive advantage of being both an Automotive and Industrial Supplier

Relentless execution

Focus on operating performance and cash generation

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32 is then the summary. I'll do this very briefly. Solid delivery. I think we explained this. The usage of cash is exactly in line with what we always indicated. We are focusing on executing what we have promised in terms of portfolio, structural measures, footprint and also headcount. Sustainability is a super important topic for us, and I don't have to repeat that our Guidance for 2023 is on the conservative or, let's say, rock solid side.

So that's it for the presentation.

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Financial calendar and selected IR events

Roadshows & Conferences – With Top Management participation

Mar 8	Conference – *Paris, BNP Paribas Exane Global Autos*
Mar 9	Roadshow – *London, Deutsche Bank*
Mar 16	Roadshow – *Frankfurt, Stifel*
Mar 21-22	Roadshow – *Virtual, North America, Jefferies*
Mar 22	Roadshow – *Virtual, Auto, JPMorgan*

Financial calendar 2023

Mar 7	FY 2022 Earnings Release
Apr 20	AGM
May 9	Q1 2023 Earnings Release
Aug 2	H1 2023 Earnings Release
Nov 8	9M 2023 Earnings Release

Next page is the financial calendar. Roadshows start tomorrow, extend into London, and then we follow up in March and then with a roadshow in Frankfurt and also a virtual one in the Americas. With that, thank you very much for listening. I hand back to Renata and the Operator for questions.

Q&A SESSION

Christoph Laskawi, Deutsche Bank

Thanks. Yes, it's Christoph Laskawi from Deutsche. Thank you for taking my questions. The first one would be on the message of one customer that you already touched on briefly. Considering that customer might be right, could you comment on if you are able to quickly upscale the capacity, I mean the installed capacities there, but managing up the volumes there quickly? And do you think that the supply chains, overall for the industry, would actually be able to cope with a sudden upswing of that magnitude?
And the second question would be just on the Auto Technologies Guidance for the margin. Could you give us a bit more detail around what kind of cost headwinds that you are factoring there on energy and wages, and if there's a certain pass-through assumption that you've worked into the margin outlook?
And then lastly, on Industrial, the growth outlook. When we look at the Order book, it points to around 5%, end of Q4. Could you comment on the Order Intake momentum at the start of the year and how you expect that to develop? Thank you.

Klaus Rosenfeld

Okay, Christoph, if I understood this correctly, the line was a little bit blurred, your first question was on if there is a more positive market development. Can you scale up? The answer is yes. We are invested for definitely more than 85 mn cars. So, if this would go even higher, that should not be a problem.
It certainly depends on where the growth is coming from and which area, because if this is a big reversal in transmission or classical combustion engine versus E-Mobility, that's a different situation, if this is significant E-Mobility growth. So, let's see what that means. But there is a certain buffer here definitely built in that would help us to grow with the market if it's more buoyant.
Supply chain, I don't see a problem there. The supply chain has more and more normalized. We're not so much dependent on chips and other critical materials on the steel side. I don't see any shortage that we should not be able to overcome. So yes, if there is upside, we'll definitely benefit from that.
In terms of the cost end with, maybe Claus can do this, Industrial growth, you said 5%. You saw the Guidance that we laid out for Industrial, with 9% to 11%. I think that tells you that we are positive on Industrial. It's slightly less than the 14%. That also includes,

to some extent, the acquisitions. We should not forget this, because Ewellix is coming onboard, but that only explains a certain part of the 9% to 11%.
So, the underlying growth is coming from the key sectors that are growing. In particular, Industrial Automation is definitely intact. And let's see where the first quarter ends, but 9% to 11% is what we promise. On Auto, maybe, Claus, you want to talk about the cost point.

Claus Bauer
Yes. So, in regard to the price pressure, the mix is definitely different this year than it was last year. It's more focused on wage inflation and indirect material, especially energy cost, as you already mentioned. But we are going about these cost inflation topics exactly the same way as we did for the mainly steel driven impact of 2022.
Also, and Klaus mentioned it in the very beginning, it's also important to understand that our 2022 pricing initiatives have been in the manner that it's sustainable price increases. It's not one-time payments that we asked for and then have now to start from anew for this year. So, these or a main portion of these price increases will impact 2023 going forward.
And now your next point might be about what does that mean when steel prices are going down, which they seem to have done over the last quarter or so. But then, as we explained in the past, especially with our Automotive customers, we always go there with a complete evidence book and cost driver evidence book, if you will.
And therefore, it's not so much what the spot price for steel does. It's where we have locked in our prices, year over year. And there is not much difference in our price for 2023 versus 2022. So, everything that we achieved in 2022 is sustainable and carried over into 2023. And we will fight with exactly the same approach then for the further cost increases in mainly wage and energy cost.

Christoph Laskawi, Deutsche Bank
Thank you.

Akshat Kacker, J.P. Morgan
Thank you for taking my questions. Akshat from J.P. Morgan. Three from my side as well, please, the first one on the Auto Tech Guidance. I think we all completely get the reasoning behind the cautious Guidance that you have laid out, given the uncertain macro. However, what has raised a few concerns this morning is the 2% floor in that Guidance range.
So, can you please explain what needs to happen for the division to make 2% margins? Is it based on your current set of assumptions on the market outperformance,

inflation, etc, or is it based on completely different bearish assumptions? That's the first question.

The second one on total cost inflation. Just to get some numbers around the elements and following up on Christoph's question, across all key elements, raw materials, labour, energy, etc, you talked about a 450 to 550 basis point gross inflation impact in 2022. Where did the year end up finally, and what do you expect that gross cost inflation headwind to be in 2023, year over year, please?

And the last one on Free Cash Flow Guidance and the cash conversion. So, in 2023, you are again guiding for a 30% conversion on EBIT. Can you just talk about your Working Capital assumptions in that forecast and also the measures that you are taking to improve that conversion ratio going forward, please? Thank you.

Klaus Rosenfeld

Maybe I take the first one on the Guidance for Auto, and Claus takes the two other ones. It's a very fair question, and I can tell you we have tested the ranges. And the last point you made, with even more conservative or bearish assumption, is what led to the 2%. So, let's think about a scenario where volume is even below 2022. That's where we said we get into such territory.

The plan internally doesn't point for 2%. It's the even more cautious side on the margin. And again, don't forget, there is some, yes, a little bit clearing up, but we don't know yet how the environment is going to react to this inflation that is coming up. The car business is a consumer business, and we need to see what's happening here. So that's what explains your 2%. It's definitely not what we're shooting for. We're shooting for more. But we decided to give you ranges, as we did in the previous years before Covid, and that's what we put out, the 2% to 4%, for the time being. Claus, you want to do the other ones.

Claus Bauer

Yes, sure. I'll start maybe with the Free Cash Flow and its assumptions. You might have seen, back in the Appendix, that we want to further increase our Capex this year to a level around EUR 900 mn. So that's another EUR 100 mn to EUR 120 mn more than this year.

Why is that? Obviously, we understand that especially if our cautious assumptions will come true, it will be another more challenging year. But we also decided intentionally in our budgeting that despite the challenges, we will not sacrifice our future opportunities. 2023 will be a year with significant investments in E-Mobility launches, and we will continue our digitalization and sustainability efforts as well.

So therefore, the EUR 900 mn, that takes away a little bit maybe of what you, in your consensus, also thought possible from a cash flow generation standpoint. I think the

underlying cash flow generation is exactly as you all projected and forecasted. It's really the investments that we will, and plan to, do this year.
The underlying assumptions for Working Capital are from a structural standpoint, to stay in line with what we have achieved in 2022. That of course means, with a significant top line growth also and proportional growth of our accounts receivables balance inventory, we think we are in a place that is sustainable.
Now, let's see how volatile customer call-offs will develop in 2023. There might be also some tactical inventory plays again. But the general assumption is that inventory will increase not as much as our top line will increase. So, a little bit a relaxation from that standpoint.
I think your other question was in regard of price pressure or inflationary pressure. Obviously, if you would have asked me that question two months ago, then I would have had different mathematics than today. And the most prominent reason for that is the volatile energy market.
I said it in the past, that energy at some point before all the inflation was around two percentage points of sales. And now, you can apply whatever factor you want. At some point last year, we had price increases three times that way, so that would have been 400 basis points of margin there.
That’s not our assumption today. It's more normal. In total, together with wage inflation and stable steel prices, and again, remember what I said before, stable steel prices mean what our locked-in price on average is, we think that the cost inflation impact will be significant but lower than in 2022.

Akshat Kacker, J.P. Morgan
Great. Thank you so much.

Sanjay Bhagwani, Citi
Hi. Thank you very much for taking my question also, and thanks again for the comprehensive presentation. So, I've got a few follow-ups. First one is, I think you just mentioned about this inflation divergence that some of your peers have also talked about. So basically, as you mentioned, the steel prices that you would be paying for 23 will be basically not a big change, although the LME prices of the steel have gone down.
So, if I understand this correctly, normally customers look at the LME prices, and they tend to apply these automatic price-downs on the contracts, because the LME or the exchange price of the steel is going down. But at the same time, as you mentioned, the price that you end up paying is not going down that much.

So, could you please provide some colour on this, that are you working with your customers to basically, let's say, change the benchmark here to more like the invoiced price versus the LME price? That is my first question, and I'll just follow up with the next one, if that is okay.

Claus Bauer

Sure. I will try to answer this one first. So, there's different pricing negotiations that are involved. I think we said in the past, and obviously I know what I'm talking about because I was for a long time in the US, with US customers, we have had, since a long time, index-based material clauses. In that regard, you're absolutely right that prices would be impacted by spot prices, based on whatever index you agreed on. And that then would have the effect that you described.

In our broader scheme though, it's as I explained. You go to your customer into negotiation with an invoice price. So, it's really invoice price-based and not index-based. And therefore, obviously the customer was happy in 2022 that you didn't pay the high prices on the spot market but were locked in for a better price, and now the reversal comes in 2023, when you still pay the same price and not get then the price reduction from a higher spot price of the last year.

That doesn't mean that we are paying, with our locked-in prices, this year higher than spot prices. It's just, we pay a lower rate with locked-in prices for 2023 than the highest point of the spot price in 2022 would be. So there, I don't see any impact of a price reduction pressure. It's the same negotiation strategy. And actually, we are already in agreement with the biggest customer in that regard. It's the invoice price that is relevant. And now I forgot your other question. What was that?

Sanjay Bhagwani, Citi

Yes. Thank you very much. That is very helpful. No, I didn't ask the second question. So, the second question is basically, so if I understand it correctly, now, this year again you have started the negotiations, where you basically produced the invoice for the steel prices and also the wages and energy.

So maybe just as a follow-up to Akshat's and Christoph's questions, could you please broadly communicate what was, let's say, the gross inflation and net inflation last year? And can we expect some…? I mean in terms of the pass-throughs. And can we expect a somewhat similar level of pass-throughs this year as well, or it could be probably lower this year, because now the inflation is coming from wages and energy, which is not part of the contracts, if my understanding is correct?

Claus Bauer

Yes. I think we explained to you last year, almost every call, that we would not publish what our recovery targets were, and we would stand by that principle. We think, clearly, that if you would publish anything, that that would reduce our negotiation leverage. Therefore, please understand that we would also now not be exact in that regard.

We always said that it's a continuum, if you will, between the highest price recoveries in the markets where you have Distribution Business based on catalogue products because, also from a mechanism, it's very effective. You increase your catalogue prices, and if you are still within the market your product is needed for, then you implement the higher price. That's on the one end of the continuum.

On the other end, obviously it’s the Automotive OEM, where you have to come with a big evidence book, tell the customer what is your cost impact and then negotiate based on that evidence. And it’s a high recovery rate also with Automotive OEM customers, yes, but I think I can say it's not 100%.

And we would go with the same approach, or we are already in the middle of the same approach with the other cost drivers that are, as you said correctly, not normally a basis for negotiations. The general assumption is that your indirect material, process material like energy and especially wage increases, are offset with productivity gains. And I think that, the last ten years with the low inflation environment, was a reasonable assumption. However, I think it's clear along the supply chain that with the cost increases in these areas, that cannot be maintained.

Remember also that in your normal Automotive OEM contract, you have a price reduction, contractual price reduction, and that price reduction obviously is also based on the idea of productivity gains. And I think that is exactly the approach that will be successful, in saying, to offset the indirect material and wage inflation plus now price reductions that are contractually agreed in a normal environment that we have experienced the last 15 years, that is not the way that we can execute in 2023. So, I think it’s always also with the OEMs easier to avoid price reductions than really go for a positive price increase. But in general, I think we will have the same price effectivity as we have seen in 2022.

Klaus Rosenfeld

And maybe, Sanjay, to add one sentence. In the year 2022, we had to cope with volatile steel prices. The only positive thing about increasing labour cost is that you can calculate this in a much more accurate manner, because you know when at least in Germany, you know when the contracts fall due. And don’t forget, that is something that rolls in parts of the one-off we have already taken. That’s one of the reasons why Q4 was slightly lower than you expected.

And we'll see what we can do there. Don't forget this is predominantly a German or European issue. It's not a global issue. You have different labour markets in China. You have different labour markets in the US. So that effect is something that we also need to understand from its regional implications.

Sanjay Bhagwani, Citi
Thank you, gentlemen. That is very, very helpful. I just have one final question on China, if I may.

Klaus Rosenfeld
Sure

Sanjay Bhagwani, Citi
Yes. So, I think you mentioned that part of the reason for the underperformance in China is because you're underexposed to, let's say, the domestic producers, who basically are rising quite a lot on the EV side. And you mentioned that it normalizes in the next generation of products. So, is this next generation move you are talking about, let's say, during the course of 23, or this is more of, let's say, H2 23 or after that?

Claus Bauer
I can do this, because I made the observation. It's phasing in. It's not that you switch off the BYD models that are on offer in the market right now, and you switch them off at June, and then the next generation comes in. So, it will be a phase-in. As I said already in the last quarterly call, it will not be a matter of now going from underperformance to overperformance in a matter from one quarter to the next. It will be a phase-in over the next four to six quarters.

Sanjay Bhagwani, Citi
Thank you. That is very, very helpful.

Horst Schneider, BofA
Yes, good afternoon. Thanks for taking also my questions. I've just got a few left. Let me talk about outperformance for Auto Tech. You just outlined for China. I would be interested, what's the impact for you specifically in the US from the IRA scheme? Potentially, the electrification rate goes up there significantly this year. So, is this a benefit or a burden for you?

And since you mentioned in the beginning also, if the Volkswagen Guidance comes true, you certainly do a lot better business. Can you maybe give some indication of what the business share with Volkswagen is in Auto Tech? Yes, maybe first that question, and then I go on also with some others.

Klaus Rosenfeld

Well, Horst, thanks for asking the questions. The IRA, I said this publicly, is an opportunity. If there is more electrification and more E-Mobility in the US, we will definitely benefit from that, and in terms of outperformance. What that means in terms of long-term growth we need to see, but we are positive on the IRA.

One of the reasons why Mr Schaeffler and myself were traveling there at the beginning of the year and looked at the situation was exactly this. So, we see even cars like the F-150, the F-250 are electrified, and we are very well positioned here for that trend with the big US OEMs.

VW is our biggest customer. It has not changed over the years. You can read this in the Annual Report. It's even a customer where we have more than 10% share. So, I don't have the actual number. It's somewhere at 12% or 13%, so it's a significant customer.

If that comes through, that’s not factored in our numbers. We will definitely benefit from that as well, because we have a very broad product offering with them also globally. But that, I think, were the two questions, the first two beginning questions, right?

Horst Schneider, BofA

Yes, that's correct, and thanks for that. The other question that I have is, when you gave your trading update in January, you talked about the weak start into Q1. When I look now at German production in Q2, that was actually pretty strong. I think also France was a pretty strong month in January, and also in February. I don't know, any update on that comment? Has Q1 really got off to a weak start, or Q1 now unexpectedly turns out to be a very strong quarter for you?

Klaus Rosenfeld

Well, between a weak start and a very strong quarter, there is something in the middle, I would say.

Horst Schneider, BofA

I agree with that. I agree.

Klaus Rosenfeld

But again, this environment, ladies and gentlemen, is volatile, and we are steering a tanker through a still choppy environment. So, when we talked to you in January, we had our mindset from the year-end and what was happening there.

Yes, you rightfully said it’s clearing up a little bit, and things have also, the macroeconomic outlook is a little bit more resilient. But I would not just say it's time to go on autopilot and just harvest what the year is going to bring. We need to manage this very carefully.

And therefore, again, we started okay into the year. We have seen our top lines for January and February. We still need to wait for margins. So top line looks okay, but let’s see. What counts is margin and Free Cash Flow, and there we still have only one month, and that is not really representative for the full year.

Horst Schneider, BofA

But in terms of margin then as well, it’s more back-end loaded probably, because you first need to get the price increases done.

Klaus Rosenfeld

Look, what I can tell you, Horst, is that we see a very positive development in Automotive Aftermarket. And that is exactly telling us that people are buying repairs. And what that means for the overall situation remains to be seen, but the Aftermarket is one of our best performing businesses. It can outgrow significantly the market.

Jens is super well positioned after the things he has done. So, let's wait and see what that brings. And Industrial is also, I think, well positioned with the things we have done, also some external growth. Let's wait and see for the main numbers. It's premature to say something more than what I just said.

Horst Schneider, BofA

Okay, that's clear, and I got it. The last one that I have is, when you made the statement in the beginning that your Guidance is rock solid and you have taken very prudent assumptions, it's clear to me that you assume basically that you are cautious, basically, on the market view. Besides that, is there any item you would highlight where you have taken a more prudent view, let it be on costs or on price or whatsoever?

Klaus Rosenfeld

I don't know what the others have taken in terms of their performance parameters, but we have laid out our market assumptions. They are, as I said, conservative, and

you can read them. They are not Schaeffler-specific. There's no Schaeffler-specific item.
I think you know from the last years we have done our homework. We are very well experienced now in putting the right cost measures in place. That's happening at the moment. We know how to run larger restructuring programs. So, I don't see anything that is a Schaeffler-specific item. It's more to be on the safe side when this year 2023, where I still see volatility and risks, should not turn out as we all hope.
Don't get this wrong. I'm optimistic in a sense that we are through the trouble from a macroeconomic and hopefully also geopolitical side. But when you read the news, I think that it's not the time to be overly optimistic and promise something that is not rock solid. That's why we put it out like we put it out.

Horst Schneider, BofA
Okay, that's great, and thanks for that clarification. All the best for 2023.

Klaus Rosenfeld
Thank you very much.

Himanshu Agarwal, Jefferies
Hi. Thanks for taking my questions. Himanshu from Jefferies. Sorry to come back to the cost inflation. Just wanted to ask, so you have been negotiating energy and wage cost inflation with your customers for some time. So far, have you concluded any negotiation where you have confidence, yes, that you'll receive that compensation?
And if not, then can you just give us a timeframe, like when these negotiations are expected to be concluded, in Q2, Q3? Yes. And does that also mean that the margin Guidance or the margin improvement is going to be back-end loaded? So that's my first question.

Claus Bauer
So, a very fair question based on the timing of the recovery in 2022, where it indeed was back loaded. However, we are not starting where we started 2022. We are well into the process, and it will be a much more continuous effort and recovery.
And depending on how volatile it also becomes, especially in regard to energy, wage, Klaus already alluded to, is definitely stably forecastable but energy more complicated, there might be also some fluctuation in impact and recovery, but not even close to the extent of 2022. So, you will not see a margin drop and then a recovery in the second half of the year based on that impact.

Himanshu Agarwal, Jefferies

Okay. And just to confirm, so have you concluded any contracts so far with any customers?

Claus Bauer

Oh yes. Of course, yes. And we are actually tracking every single customer, every single contract based on where it stands, and looking at that every two weeks. Yes.

Himanshu Agarwal, Jefferies

Okay, thank you. And then my second question is just, your Order Intake in E-Mobility obviously was strong in 22, but I see that Q4, we saw some deceleration. Was it just a one-off, or are you seeing any slowdown from your customers there?

Klaus Rosenfeld

Look, these orders don't come in every week, same level. These are big orders that we are competing with others, and they are not evenly spread. This is also the experience from the last years, over quarters or weeks or months. So don't extrapolate on Q4. We were very glad with the Order Intake. EUR 5 bn speaks for itself. And let's see where we end up the year 2023.
We have more to do on E-Mobility than what we expected some years ago. So, it's a significant achievement of the team around Matthias Zink to bring the company in this direction. And I feel very good about our pipeline and also about the customers behind that.

Himanshu Agarwal, Jefferies

Thank you.

Klaus Rosenfeld

You’re welcome.

Stephanie Vincent, BofA

Hi. Thank you so much for taking my question. Just a couple on the credit. You did mention during the call that you are looking at potentially refinancing the 2024s this year, I'm assuming opportunistically. But just wanted to ask, I guess, because you have financed your latest acquisition with term loan, you've done some Schuldschein, is there a bit of a differential with the way that you're thinking about funding yourself?

And then my next question is just on the Automotive Technologies side. Just doing some very simple exercises about stripping out E-Mobility from these revenues and seeing that your business, despite the fact it has trended towards electrification, just the general industry, of course, over the past few years, has seemed to grow in terms of either content per vehicle or share. And just wanted to know if you had any comments there about whether or not you're taking up business from guys that are leaving or growing in content per vehicle or pricing. Just some details about that would be helpful.

Claus Bauer
Take the first one or the second?

Klaus Rosenfeld
Well, whatever you like.

Claus Bauer
Okay. So, from a financing standpoint, as I also mentioned, there is no pressure. We are looking at the markets opportunistically, as you said. We are monitoring our opportunities in that regard. I think, when we refinanced and also financed our Ewellix acquisition in the fourth quarter of last year, the capital markets, especially the bond market, was not attractive. That to some extent normalized over the last few weeks. So, definitely, we are looking at all the opportunities and will, at some point, then start making our decisions.

Klaus Rosenfeld
On Automotive Technologies and E-Mobility, again, we have chosen not to report on content per vehicle. That in our situation is, from our point of view, not really a good guidepost to see how we're developing. I think the best indicator to look at is, in fact, Order Intake that we talked about. The market is still a growing, a new market to some extent. We are seeing, at the moment, several technological advances, new technology coming in. And what really counts for us is the quality of our Order Intake and of our Order book.
Again, as I said before, we see that we are normally ending up in the last round of projects and order decisions by our big customers. That is a testimony of the quality of what we're offering. I feel strongly that we are very well positioned meanwhile, and that's maybe the more qualitative answer I can give you. This is a long-term transformation part of our business, and it will excel in the next years.

Stephanie Vincent, BofA
Okay, thank you.

Klaus Rosenfeld
You're welcome.
Okay, if there are no more questions, ladies and gentlemen, thanks for listening. We acknowledge that this was certainly not the easiest call, but I once again would like to assure you that we are on track with also our mid-term targets. We are committed to deliver what we promised and take this Guidance as something that is rock solid to protect the bottom, the downside, and if things turn out to be better, will be part of that. Thanks a lot. All the best, and bye-bye.

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Equity Story – Positioning Schaeffler for long-term value creation

1. Roadmap 2025 in execution – Focus on capital allocation, portfolio management and FCF generation
2. Automotive Technologies – Conquer leadership positions in New Business for electrified Powertrains and Chassis applications
3. Automotive Aftermarket – Maintain a high margin level, expand our share of wallet and reach
4. Industrial – Enter attractive growth fields, further enhance profitability
5. Financial Framework – Strict performance orientation based on Mid-term Targets
6. Sustainability – Fully committed to activate all impact levers to achieve sustainability goals

Creating long-term value and generating Free Cash Flow

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Ancillary comments to support the Equity Story

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Additional KPIs	FY 2023	Comments
Order Intake E-Mobility	EUR 2 - 3 bn	Starting from 2022 onwards the new target of EUR 2 - 3 bn applied
Capex	Around EUR 900 mn	Focus areas include Digitalization, Sustainability, Innovation & Technology and investments in New Business
Restructuring cash-out	Up to EUR 200 mn	Significant portion of extraordinary restructuring expenses as in 2022 expected leading to prudent FCF guidance
Dividend Payout Policy	30 - 50%	Dividend proposal of EUR 45 cents[2], payout ratio 48%[3];
Leverage ratio[1]	1.25x - 1.75x	Leverage ratio 2023
Average Tax rate	28 - 32%	Overall effective tax rate in line with pre-Covid years
FX rates		US Dollar, Chinese Renminbi and Mexican Peso are the main exposures

[1] Net financial debt to EBITDA ratio before special items | [2] Proposed dividend per common non-voting share | [3] In % of Net Income before special items, attributable to Shareholders of the parent company

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Key figures Q4 and FY 2022

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in EUR mn	Q4 2021	Q4 2022	Q4 2022 vs. Q4 2021	FY 2021	FY 2022	FY 2022 vs. FY 2021
Sales	3,506	4,019	+14.6% / +11.8%[1]	13,852	15,809	+14.1% / +9.4%[1]
Gross Profit	846	893	+47 mn	3,440	3,579	+139 mn
Gross margin	*24.1%*	*22.2%*	*-1.9pp*	*24.8%*	*22.6%*	*-2.2pp*
EBIT[2]	260	233	-27 mn	1,222	1,046	-176 mn
EBIT margin[2]	*7.4%*	*5.8%*	*-1.6pp*	*8.8%*	*6.6%*	*-2.2pp*
Net income[3]	145	140	-5 mn	756	557	-199 mn
EPS[4] (in EUR)	0.22	0.21	-0.01	1.14	0.84	-0.30
Schaeffler Value Added[5]	404	170	-234 mn	404	170	-234 mn
ROCE[6]	14.9%	11.9%	-3.0pp	14.9%	11.9%	-3.0pp
Free Cash Flow[7]	55	244	+189 mn	523	280	-243 mn
Capex	188	240	+52 mn	671	791	+120 mn
Net financial debt	1,954	2,235	+281 mn	1,954	2,235	+281 mn
Leverage ratio[8]	0.9x	1.1x	+0.2x	0.9x	1.1x	+0.2x
Headcount	82,981	82,773	-0.3%	82,981	82,773	-0.3%

[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 (10% × 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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Q4 2022 Sales[1] development – Strong polarization across Regions and Divisions in the last quarter of the year

	% of Group sales Q4 2022	Schaeffler Group	Automotive Technologies	Automotive Aftermarket	Industrial
			60%	13%	27%
Europe	42%	+18%	+18%	+23%	+12%
Americas	22%	+15%	+18%	+3%	+15%
Greater China	23%	0%	-7%	+2%	+21%
Asia/Pacific	13%	+12%	+16%	+13%	+4%

[1] Q4 FX-adjusted sales growth, please refer to the Annual Report for further details

FY Sales growth[1]

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FY 2022 Sales[1] development – All regions and divisions contributed to growth despite high volatility of end markets

	% of Group sales FY 2022	Schaeffler Group	Automotive Technologies	Automotive Aftermarket	Industrial
			60%	13%	27%
Europe	42%	+13%	+12%	+6%	+20%
Americas	22%	+13%	+14%	+7%	+12%
Greater China	23%	+2%	-1%	+7%	+9%
Asia/Pacific	13%	+8%	+5%	+16%	+13%

[1] FY FX-adjusted sales growth, please refer to the Annual Report for further details

FY Sales growth[1]

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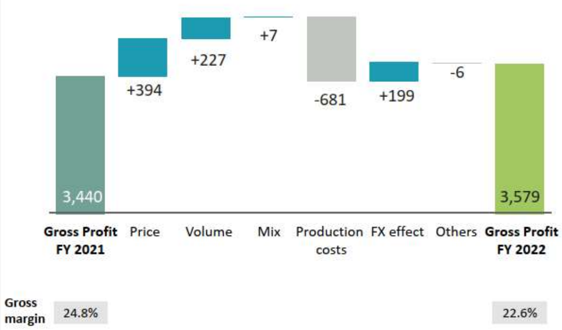
Gross Profit – Positive pricing and increased volumes partially compensating higher production costs

Gross Profit FY 2021 vs. FY 2022 | in EUR mn



Key aspects

- Pricing: Clearly positive for all three divisions in 2022
- Volumes: All divisions reporting volume increases with Industrial showing the highest relative contribution
- Production costs: Significantly higher yoy in all three divisions due to continued high input costs

Gross margin

in % of sales	Q4 21	Q4 22	Q4 22 vs. Q4 21	FY 21	FY 22	FY 22 vs. FY 21
Automotive Technologies	20.3%	17.6%	-2.7pp	21.4%	17.7%	-3.7pp
Automotive Aftermarket	32.2%	32.5%	+0.3pp	31.6%	31.5%	-0.1pp
Industrial	29.2%	27.7%	-1.5pp	29.4%	29.4%	+0.0pp
Group	24.1%	22.2%	-1.9pp	24.8%	22.6%	-2.2pp

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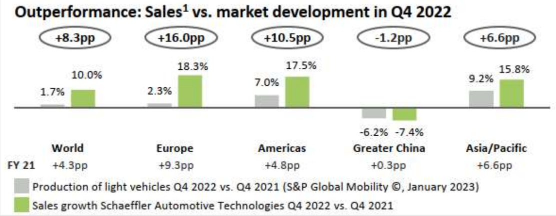
Automotive Technologies – Strong Outperformance in Q4 achieved, EBIT margin[2] down yoy due to higher input cost

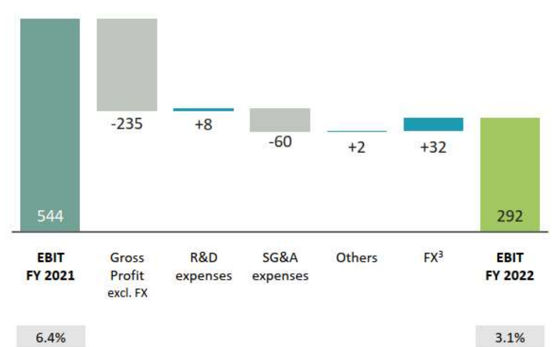
Sales by business division | yoy growth

	FY 2021	FY 2022	Δ[1]
E-Mobility	1,038	1,349	+24.2%
Engine & Transmission	4,688	5,152	+4.5%
Bearings	2,422	2,624	+4.6%
Chassis Systems	288	375	+28.4%
Total	**8,436**	**9,500**	**+7.7%**

Outperformance: Sales[1] vs. market development in Q4 2022



EBIT[2] FY 2021 vs. FY 2022 | in EUR mn



[1] FX-adjusted | [2] Before special items
[3] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses

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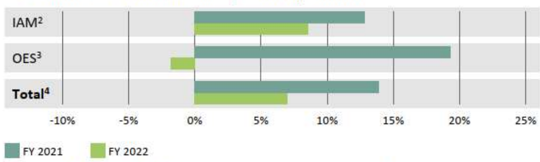
Automotive Aftermarket – Good growth[1] in all regions, EBIT margin[5] down yoy due to higher selling costs

Sales by region | yoy growth

	FY 2021	FY 2022	Δ[1]
Europe	1,276	1,355	+6.4%
Americas	363	434	+6.5%
Greater China	101	117	+6.7%
Asia/Pacific	109	132	+16.4%
Total	**1,848**	**2,038**	**+7.0%**

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] FY 2021 vs. FY 2022 | in EUR mn

[5] Before special items
[6] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses

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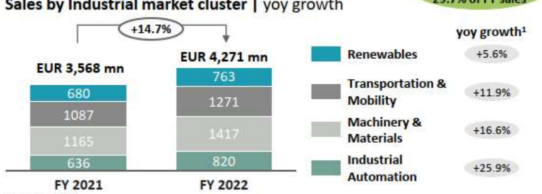
Industrial – Double-digit top line growth[1], EBIT margin[2] flat yoy due to higher input costs

Sales by region | yoy growth

	FY 2021	FY 2022	Δ[1]
Europe	1,472	1,764	+20.4%
Americas	588	734	+11.6%
Greater China	983	1,156	+8.8%
Asia/Pacific	525	617	+13.2%
Total	**3,568**	**4,271**	**+14.7%**

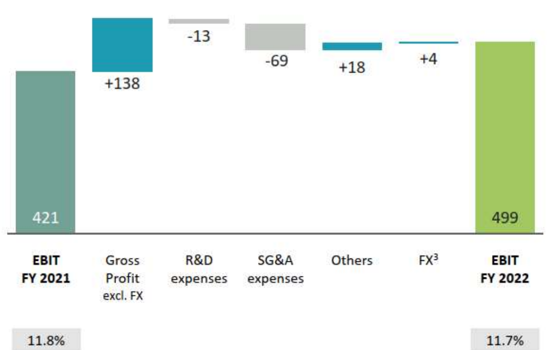
Industrial Distribution is 29.7% of FY sales

Sales by Industrial market cluster | yoy growth



[1] FX-adjusted

EBIT[2] FY 2021 vs. FY 2022 | in EUR mn



[2] Before special items
[3] Total FX effect including FX impact in Gross Profit, overhead and operative FX gains and losses

Backup

Net Income[1] – EBIT reconciliation and special items

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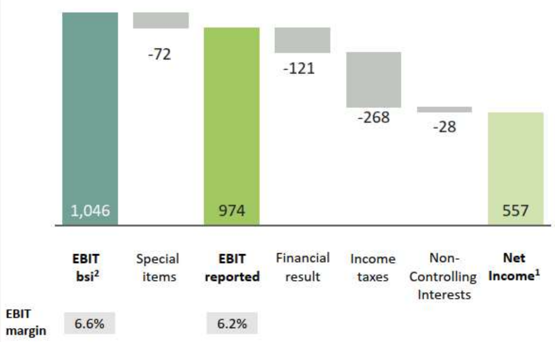
Reconciliation FY 2022 | in EUR mn



[1] Attributable to the shareholders of the parent company | [2] Before special items

Key aspects

- Special items amounted to EUR 72 mn in FY 2022, mainly related to the provision of EUR 130 mn for our structural measures announced in November as well as the consolidation of the Footprint in Europe within "Roadmap 2025"
- Financial Result lower by 23 mn yoy due to expenses for FX effects (Devaluation EUR vs. USD) and pensions (interest on pensions slightly increased)

Special items by division| in EUR mn

	Q4 21	Q4 22	Q4 22 vs. Q4 21	FY 21	FY 22	FY 22 vs. FY 21
EBIT Reported	231	224	-7	1,220	974	-247
Automotive Technologies	-3	+12	+15	-35	+39	+74
Automotive Aftermarket	+1	+3	+2	-18	+5	+23
Industrial	+30	-6	-36	+55	+28	-26
Group	+29	+9	-20	+1	+72	+71
EBIT bsi[2]	260	233	-27	1,222	1,046	-176

Backup

Working Capital[1] ratio 18.8% – Capex ratio[2] 6.0% in Q4

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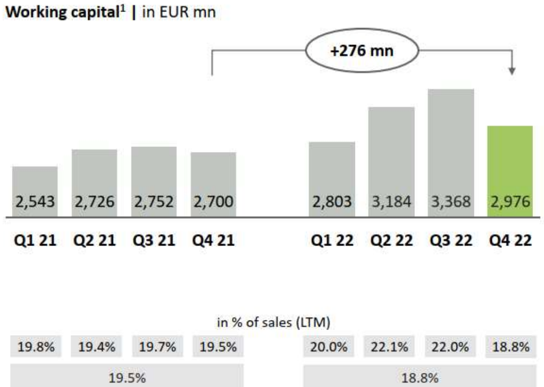
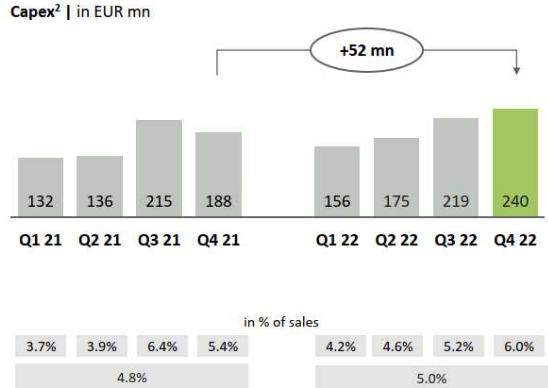
Working capital[1] | in EUR mn



[1] According to balance sheet; figures as per the end of period

Capex[2] | in EUR mn



[2] Cash view

Backup

Automotive Technologies (AT) outperformance by quarters

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FY 22
Outperformance: +1.5pp

	Q1 22 S&P[1]	Q1 22 AT[2]	Q1 22 Outperformance	Q2 22 S&P[1]	Q2 22 AT[2]	Q2 22 Outperformance	Q3 22 S&P[1]	Q3 22 AT[2]	Q3 22 Outperformance	Q4 22 S&P[1]	Q4 22 AT[2]	Q4 22 Outperformance
World	-3.5%	-3.2%	+0.3pp	+1.5%	+1.3%	-0.2pp	+29.5%	+25.2%	-4.3pp	+1.7%	+10.0%	+8.3pp
Europe	-14.8%	-1.9%	+12.9pp	-1.9%	+2.4%	+4.3pp	+25.4%	+33.9%	+8.5pp	+2.3%	+18.3%	+16.0pp
Americas	-3.5%	+0.3%	+3.8pp	+11.5%	+19.5%	+8.0pp	+24.9%	+21.7%	-3.2pp	+7.0%	+17.5%	+10.5pp
Greater China	+6.7%	-5.3%	-12.0pp	-4.5%	-14.9%	-10.4pp	+34.2%	+24.7%	-9.5pp	-6.2%	-7.4%	-1.2pp
Asia/Pacific	-3.7%	-8.3%	-4.6pp	+4.2%	-0.5%	-4.7pp	+30.4%	+12.8%	-17.6pp	+9.2%	+15.8%	+6.6pp

FY 21
Outperformance: +4.3pp

	Q1 21 S&P[1]	Q1 21 AT[2]	Q1 21 Outperformance	Q2 21 S&P[1]	Q2 21 AT[2]	Q2 21 Outperformance	Q3 21 S&P[1]	Q3 21 AT[2]	Q3 21 Outperformance	Q4 21 S&P[1]	Q4 21 AT[2]	Q4 21 Outperformance
World	+15.9%	+17.0%	+1.1pp	+48.2%	+67.5%	+19.3pp	-19.1%	-13.1%	+6.0pp	-10.2%	-12.5%	-2.3pp
Europe	+2.3%	+3.3%	+1.0pp	+81.1%	+120.4%	+39.3pp	-28.7%	-16.3%	+12.4pp	-21.7%	-16.4%	+5.3pp
Americas	-2.8%	+6.7%	+9.5pp	+146.9%	+137.2%	-9.7pp	-24.5%	-16.0%	+8.5pp	-13.4%	-16.0%	-2.6pp
Greater China	+78.0%	+74.8%	-3.2pp	-4.3%	+3.1%	+7.4pp	-13.9%	-16.1%	-2.2pp	-1.1%	-6.0%	-4.9pp
Asia/Pacific	+5.2%	+14.0%	+8.8pp	+82.1%	+63.9%	-18.2pp	-10.8%	+7.3%	+18.1pp	-8.7%	-9.3%	-0.6pp

[1] Light Vehicle production growth according to S&P Global Mobility ©, January 2023| [2] FX-adjusted sales growth of Automotive Technologies division

Backup

Key figures by Group and division

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Group | in EUR mn

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
Sales	3,560	3,454	3,332	3,506	3,758	3,790	4,242	4,019
Sales Growth[1]	*+12.3%*	*+52.8%*	*-3.5%*	-5.8%	*+1.9%*	+4.4%	+20.2%	*+11.8%*
EBIT Reported	382	341	266	231	247	186	316	224
EBIT bsi	397	305	260	260	258	200	355	233
EBIT bsi margin	11.2%	8.8%	7.8%	7.4%	6.9%	5.3%	8.4%	5.8%

Automotive Aftermarket | in EUR mn

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
Sales	444	467	500	437	463	506	547	522
Sales Growth[1]	*+4.9%*	*+57.9%*	*+9.0%*	-2.1%	*+2.1%*	+4.3%	5.5%	*+16.6%*
EBIT Reported	57	89	80	48	62	63	72	54
EBIT bsi	58	78	72	49	63	63	72	58
EBIT bsi margin	13.1%	16.6%	14.3%	11.2%	13.6%	12.5%	13.1%	11.0%

Automotive Technologies | in EUR mn

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
Sales	2,281	2,084	1,921	2,150	2,293	2,222	2,555	2,430
Sales Growth[1]	*+17.0%*	*+67.5%*	*-13.1%*	-12.5%	*-3.2%*	+1.3%	+25.2%	*+10.0%*
EBIT Reported	232	141	96	110	77	1	108	66
EBIT bsi	240	119	77	107	80	11	122	79
EBIT bsi margin	10.5%	5.7%	4.0%	5.0%	3.5%	0.5%	4.8%	3.2%

Industrial | in EUR mn

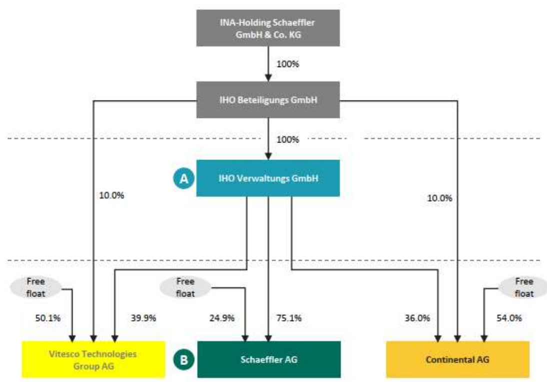
	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
Sales	836	902	911	919	1,002	1,063	1,140	1,066
Sales Growth[1]	*+4.7%*	*+25.4%*	*+15.8%*	+12.0%	*+15.7%*	+11.7%	+17.8%	*+13.7%*
EBIT Reported	92	112	89	74	108	123	136	103
EBIT bsi	98	108	112	104	115	126	161	97
EBIT bsi margin	11.8%	11.9%	12.3%	11.3%	11.4%	11.9%	14.1%	9.1%

[1] FX-adjusted

Overview Corporate and Financing Structure

SCHAEFFLER

Corporate structure (simplified) | as of December 31, 2022



Financing structure | as of December 31, 2022

A IHO Verwaltungs GmbH

	Debt instrument	Nominal (USD m)	Nominal (EUR[1] m)	Interest	Maturity	Rating (Fitch/Moody's/S&P)
Loans	RCF (EUR 800 m)	-	160	E+2.75%	Dec-24	Not rated
Bonds	3.625% SSNs 2025 (EUR)	-	800	3.625%	May-25	BB/Ba2/BB-
	3.75% SSNs 2026 (EUR)	-	750	3.750%	Sep-26	BB/Ba2/BB-
	4.75% SSNs 2026 (USD)	500	469	4.750%	Sep-26	BB/Ba2/BB-
	3.875% SSNs 2027 (EUR)		500	3.875%	May-27	BB/Ba2/BB-
	6.00% SSNs 2027 (USD)	450	422	6.000%	May-27	BB/Ba2/BB-
	6.375% SSNs 2029 (USD)	400	375	6.375%	May-29	BB/Ba2/BB-
	Total IHO Verwaltungs GmbH		**3,476**	**Ø 4.06%[2,3]**		

B Schaeffler AG

	Debt instrument	Nominal (USD m)	Nominal (EUR m)	Interest	Maturity	Rating (Fitch/Moody's/S&P)
Loans	RCF (EUR 2,000 m)	-	-	E+0.90%	Nov-27	Not rated
	Term Loan (EUR 500 m)	-	-	E+1.85%	Nov-27	Not rated
	Schuldschein Loans (EUR)	-	298	Ø 4.10%	May-23, 25, 28 & 30	Not rated
CP	Commercial Paper Program (EUR)	-	50	Ø 2.07%	Jan-23	Not rated
Bonds	1.875% SNs 2024 (EUR)	-	800	1.875%	Mar-24	BB+/Ba1/BB+
	2.750% SNs 2025 (EUR)	-	750	2.750%	Oct-25	BB+/Ba1/BB+
	2.875% SNs 2027 (EUR)	-	650	2.875%	Mar-27	BB+/Ba1/BB+
	3.375% SNs 2028 (EUR)	-	750	3.375%	Oct-28	BB+/Ba1/BB+
	Total Schaeffler Group		**3,298**	**Ø 3.10%[3]**		

[1] EUR/USD = 1.0666 | [2] After cross currency swaps | [3] Incl. commitment and utilization fees