COMMENTED SLIDES / CONFERENCE CALL RESULTS 9M 2018

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Results 9M 2018 Schaeffler AG

Conference Call
November 7, 2018
Herzogenaurach

Company Representatives
Klaus Rosenfeld, CEO
Dietmar Heinrich, CFO
Matthias Zink, CEO of Automotive OEM
Renata Casaro, Head of Investor Relations

Conference Call Participants
Raghav Gupta-Chaudhary - *Citigroup Inc.*
Kai Alexander Mueller - *BofA Merrill Lynch*
Ashik Kurian - *Jefferies*
Henning Cosman - *HSBC*
Sascha Gommel - *Crédit Suisse AG*
Edoardo Spina – *Exane BNP Paribas*
Julian Radlinger - *UBS Investment Bank*

Operator

Dear ladies and gentlemen, welcome to the Schaeffler AG Q3 2018 Results Conference Call. At our customer's request, this conference will be recorded.

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

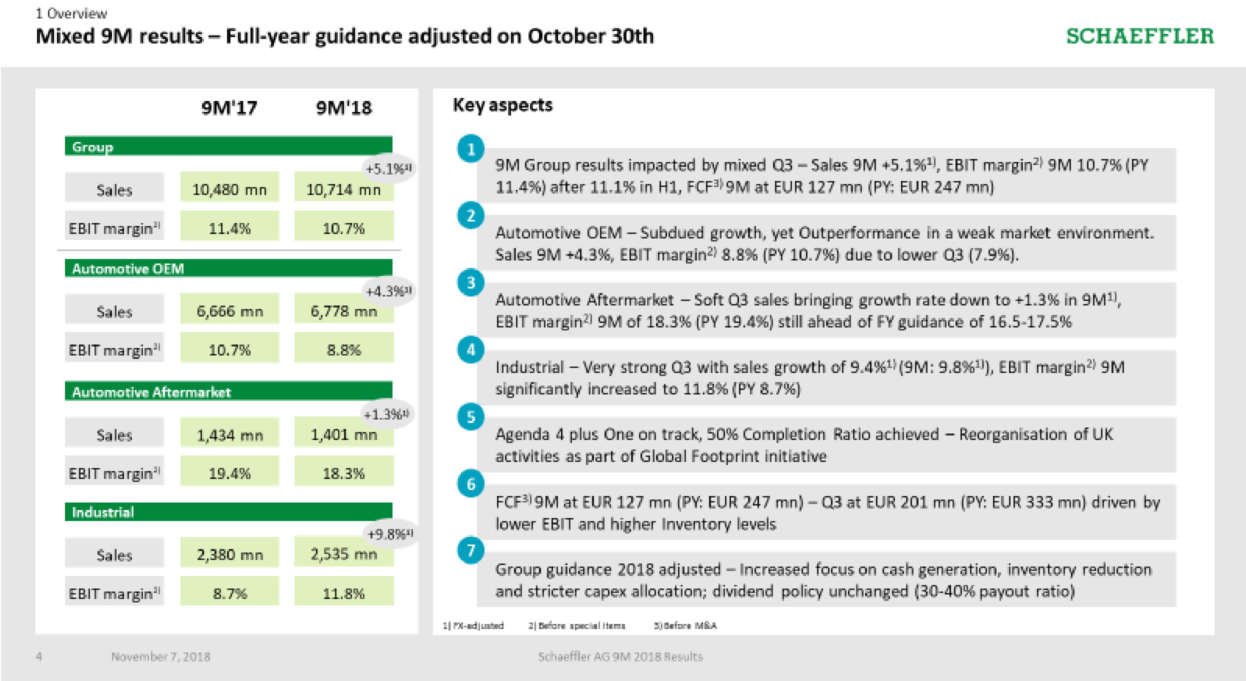
Renata Casaro

Thank you very much, operator. Dear investors, dear analysts, thank you for joining this third quarter results call, which will be conducted under the disclaimer. Mr. Klaus Rosenfeld, the CEO of the Schaeffler Group; and Mr. Dietmar Heinrich, the CFO will present today together with the IR team here in Herzogenaurach. Mr. Matthias Zink, CEO, Automotive OEM will also join the call telephonically from customers.

Mr. Rosenfeld, the floor is yours.

Klaus Rosenfeld

Thank you very much, Renata. Ladies and gentlemen, thanks for joining the call. We are here to report about our 9 months results in the Q3. You all remember that last week, we have already pre-released certain key figures and also adjusted our guidance, so we will concentrate today on those figures and those informations that are new. You have the usual book in front of you and we will separate the presentation again. I will start with my part and then hand over to Dietmar, in particular, for the all the financial figures in details.



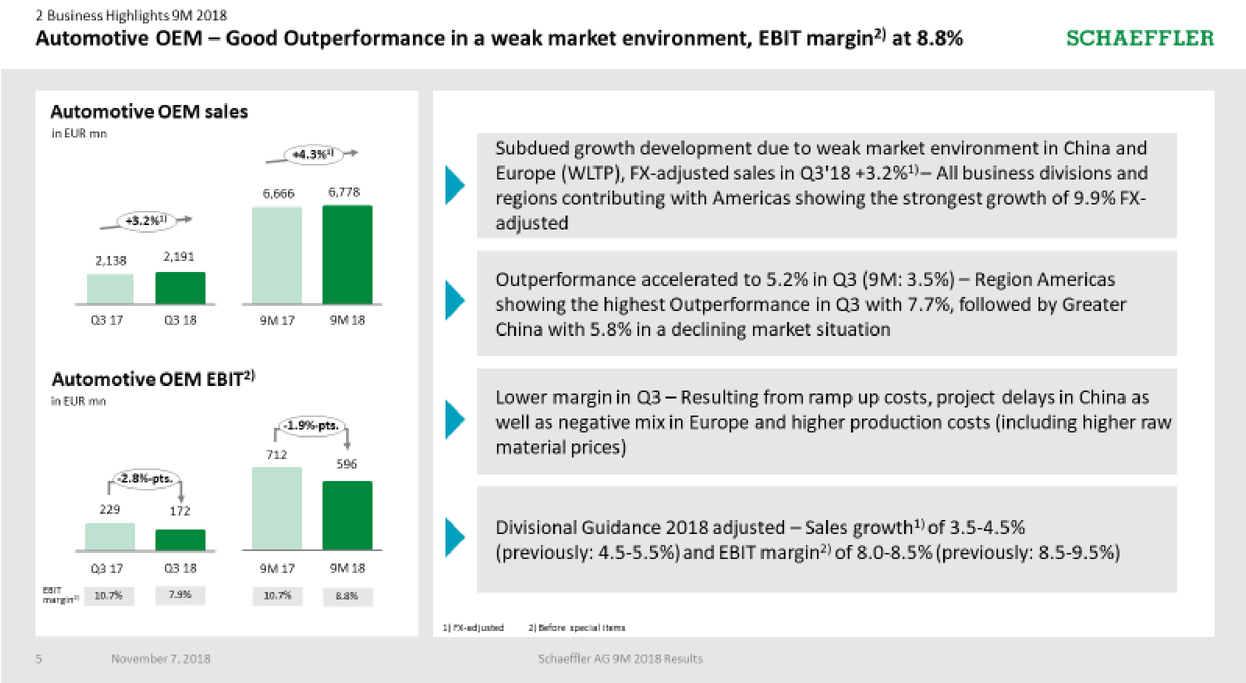
Let me start on Page 4. That's basically the overview, as the results, as you know, were mixed. Automotive OEM suffering from subdued growth, in particular by China. But as outlined in bullet point #2, still an outperformance of 5% in the -- in Q3 and something close to 4% for the first 9 months. We think that shows that we are in good competition and are on track to achieve this overall 4% outperformance for the full year.

Aftermarket with softer Q3 sales than we expected was that also to the guidance adjustment, but still with a margin that is above the range.

In Industrial, very strong Q3, 9.4% sales growth for the full 9 months, nearly 10% and a further improvement of the margin. That's all positive, although we have to expect that this type of growth rates are not going to continue into 2019.

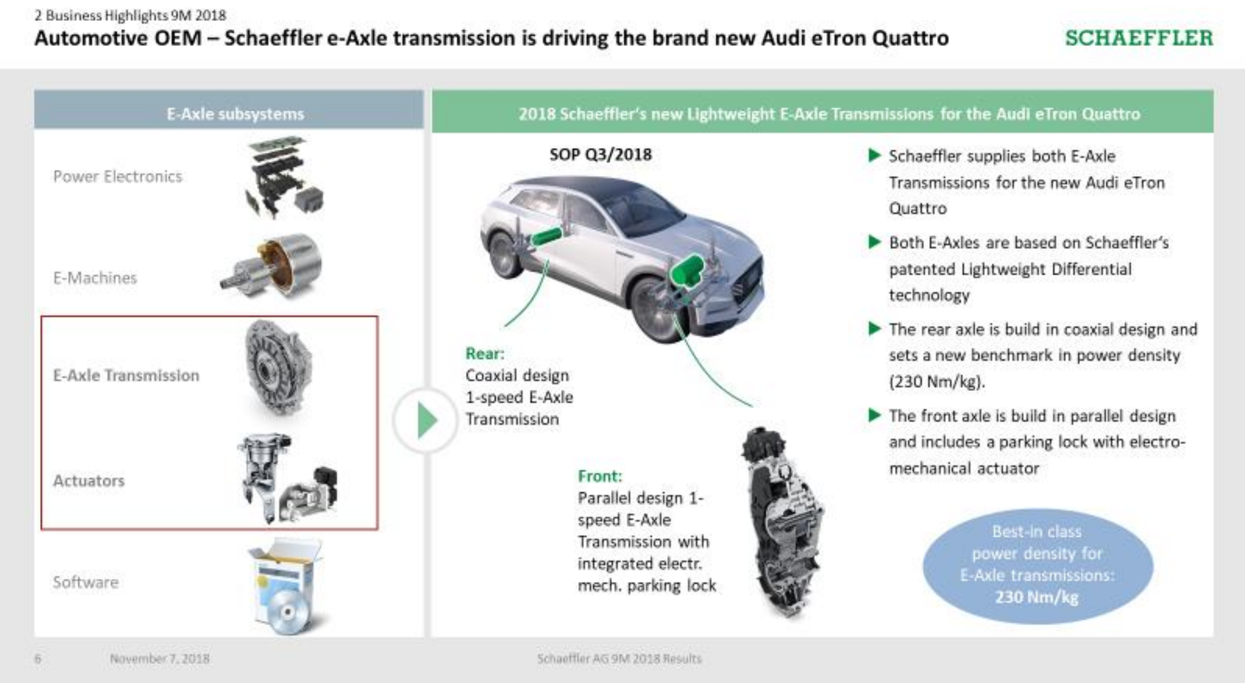
A little bit of new information since yesterday, Our Agenda 4 plus One, our major problem for the next year is on track, 50% completion ratio achieved. And as a next step, we announced yesterday, as part of our global footprint initiative and reorganization of our U.K. activities with the closure of 2 clients, another step in the right direction to optimize our global footprint and improve efficiency.

Free cash flow, I think you have seen the numbers and also the reasoning here that it's basically what I can add on Page 4 to what you've heard so far.

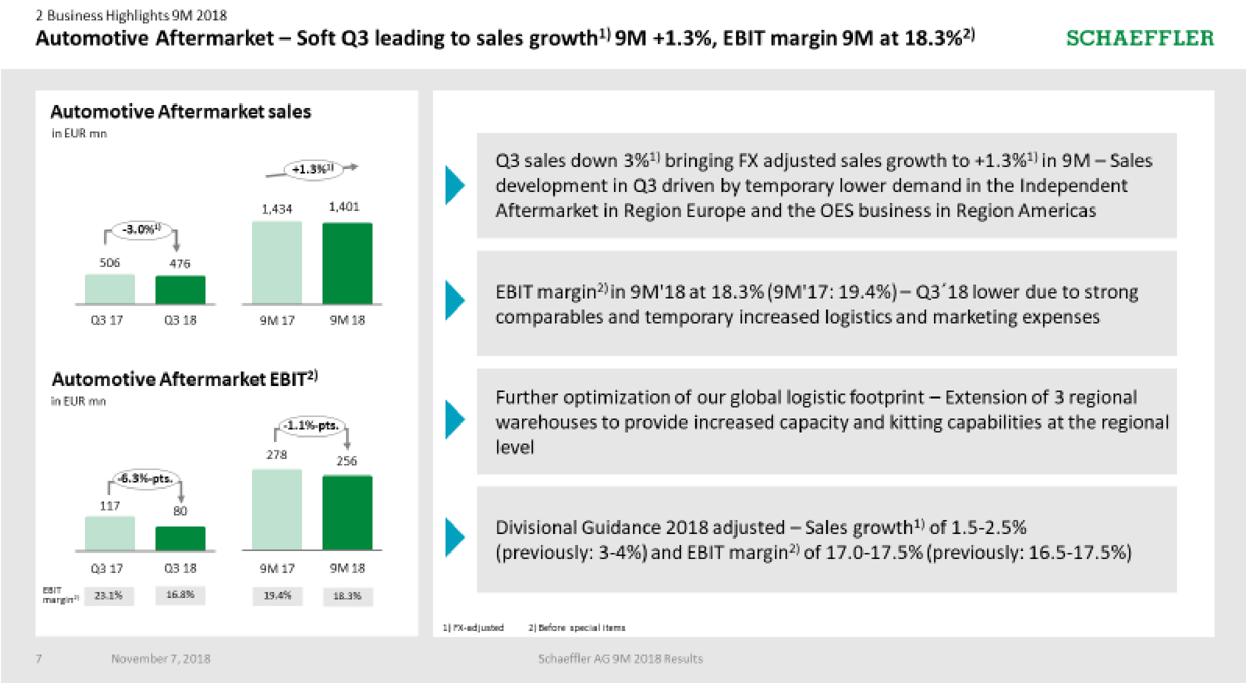


Page 5 gives you the summary of the out -- Automotive OEM business. And the key message here is good and solid outperformance in a weak market environment driven by China. Dietmar is going to report on Page 16 in more detail about how the outperformance came together.

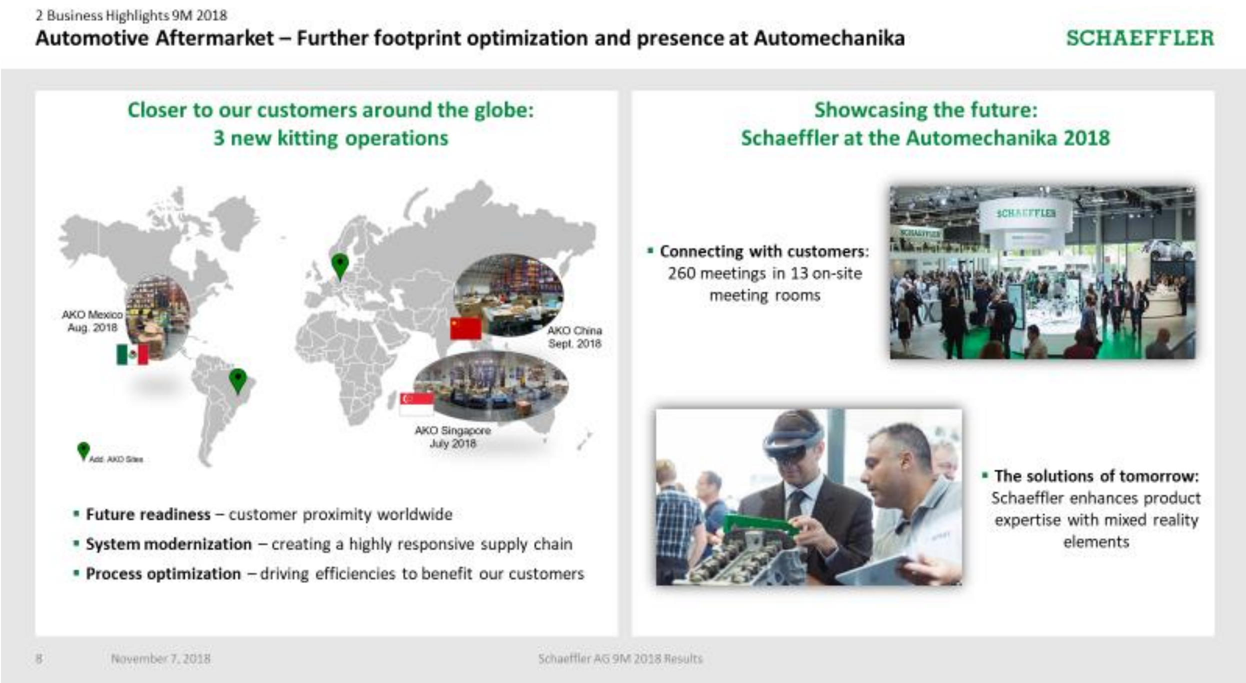
What's interesting to see here that for the first time since many quarters, America is leading the pace here with nearly 10% growth and an outperformance of 7.7%. What is very positive also, Greater China, despite the declining market situation was an outperformance of 5.8%. We've seen big numbers in the past, but the fact that it's still 6% shows that we are on track and also in good business competition.



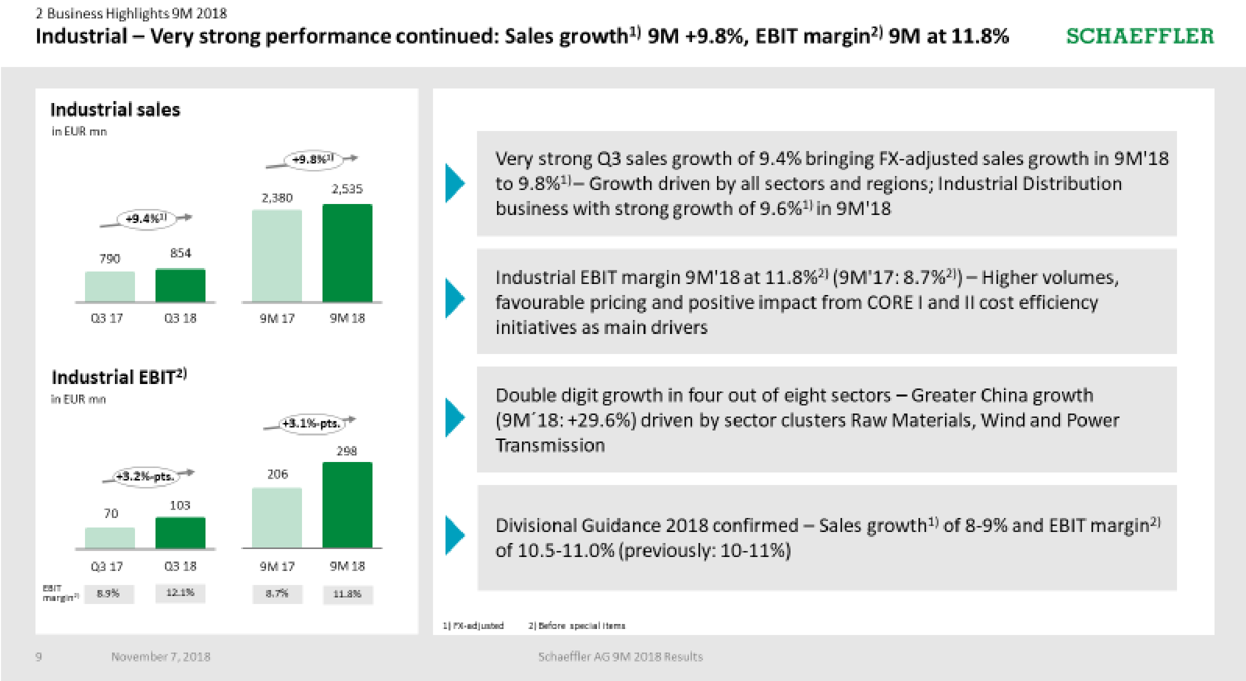
If you go to Page 6, I'm not going to explain that in all detail. We just want to highlight here that we are very focused on our E-Mobility activities. There's definitely more to come here. And our e-axle transmission is part of the Audi e-tron use. Remember that from the capital market's day. Matthias is here, if you want to talk about a little bit what's going on at the E-Mobility side. We feel good about the situation we have. We're working hard to further improve our order intake.



Automotive Aftermarket, Page 7. I already mentioned that, nothing really new here. Strong comparables in Q3 2018 have to be taken into account that there are some temporary impacts that reduced the margin and also impacted the pipeline. Nothing dramatic, but it is something that we don't like. We have to report here today softer earnings for our Q3, minus 3%. That should not be trend. Michael [IR note: Michael Söding, CEO Automotive Aftermarket] is optimistic that, that can be reversed in the fourth quarter.

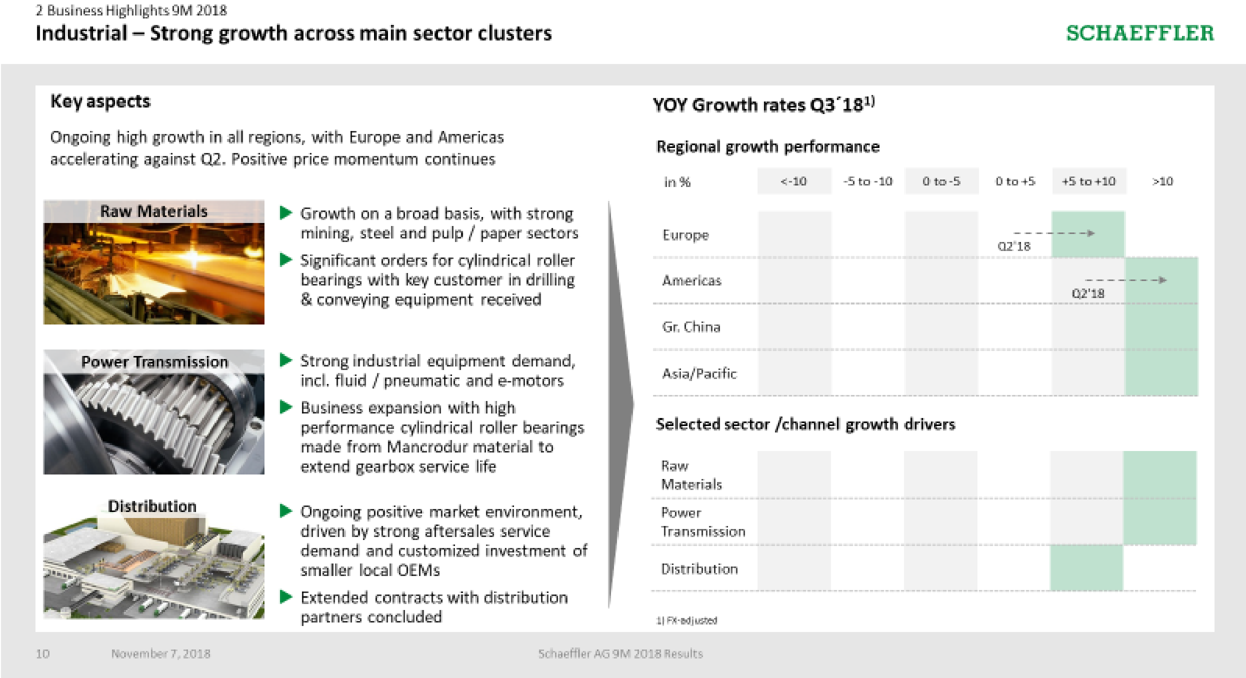


On Page 8, just a little bit of color. We are working to optimize our kitting operations. It becomes a global network. It's not only Germany, but also Mexico, China and Singapore. And we had some very good feedback on the Automechanika, the most important Automotive Aftermarket fair in the year in Frankfurt.

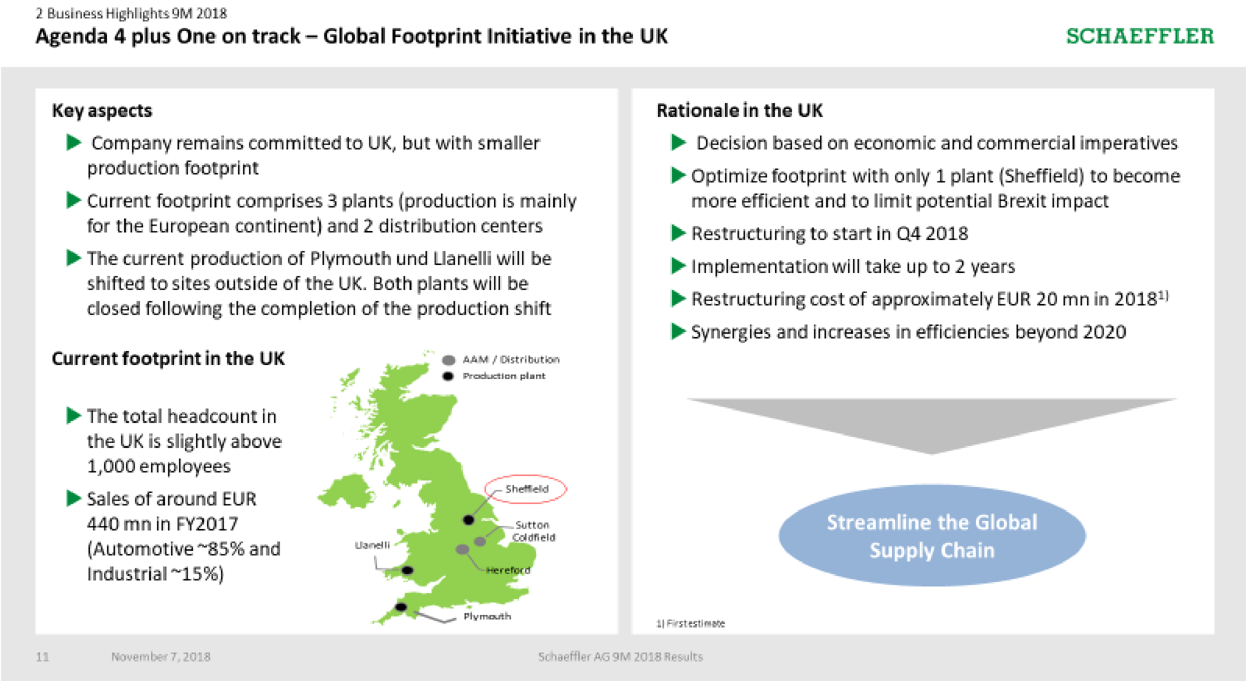


Page #9. I mentioned Industrial, very strong performance continued. Higher volumes, stable prices and also a positive impact from the 2 restructuring programs. CORE I and CORE II are the main drivers of this. We also see that all the sectors, we are serving growth. And in particular, raw materials, wind and power transmission are the ones that are driving the growth. You see here something that may have been a little overlooked in the last presentation.

But what we are missing at the moment in Auto is a good growth environment. It's definitely not mirrored on the Industrial side. While the opposite is true, our China growth in Industrial is spectacular, with nearly 30% in the first 9 months. That shows that how important it is to be an Automotive and Industrial supplier at the same time.

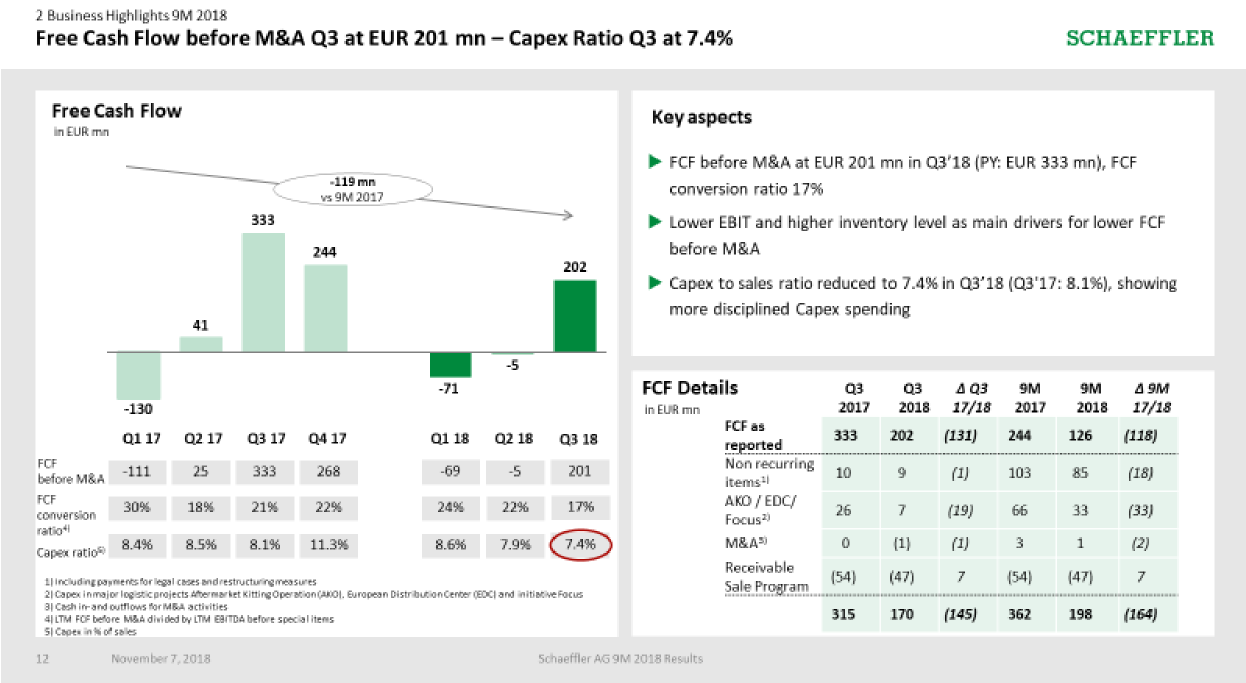


A little bit more color on Page 10. You see here the 3 most important business drivers: raw materials, power transmission and distribution. We have mapped it out in terms of the regional growth, but also in the channel growth. And we are happy about, in particular, the growth in our distribution business because that is a high-margin business. But also regionally, all the 4 key regions are growing between 5% to 10%, if not more than 10%, with also an improvement from the second quarter of this year.



Page 11 gives you, on top of the things you could read in the newspapers today, a little more color about what the reorganization in the United Kingdom means. I want to outline here, we remain committed to the U.K.. But with a smaller production footprints. We're going to close 2 of the plants and relocate the activities into several other regions. That is clearly driven by the idea that it helps us to optimize our production footprint. U.K. is interesting because we are not really selling what we produce there, so localization is the opposite of what we want to have. And therefore, it's logical to change this.

On top of this, we have the uncertainty with Brexit. We are now the first ones on the supplier side that make this decision and communicate it properly. We got a lot of credit for this. The business case is such welcome together with restructuring cost of approximately EUR 20 million to 25 million that we want to book in 2019. So far, the negotiations are started with the worker's counsel. And we think we can conclude this within the 45-day period that is customary in the United Kingdom.



Last page from my side before I hand over to Dietmar, is free cash flow. Clearly, the most important figure. EUR 202 million in Q3 before M&A. That's, as you know, the number that relates to our guidance. The free cash flow conversion ratio is down compared to the previous quarters. Also has to do with the way we handled inventories. Dietmar is -- will talk about this. You see a consistent trend now in terms of the CapEx ratio to sales, 8.6%, 7.9%, 7.4%.
I can confirm what I said in the last call that for the full year, we're expecting something around 8%. We are clearly very much focused on that with more disciplined CapEx spending, as we announced during the capital market's day.

There is one impact that you should know, already take into account also for your models. We will, in the fourth quarter, have a bigger payment for the advanced kitting operations in Germany, something around EUR 30 million. You see a little table with the free cash flow details on the lower right-hand side of the page, and you see that number is more or less in line with what happened last year. So that is going to impact the CapEx to sales ratio, a little bit towards the higher end. But overall, we think that with this effect, it should be close to 8%.

In terms of more details on free cash flow, there are 2 more things I would like to highlight. You all remember from the last quarterly presentation our Paravan acquisition. It's a joint venture that we are forming with them. We have bought technology from this -- from them. That payment will come through in the fourth quarter. We will show it as M&A, so that will reduce the reported number. But in terms of making our guidance, the free cash flow before M&A should not be impacted by this.

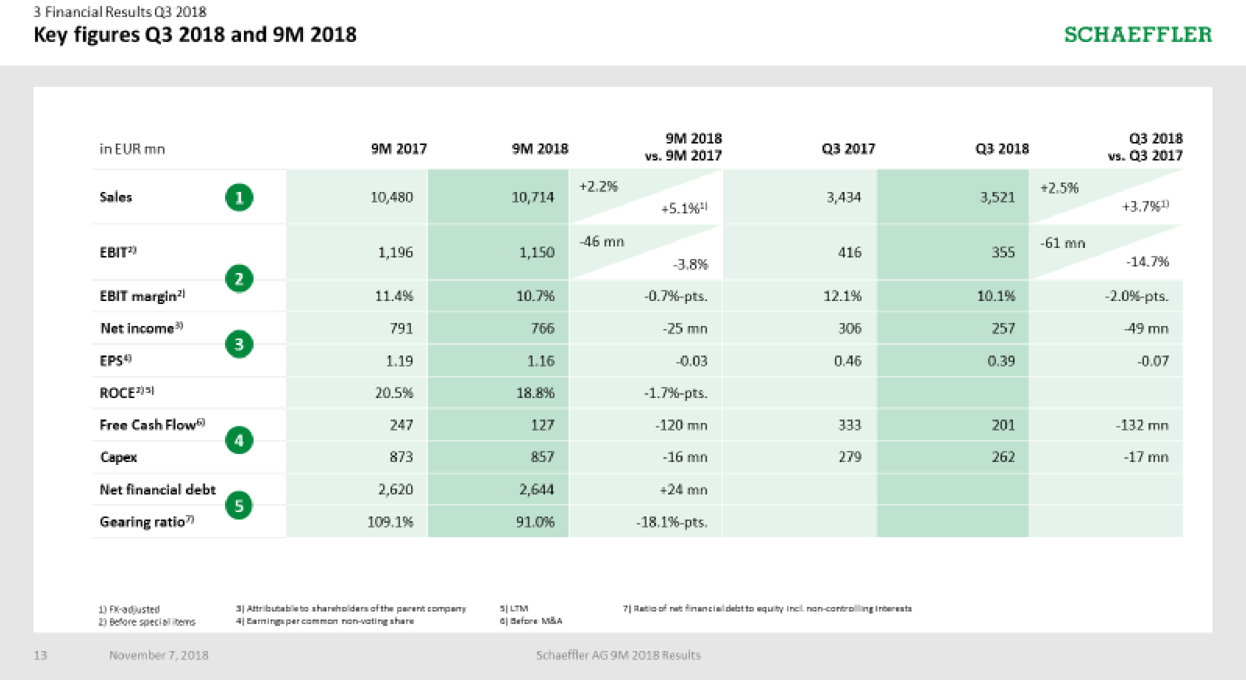
The other information I want to give is the EUR 47 million in Q3 2018 that we generated from selling further receivables. That is clearly something that you should know and would ask anyhow. That was -- is part of the EUR 202 million that are reported free cash flow. On the other element, in terms of nonrecurring items, you'll see that there was outflow of EUR 85 million in the first 9 months. That is more or less in line what we have last year with EUR 103 million. That is very much driven by the remaining legal cases and also restructuring measures. The number will continue, and we will give you more insight there. So if you take out all these impacts, the number that is the underlying figure is EUR 198 million compared to the EUR 126 million that we reported.

With that, let me reiterate that we are very much committed to deliver on more cost discipline and more CapEx spending, but there are no new measures decided and also no new measures communicated since our last call. But take it as a positive sign. We are working on a revised set of things that we can do.

Let me hand over to Dietmar with that final remark and ask him to give you more details on the key figures on the financial point of view.

Thank you very much.

Dietmar Heinrich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Key figures Q3 2018 and 9M 2018

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in EUR mn	9M 2017	9M 2018	9M 2018 vs. 9M 2017	Q3 2017	Q3 2018	Q3 2018 vs. Q3 2017
Sales (1)	10,480	10,714	+2.2% / +5.1%[1]	3,434	3,521	+2.5% / +3.7%[1]
EBIT[2] (2)	1,196	1,150	-46 mn / -3.8%	416	355	-61 mn / -14.7%
EBIT margin[2]	11.4%	10.7%	-0.7%-pts.	12.1%	10.1%	-2.0%-pts.
Net income[3] (3)	791	766	-25 mn	306	257	-49 mn
EPS[4]	1.19	1.16	-0.03	0.46	0.39	-0.07
ROCE[2][5]	20.5%	18.8%	-1.7%-pts.			
Free Cash Flow[6] (4)	247	127	-120 mn	333	201	-132 mn
Capex	873	857	-16 mn	279	262	-17 mn
Net financial debt (5)	2,620	2,644	+24 mn			
Gearing ratio[7]	109.1%	91.0%	-18.1%-pts.			

1) FX-adjusted
2) Before special items
3) Attributable to shareholders of the parent company
4) Earnings per common non-voting share
5) LTM
6) Before M&A
7) Ratio of net financial debt to equity incl. non-controlling interests

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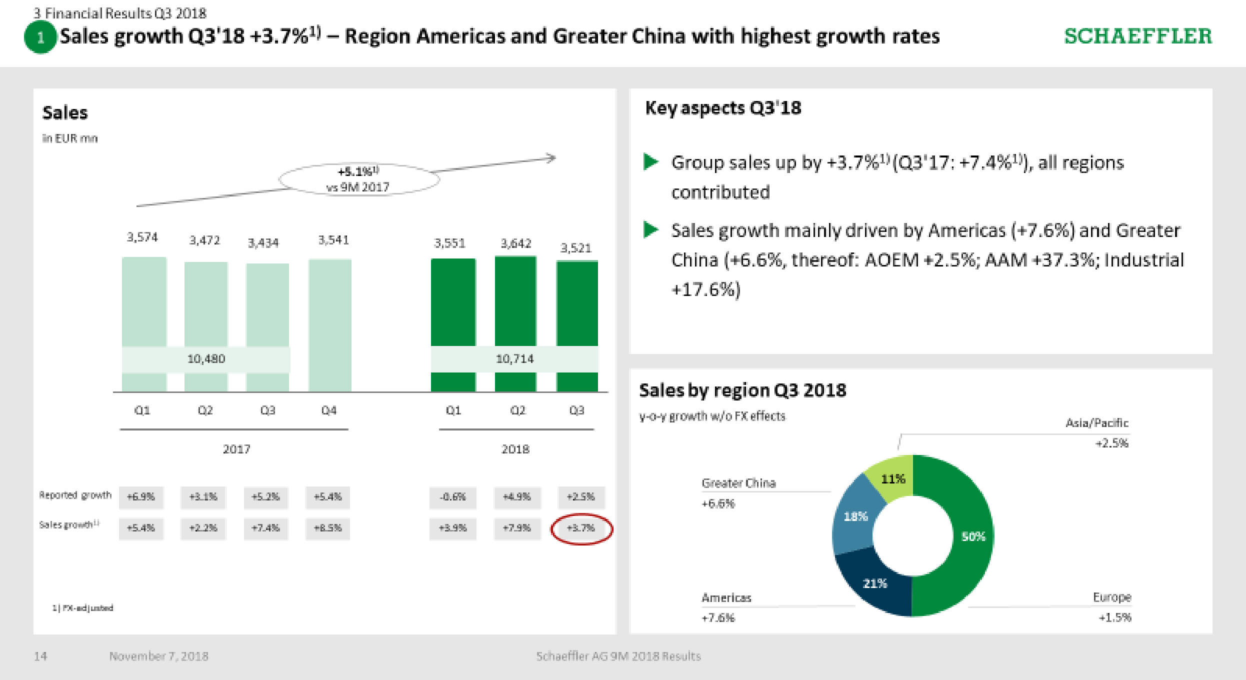
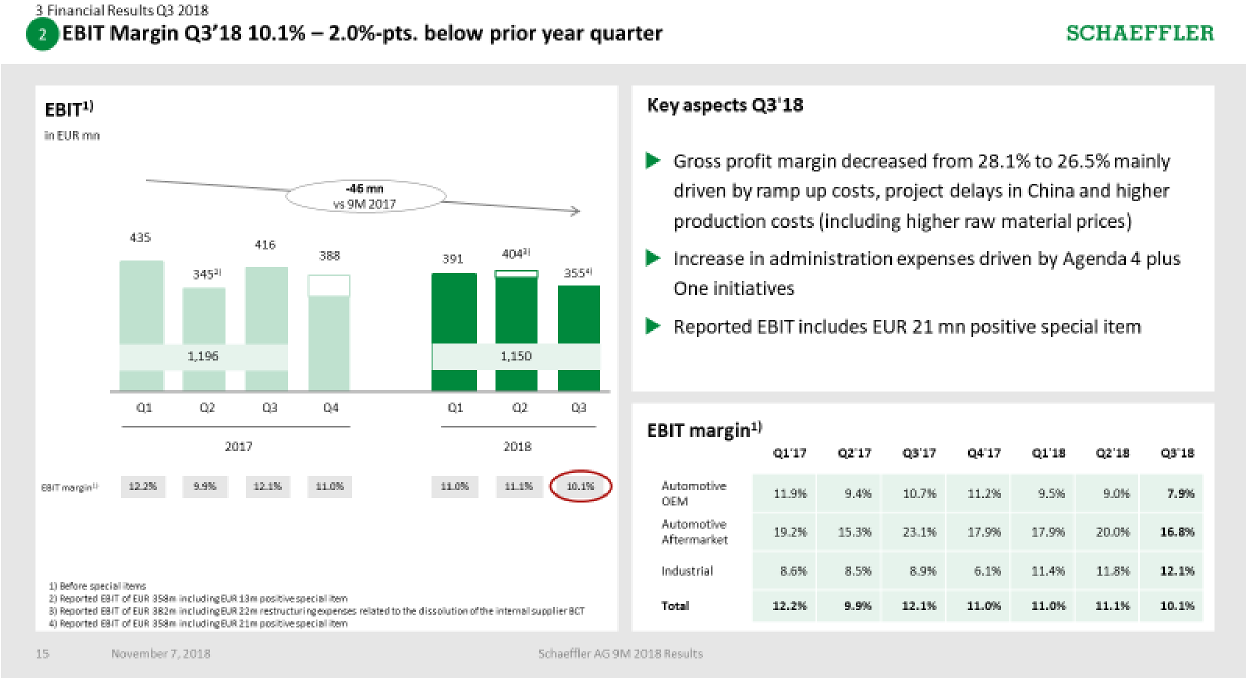
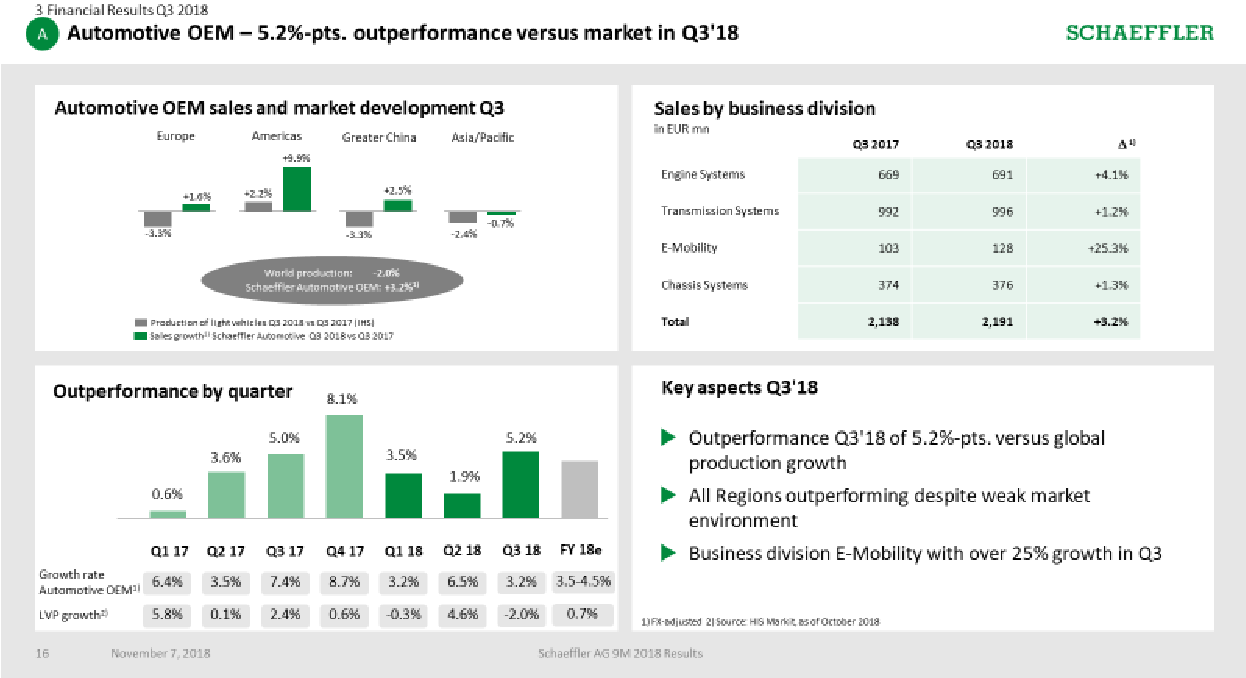


So thanks very much. Good morning, ladies and gentlemen, also from my side. I would like to go also shortly just touching up on certain important matters, and first of all, switch to Chart #14. You can see the sales development and what is already highlighted that, actually, our sales growth in Q3 was coming from China and America, as you can see on the lower right side, in addition to the composition of our sales now in the third quarter.



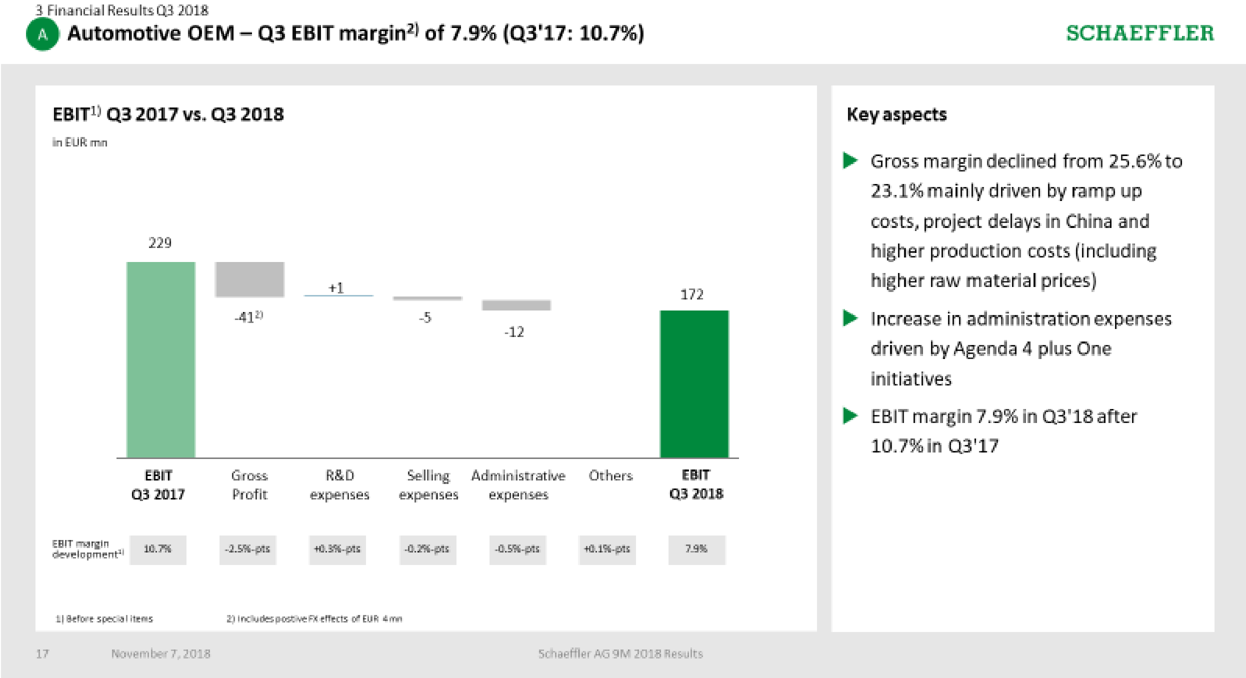
And moving on to Page #15. You can see our EBIT development with an EBIT of EUR 355 million at the end of third quarter, so amounting to 10.1%. It's down compared to previous years, and this is driven by the ramp-up costs, project delays in China and also higher production costs, taking into consideration and just remembering you that, actually, raw material price is having adverse impacts this year.

On the other side, we are continuing, as Klaus mentioned this, that a completion ratio of our Agenda 4 plus One moved on. It's now at 50%. So, we are also increasing the expenses in that regard in order to, yes, move forward with the program.

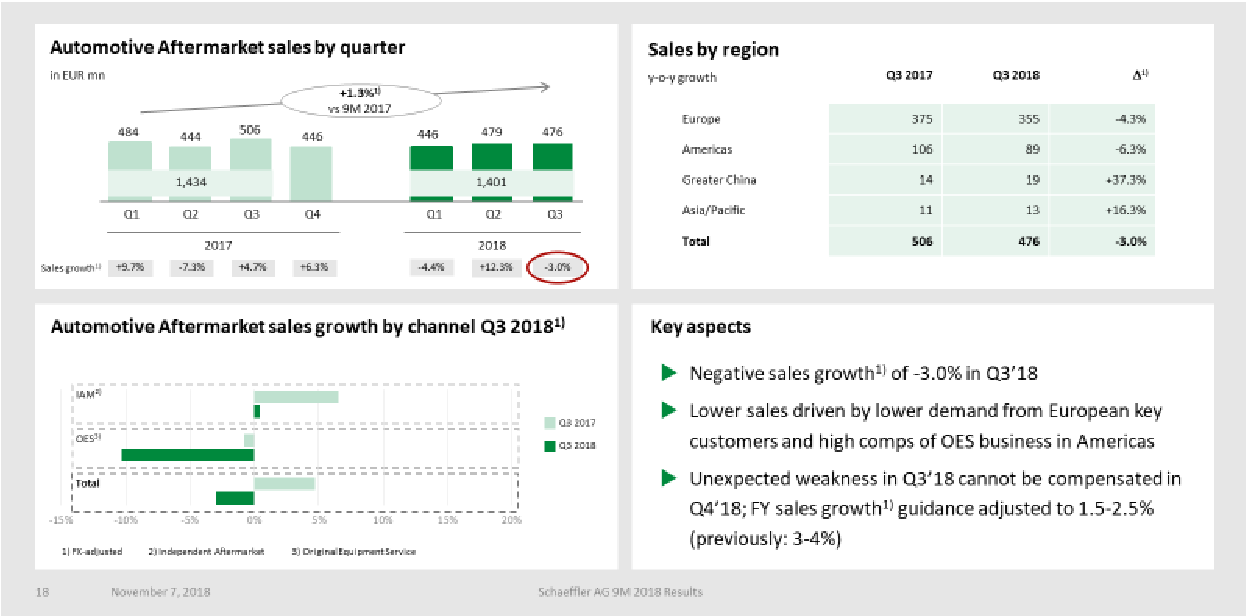


Let's switch now to Page 16. Here, you have more insight into the regional development of the outperformance. that you can see on the upper left side on the chart then -- so all regions contributed I think, especially from this side. The strong outperformance in the Americas, but also the good outperformance in Greater China, despite a weak market.

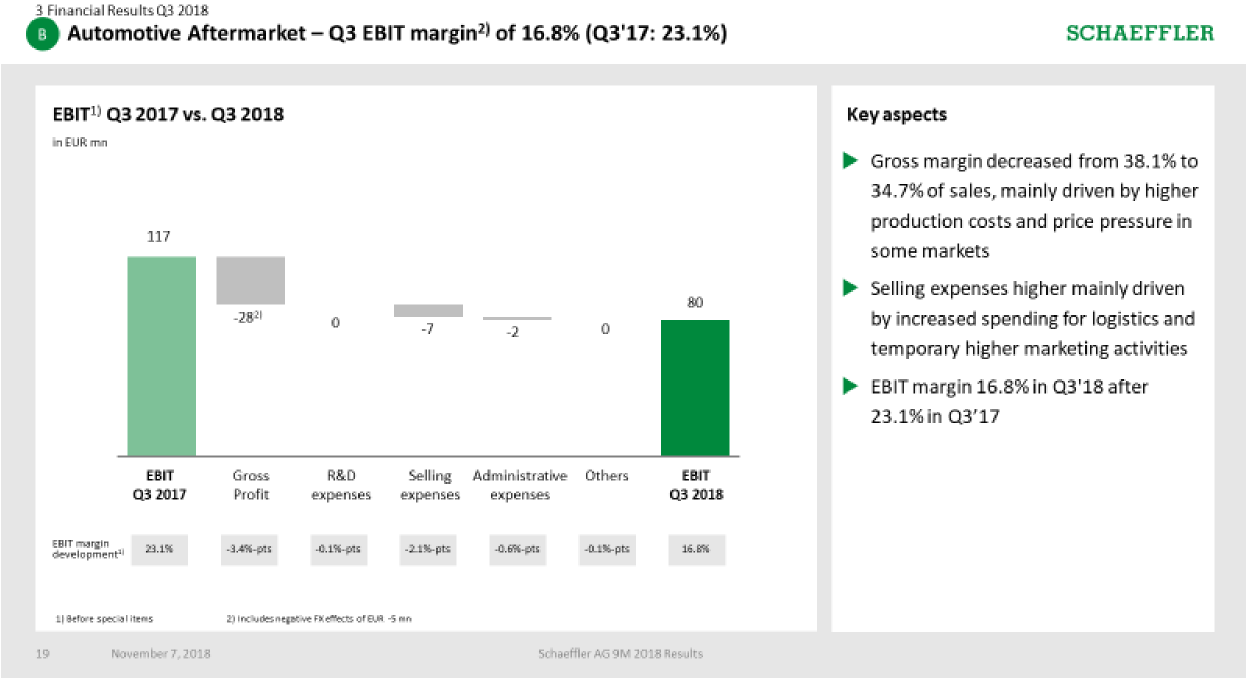
Looking into the business divisions. We can see that our E-Mobility business division has been growing by 25% now in Q3, which is also continuation of the good development that we could already see in the first half of the year.



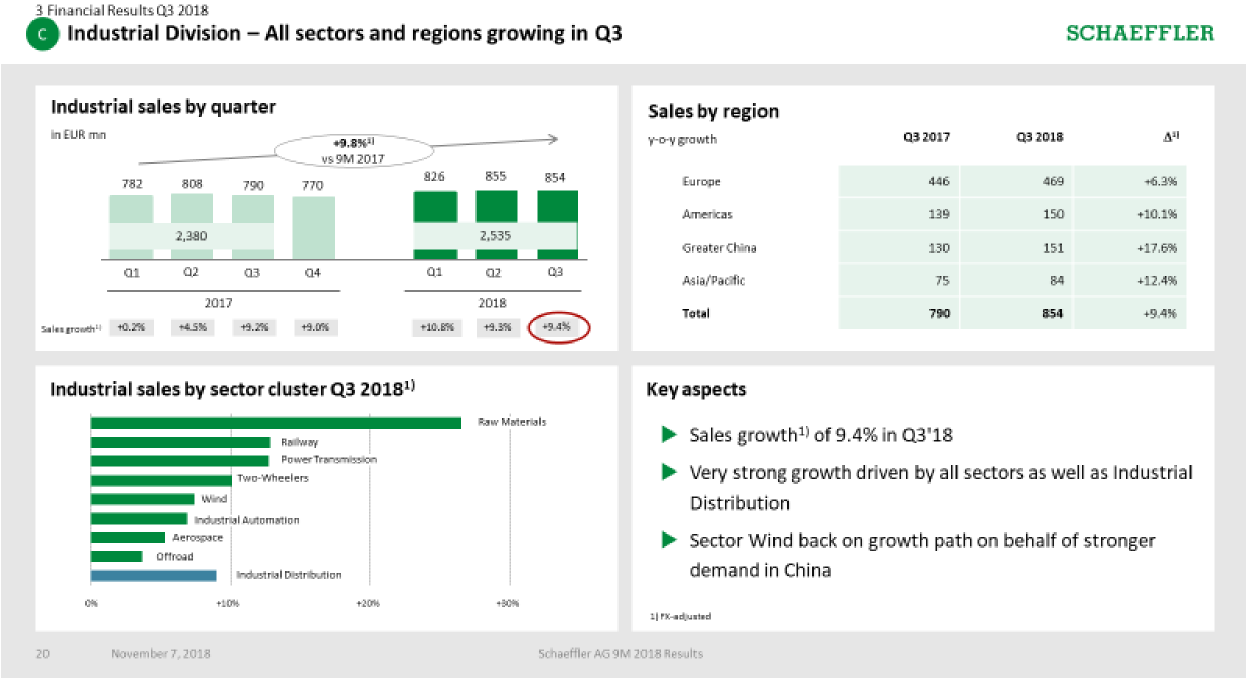
In regard to profitability, you can see the Automotive OE development on Page 17, and the other explanation is basically already given because this is influencing the whole group with the ramp-ups and project delays and also higher production costs.



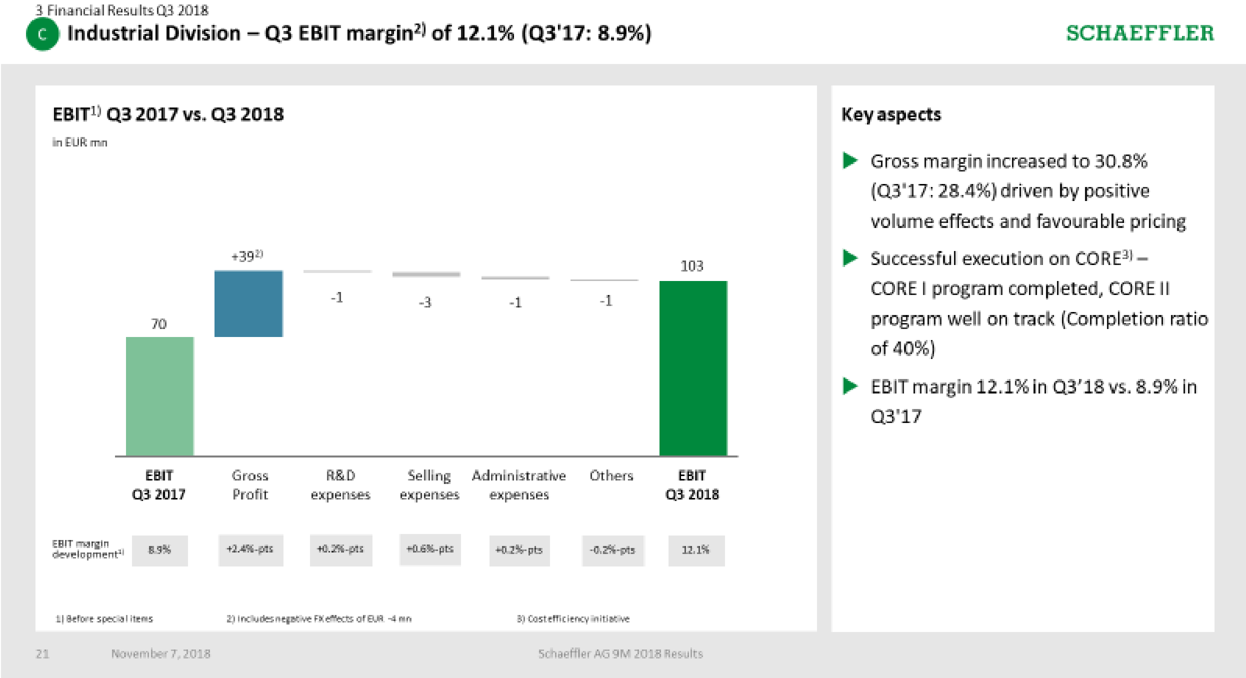
Now, moving to the automotive aftermarket side, page number 18, you can see here the development in Q3 with a drop of minus 3% compared to previous year. But when comparing previous year Q2 and Q3, you can also see that we had a very strong third quarter in 2017 and you might recall that, at that time, we had some operational issues in Q2, and we could actually compensate them in Q3. So, if you take the two quarters together, basically sales volume is on a similar lever, which nevertheless highlights the lower demand from European customers. And also we have to keep in mind what we already explained that last year was positively influenced by onetime OES business in America. So, finally then our guidance now in the range of 1.5% to 2.5%.



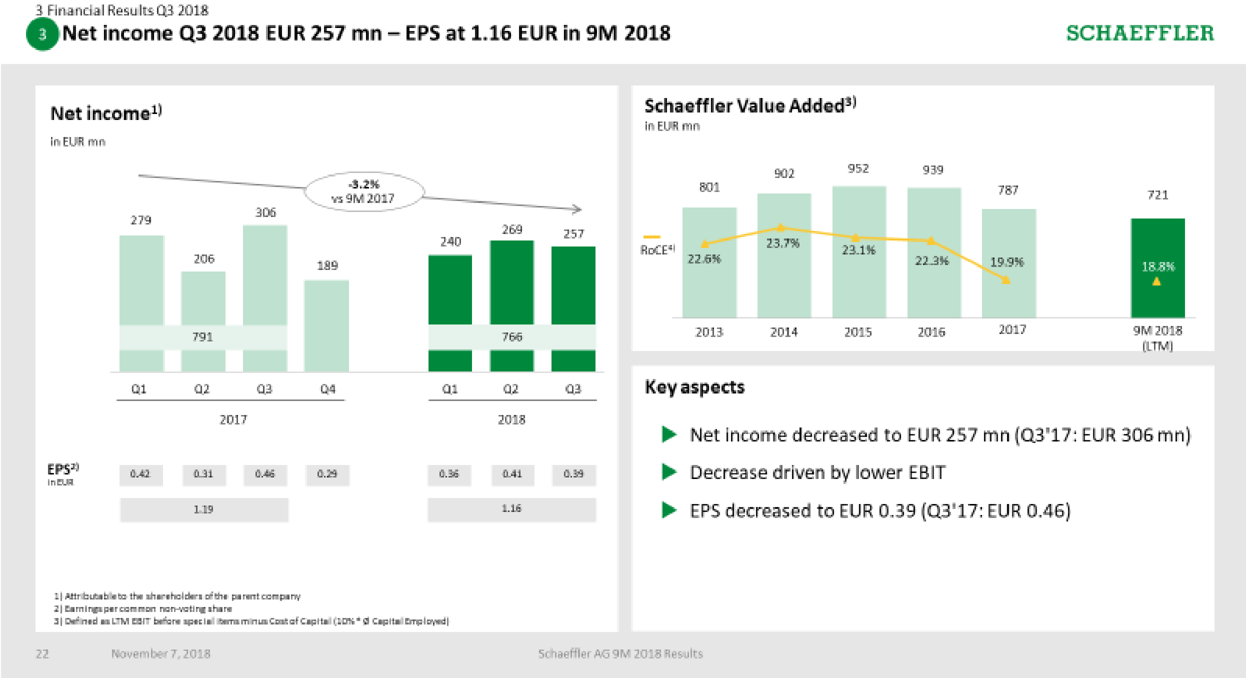
From the profitability point of view, you can see the development on page number 19, and we have some pressure on the gross margin there, and you can see that the selling expenses increased, especially in the third quarter, and this is in line with enhanced marketing activities from major players, Automechanika in Germany and Europe, and also other players are taking place in Q3 and Q4. So, our spending in that regard increased.



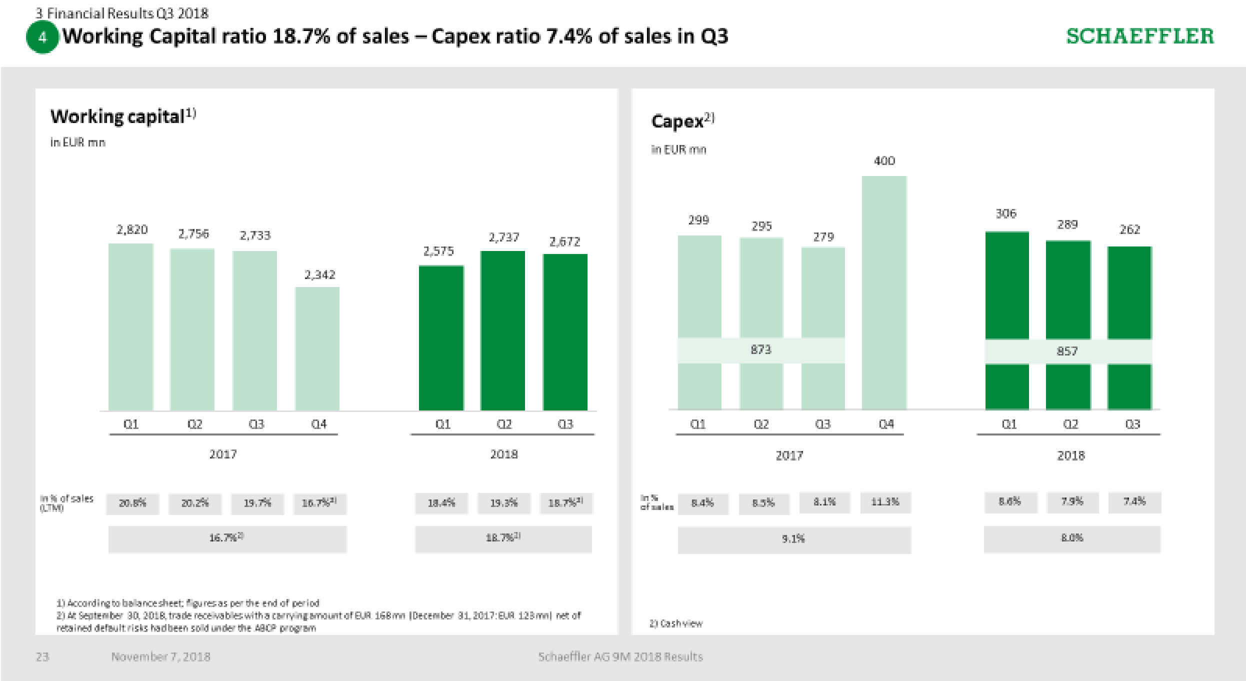
If we're looking to the industrial side then on page 20, you can see the sales development. You can see that actually the growth momentum with the growth FX adjusted of 9.4% in Q3 continued strong good development. And you can see on the lower left side then that basically most of the sector clusters contributed by the especially strong development with raw materials, railway, power transmission and what is always good for profitability as well that industrial distribution is more or less exactly in line with the general growth.



From a profit point of view on page 21, then you see the development. Our EBIT level in industrial now in Q3 at 12.1% and this highlights then this development on one side positive volume effect and favorable pricing with the initiated measures to increase prices which are paying off. And also, we can see that our CORE activities are paying off with CORE I program being completed and CORE II program moving on with the completion ratio of around 40%.

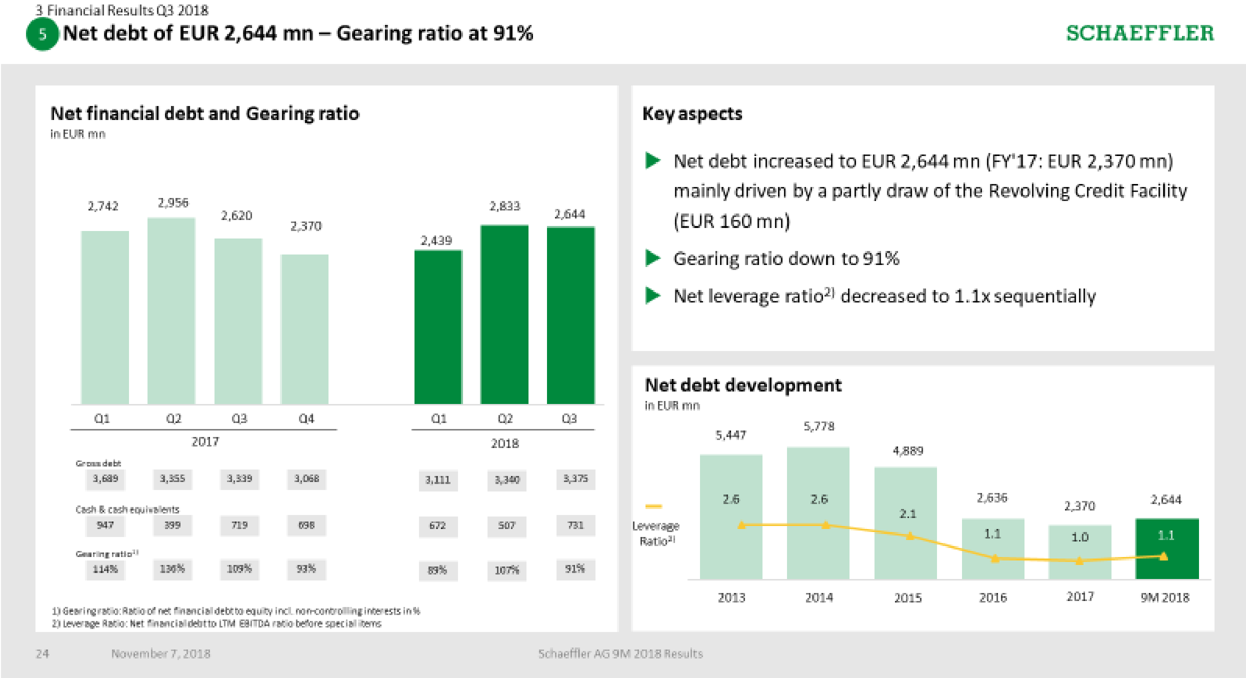


Now, looking to the overall picture on page number 22. You can see that actually our net income was at €257 million in Q3. The year-to-date figure is €766 million, that's only a slight drop compared to previous year. Our earnings per share in the quarter are at €0.39 and €1.16 in regard to the year-to-date development.



And yeah, with this, I would like to move on to page 23, the working capital and CapEx development. So, working capital declined by around €65 million compared to Q2. In the similar amount compared to previous year, third quarter, we are at 18.7% and Klaus already mentioned that we are having much more focus on this right now. We are – or we already initiated closing days for the factory to better align demand on one side and production on the other side. So, we will see further positive development in the remainder of this year.

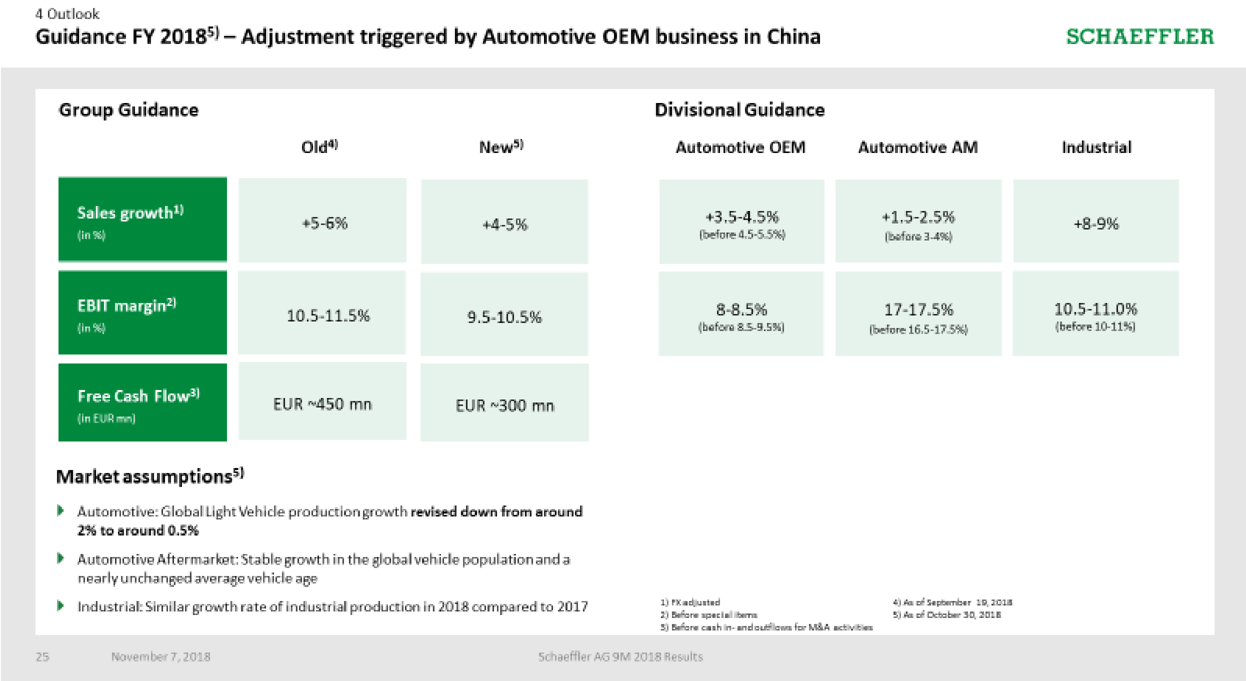
And in order also to support this, we continue with our strict managing of CapEx. We are, right now, year-to-date at around 8%. The fourth quarter will be a little bit higher because of the special payment in regard to the establishment of the AKO. But for the whole year, we will remain at around 8%.



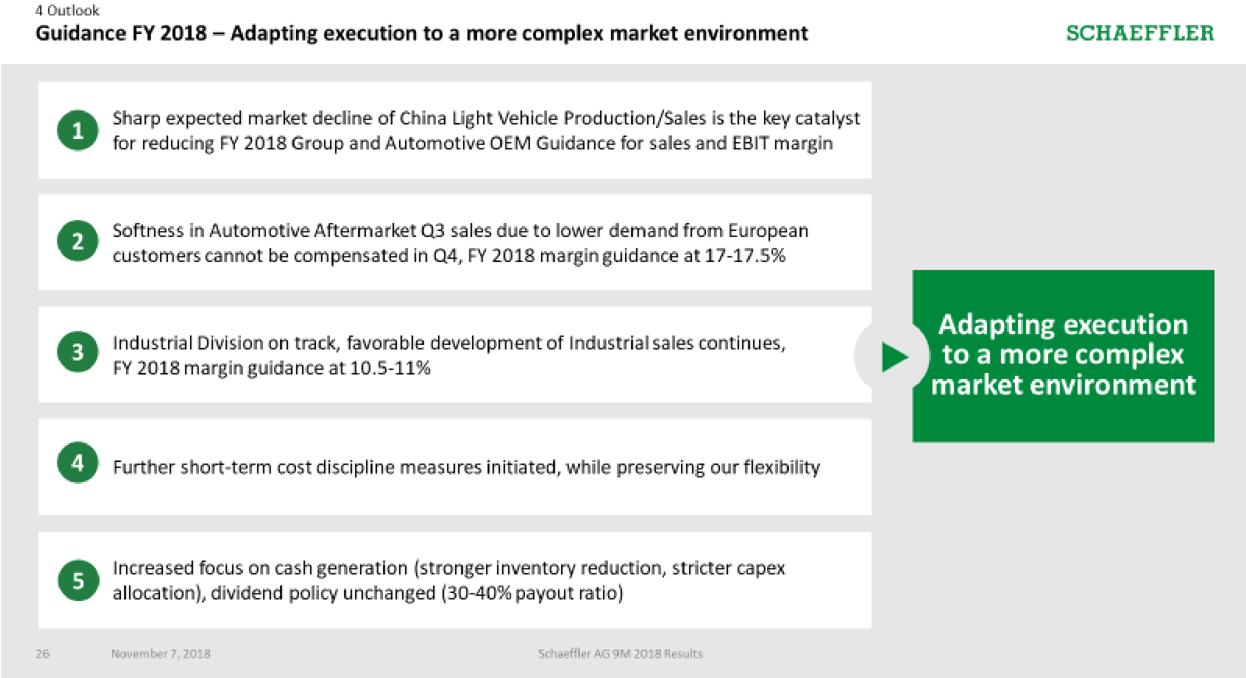
Looking then finally to page number 24, where you can see the debt development. Our net financial debt decreased by almost €200 million compared to Q2. Our gearing ratio is now at 91% and the leverage ratio at a level of 1.1%. So, from the net debt development, overall, a positive development.

And with this actually being said, I would like to hand back then to Klaus and we are touching upon the realized [IR note: revised] guidance situation.

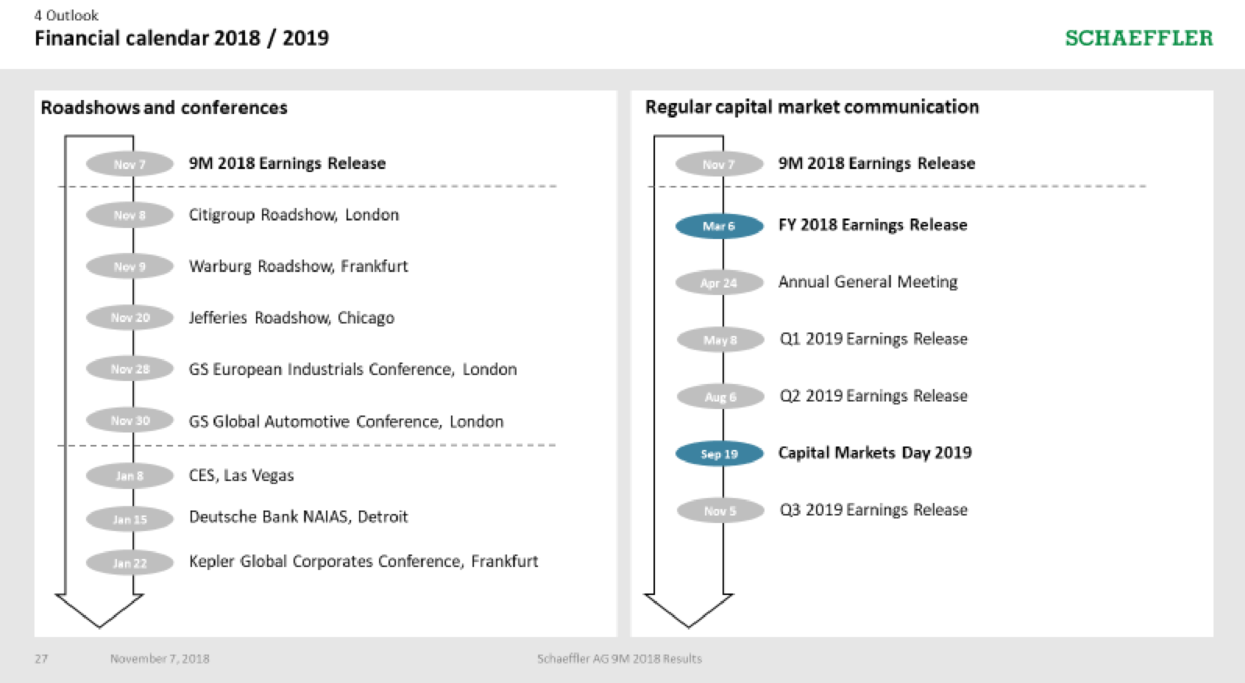
Klaus Rosenfeld



Thanks, Dietmar. Page 25, ladies and gentlemen, gives you the same page that you saw some days ago. We lowered the guidance to the new 4% to 5%, 9.5% to 10.5%, and around €300 million free cash flow. And we also adjusted divisional guidance, narrowing the EBIT margin ranges, and lowering our growth guidance for Automotive OEM. Automotive Aftermarket, nothing new to report here. We feel good about this also when we look at the first indicative figures for October.



Page 26 is nothing more than a repetition.



And on the financial calendar, we just want to inform you that we will – the teams will go on roadshow starting tomorrow, and we'll be available at the Goldman Sachs conference. Then, in the New Year, all these interesting things in Las Vegas, and Detroit, and Frankfurt.

That's it for today. Final figures for Q4 will come out on March 6. We don't intend to report anything new before that.

Thank you very much, and now to your questions.

Q AND A SESSION

Raghav Gupta-Chaudhary, Citigroup Inc

Thank you. Morning, all. Raghav from Citi. Firstly, Mr. Rosenfeld, your comment in the press release regarding the focus on cost and capital discipline. Auto margins continue to come under pressure with 2018, looks likely to be 400 basis points lower than 2016. Can you help us disaggregate how much of this is owing to tougher negotiations from customers? And should a margin of between 8% and 9% be seen as the new normal in the absence of this restructuring program that you've alluded to?

Secondly on auto, you've mentioned you've had numerous projects being delayed not canceled in China, given that we have Mr. Zink on the call, I was hoping if he would be able to provide a little bit more color on this specifically.

And then finally on industrial just very quickly, gross margins improved again. You've now delivered three consecutive quarters of margin and gross margin above 30%. Can you talk about the sustainability of this? You mentioned part of the improvement is owing to favorable pricing, can you just talk a little bit about the timing of your price increases? Thank you.

Klaus Rosenfeld

Let me answer the last question first and then I hand over to the colleagues. You asked about the gross profit margin in industrial, how sustainable that is. We are clearly benefiting at the moment from a positive market environment that also allows us to increase prices. The main driver for all of this is clearly volume. And the cost containment measures we have put in place from CORE I and CORE II onwards. So I feel good about the sustainability here.

However, you always have to take into account that on average, 10% growth rate for a business like this is not – clearly not the new normal, and therefore, also here, while this is growing, the focus as we always outline in our equity story many quarters ago will be to sustain this margin with the 12% in Q3. We are now reaching the midpoint of what we guided for 2020. Again, I think we cannot extrapolate that at the moment. We've done [IR note: Dietmar9] at least two price increases in the different markets. It's not a onetime event because you have to go market by market and region by region. We'll continue to do that. And the most important thing here is our competitive position in particular with the big sectors where things are going. So I feel positive about the industrial developments. But you always have to take into account the support we get from the market at the moment in terms of growth. That is not going to continue into the next year.

Raghav Gupta-Chaudhary, Citigroup Inc
If you would just desegregate the 10%, how much of that is price versus volume? And also just to clarify a little bit on the timing of your price increases. Just trying to understand how, when you will annualize these price increases?

Klaus Rosenfeld
Most of this growth comes from volume. There's little in terms of price increase. So that means they're compensating a certain effect. I don't have the numbers in front of me when we have initiated the last price increase, but we can come back to you. It's a – with several steps I think that were undertaken, but the exact date I need to come back to you.

In terms of the – that they have a normal margin. Forgive us, but we're not going to lay out anything that could be seen as a guidance for next year. But maybe Matthias if we can put a little bit – shed a little light on the development there. The only thing I can say again and that's a discussion for the beginning of next year. In the composition of our business, you have the ones that are focused on the classical products. You have the ones that are focusing on the new things. The mix will be very important because you all know that E-Mobility is not going to show the margins that we have in classical engine components and then in transmission. So, that's nothing new. So, where this is going to end up, in terms of the new normal, let's please accept that we will come back with guidance then for next year, sometime beginning of the year. And I'm not going to put out a number that could be misunderstood in that direction.

So Matthias, you maybe – you want to add there?

Matthias Zink
Yeah. Mr. Gupta, I can comment at least on those project delays. I guess you asked for those, there are couple of – yes, in particular in China, not mentioning customers. But we had launches for a CVT project. We had two double clutch transmissions, we had the year to- and some of those are delayed. I would even say this, with each of those, we will reach the ultimate or the anticipated volume at the very end. But couple of them is delayed.

Why is that so? That may as well be due to this hesitation in the Chinese market. So, that people buy, at the very moment, less automatic transmissions. But we are more than optimistic that this will come back during the course of the next year. But matter of fact, isn't that what Dietmar said, we have the investment there. We have the fixed cost share there and that's some – or some share of these EBITDA or cost profit done, what we discussed prior to that.

And then maybe a comment, Klaus has said it's about the new normal. Way too early to talk to those numbers. For sure, Klaus and I and the automotive team will look into this transition from the classic driveline towards hybrid, towards E-Mobility, that may have different structure in long-term future in ROCE in all these numbers. But it's too early to really give numbers there.

So as of now, we still see the [IR note: ICE] driveline, the classic business dominating. And we talked about the WLTP, we talked China and that's the main reasons for these drop [IR note: in] price on the Automotive OEM side.

Kai Alexander Mueller, BofA

Yeah. Thank you very much for your time. It's quite helpful understanding also a little bit your next steps in the UK. What I just want to understand is the number you have quoted in the presentation is about €20 million in terms of one-off charges you expect for Q4 for this UK restructuring. How much of this is really now driven by Brexit or how much of it is to do with you having to reshuffle some of those production sites anyway? That's the first question.

Klaus Rosenfeld

Okay. Let's say, you cannot decompose the number and say, ex of that is Brexit and the rest is not Brexit. I mean, the decision to review our footprints in Europe and to look at the different markets and look at localization ratios and look at efficiency of plans has nothing to do directly with Brexit. We had Brexit project like many other companies and have waited for some time to what is going to happen there and does it impact our supply chain and how we're going to deal with that. And we have come to terms that it's now the time to set the direction. And the most important thing is that we, let's say, using the opportunity here to streamline the footprint in Europe and abandon two locations in the United Kingdom close two plants. And that's a natural step that we would have considered maybe even without Brexit.

But it comes now at a period where I think showing some strengths and giving some direction, even if it's painful for our workers and colleagues in the UK, is the right thing to do.
It will cost money, for sure, at the beginning that's why we have these restructuring costs, but it will help us to optimize the footprint in Europe and it will help us also to combine certain of these activities with other activities outside Europe, in the United Kingdom for example and create synergies from that. So it's a natural step that is coming at the time where people think it's only Brexit. It's not only driven by Brexit, but we felt good about bringing it now and making sure that the 45 days elapse within the 2018 timeframe, so that we can book the restructuring and get on with the execution of the step.

Kai Alexander Mueller, BofA
Okay. Then, I don't know if I misheard earlier. You mentioned something about – we're reviewing and what we can do as a business. Does that imply you're looking also at your longer-term targets at the moment?

Klaus Rosenfeld
Look what Matthias said is right. The situation in China, that is not completely new, but that is becoming more and more challenging, has clearly led to a conversation that we would have anyhow with – during our multiyear planning. That is still going on. And we will meet very frequently in a group and discuss what can we do on the auto side.
Again, it's premature to give you any details here, but that's what I said last time and that's still going on. I think we will be in a position, Matthias, to say more when we come to the fourth quarter. But give us a little bit of time, I want to do this properly. I think we have shown that on the industrial side. We can do things like, CORE I and CORE II. And whether something similar is advisable for auto and how this would impact the portfolio decisions we have to make, is something that remains to be seen
I would like to stress here the auto business is performing in certain areas very well. We have a lot of very good discussions with customers on OS and bigger projects, so we need to balance this very carefully. It is clearly a situation where things can be improved, and that's what we are looking at, at the moment both in terms of cost but also in terms of capital efficiency.

Kai Alexander Mueller, BofA

Okay. And then maybe just to understand obviously, you mentioned the slower ramps in the Chinese markets. I understand you do still export quite a bit between the regions, I think two or three years ago, that seemed – you showed us sort of your localization in each market. What is your longer term view in light of all these tariff debates that you want to localize more?
And also on top of that is when we talk about some of these ramp ups that are delayed in China, we actually see them coming through that – your Chinese organic growth or does it also partially comes out of your European number because it gets shipped from here?

Klaus Rosenfeld

Look, the general remark on localization is tariffs are one thing. We localized because our customers wants us to localize. And the localization rate in auto is typically higher than in industrial. These are the general statements I can make.
We have continuously – Matthias, if you want to add – increased localization of the auto business in China. I think we're at somewhere close to 80% there. So that is something that we will continue. If you think about how this works, you always have to take into account that these are long projects, and in particular, at the beginning of a certain project, we would keep certain activities in Germany because we want to also make sure that we – when it comes to development or close to the R&D competencies that we have in particular in Germany. But typically, doing ramp ups and later on, we start to allocate more resources into the foreign locations. And sometimes that means that sales are generated at the beginning out of Europe. And we have these situations in the past, but in particular, with E-Mobility, and you remember the setup there with centers of competence in Wooster, in China and in Germany.
We are very focused on making sure that the build-up of competence, in particular in China, is synchronized with the growth there. I see the fact – Matthias please comment to this. That certain projects are delayed as a temporary thing. It's not a sign for us not being well-positioned for the growth, it's more a market-driven delay.
So, we'll continue with that localization strategy and we will see how customers will – when they come back with the orders and with the business that they're giving us. Matthias, you want to add?

Matthias Zink

No. That's exactly right. So first, the localization quota is 80%-plus, as you said. And in particular, even for this new and complex technologies, we try to be on site from the very beginning. So, double clutches, torque converter, even hybrid module and midterm or pretty soon, the e-axle are in China, for China. So I would say even there, we are very much localized.

And there is only one small intake, but they're closing the details on the variable valve train, that we supply from Europe to China, but all the rest is local in China. And yes, as I said, this delays or the slower volumes for now go really in line with these end-customers, buying behavior. Currently, I guess, that will be gone as soon as the market is currently. I guess that will be gone as soon as the market is coming back there in China.

Klaus Rosenfeld

And, Kai, maybe I can kind of add to this as a general remark. The situation at the moment is a little bit more challenging than what we have seen in previous years. It is from my point of view and you see it from the step that we have taken in UK. Important that we have followed through, that we managed proactively, that we designed the measures we have in a digestible manner, and that these measures, with a clear focus on cost and capital discipline, are executed well. That is the most important thing.

You need to be able to read the environment. We are trying to do that as good as we can, but based off the Agenda 4 plus One and all its measures and initiatives, we feel quite good, with this proactive approach, that we have options open to react to the environment and that also applies to China.

Kai Alexander Mueller, BofA

Perfect. Thank you very much.

Klaus Rosenfeld

You're welcome.

Ashik Kurian, Jefferies

Good morning. Thanks for taking my question. My question is a bit off topic from today's results but more on any need to change strategy and maybe even step away from your 2020 targets completely. The reason I asked because it feels like part of the reason behind you not acquiring more business on E-Mobility is on concerns of further margin dilution. Does this means that you've lost some of the PR war on EVs versus your peers? And irrespective of where consensus is, your share price tells you that the market has limited confidence in you achieving anything close to what's implied by your 2020 targets. So, I'm just curious as to if there's at least the temptation to free yourself from the 2020 targets and maybe be a bit more aggressive in acquiring orders and business in E-Mobility?

Klaus Rosenfeld

Hello. Thanks for the question. Let me also say here, I mean, we have this debate where all of you that were at the Capital Markets Day what's the ambition and what's the target, and I have to say we learn from this. The financial ambitions for 2020 were set off – were announced in 2016 as a framework with six key financial indicators. This call is not about revisiting this at the moment. That's something for the beginning of the next year when our multiyear planning is there.

I would like to say and I think everyone understand this that these financial ambitions or the so-called financial ambitions were set based on assumptions that clearly have changed today, both in terms of the business development, but also in terms of the macroeconomic assumptions. So you also need to take that into account. It's up to us to give you some form of guidance at the beginning of next year. So that's I think how you have to judge at the moment on the ambitions.

When it comes to order intake and what we do in E-Mobility, I understand that the market wants to see more information as clearly comparing us to competitors and we have always said here we're not going to work with inflated order books. We're not going to promise something that we cannot deliver. We have always explained that we were a little bit later into this race than others, but I can once again only confirm that we are in many very promising conversations with customers. And please understand that this E-Mobility business is a complex, long-term business where you generate orders over some time whether you have to fulfill what you promised to your customer. So don't judge it on a quarterly basis. Look at this with a little bit of patience and with a more midterm approach. Again, I think we are very consistent with what we said there, Matthias, on the Capital Markets Day. And we will report at the beginning of the year the new order intake numbers there.

Let me stress it goes to the cost and capital discipline we will not just buy orders that for orders sake. We want to make – we want to create and implement a profitable business, and we are on the right track to do so.

Ashik Kurian, Jefferies

Okay. Just maybe as a follow-up this is one thing because of how you integrated vertically. Is there much scope for you to have more disposals of legacy business? I know you did something small last year. But is that – we've seen other suppliers probably spin or sell the more legacy businesses to private equity etcetera. Is that a topic of interest to you, and how possible it is given how what actually integrated you are?

Klaus Rosenfeld

Look, we like the vertical integration we have. We have an articulated M&A strategy to add competencies in certain areas. We have explained that during the Capital Markets Day. There are no transactions to be expected where we are sending core businesses. In fact, our core businesses are very profitable businesses, and they are necessary to drive forward the change and the balance between what we do today and what we will do tomorrow.

I can also once again only ask for your understanding, don't judge this transition process only by margin levels. You have to take into account the impact it has on value, and that's why we're steering this company by Schaeffler value other than by free cash flow.

Ashik Kurian, Jefferies

Okay. Thanks a lot.

Henning Cosmann, HSBC

Yes. Good morning. Thank you. Sorry for coming back to this. I'm just conscious that, like you said, there will be a bit of an information vacuum maybe on, so March when you next communicate. So I just wanted to clarify it. I believe in the preliminary call you said that the financial ambitions for 2020 were intact. I think you did say that free cash flow target is even more stretched than it was before, but overall, they were intact. So I'm trying to marry this up with the statement that it's very premature to basically identify where the new normal automotive margin is. For me that's mutually exclusive. So just being conscious that we won't really hear from you anything official for four months, and there's lots of things moving the market in the meantime, if you could just give a little bit more clarity if that's at all possible?

Klaus Rosenfeld

Well, again, I said we will give guidance on the – at the beginning of the year and there we'll talk about the expectation what the margin for Automotive OEM will be based on the – our estimate for the market assumptions for automotive growth in 2019. That is something we are looking at, at the moment and I think it's – I can only say again, it would be premature to confirm anything today because the planning exercise are not there, the environment is difficult to read, there is little visibility on what China is going to do in the next year, so please be patient there, I'm not going to say something that I have to revisit then later on there.

In terms of the financial ambitions, once again, I mean, I said yes. We have not taken a decision to withdraw them from the table or to revise or to think about how we regoing to run this in the last years. Was it 16 decision based on certain assumptions? We have a clear ambition to make sure that we get to the cash flow targets and that is unchanged. We are very focused on making sure that this business goes off on top of what is invested, significant free cash flow, that is possible. But in terms of how to judge the 900 for 2020, I can only say no one expected what were seeing in 2018. So I reiterate what I said before that is even more ambitious than it was before.

We had the debate at the Capital Market Day between ambitions and targets. And again, I have to admit that I learned something that I was not really so aware of. And also here, I cannot say something different at the moment because the way how we will target and give midterm targets needs to be revisited.

Henning Cosmann, HSBC

Okay. Thank you. On the Agenda 4 plus One maybe specifically, I think in the full year 2017 presentation, there was this indication that there will be a €300 million swing between 2017 and 2022 from the Agenda 4 plus One alone. Today, you said you were on track. I think you are not separately saying any more how much of the non-adjusted Agenda 4 plus One effect there has been in nine months. If you could just talk around that a little bit, and also, if this swing of €300 million is still as intact as the rest of 4 plus One by 2022? Of course, you had this sort of qualitative chart in your full year 2017 presentation suggesting that the negative effect in 2018 and 2019 will be even a bit higher than the one €159 million in 2016 and about half of that in 2020. And then this big hockey stick in 2021 and 2022. If you could just remind us if that's still perfectly accurate.

Klaus Rosenfeld

Well, perfectly accurate is probably the wrong word. The agenda 4 plus One is a dynamic program with -- as I said before, with a range of measures and initiatives. And the composition of that can change over time. And when we saw the development this year, we have, in certain areas, stopped, in certain areas, we have accelerated like the UK one that was definitely accelerated.

Certain things have been --and that's the beauty about this agenda. You can move certain things. You can deprioritize certain things. And that what we've been doing during the year. We'll give you at the beginning of next year the break out how much of the results 2018 was impacted by one-offs from the agenda and by cost that has to do with startup offset initiatives. So that's something that is on the reporting plan for the annual result.

In terms of the overall swing that we intend to generate, also here, things are intact. It was an indication of what should be possible. Premature to give you that number today but no reason at the moment to say, we will lose our ambition to make the Agenda 4 plus One one of the key drivers for improving our profitability and our capital efficiency.

Sascha Gommel, Crédit Suisse AG

Yes. Good morning. Thank you for taking my questions. The first one would actually be on the Aftermarket division. When you look at the regional split you already elaborated on Europe. I was just wondering if there's also a certain effect from diesel in there because we've seen across the sector that European aftermarket has been rather weak. And my understanding is that diesel business is quite a strong and profitable business for the aftermarket.

So, I was just wondering if particularly in Germany where we now have the scrappage scheme for all diesel if this has any negative impact on your business.

And then, my second question would be on China. You showed the slide on slide 29 where you gave the details around the market. I was just wondering if this minus 3% in Q4 is in bedded in your guidance or if you have different assumptions for your business? That will be my two questions.

Klaus Rosenfeld
Matthias, would you help me with the aftermarket question on diesel because that's very specific. I don't have
something at hand for that. If not, we need to go back to Michael and ask him what you think is a very intelligent question but I don't have an answer for it.

Matthias Zink
So, from the technical equipment side, I would not expect that – first of all, in average we have more content on the gasoline car than on the diesel car. That's still valid. And on the aftermarket side, I think all these worries outside there about diesel and Euro 5 till whatever, I guess that's not impacting the aftermarket. I guess there's too much short-term dips there, as it would reach Michael [IR note: Michael Söding] there.

And if I look into this business, it's mainly clutches, dual mass, front-end accessories, wheel bearings. So that's not really sensitivity towards any of these diesel discussions. And whatever we discussed internally, Klaus, we never discussed about it. And there seems to be logic to me from OE perspective. To make it 100% robust this statement, we can talk to Michael afterwards, but I don't see any early implications from the diesel there.

Klaus Rosenfeld
Okay. Dietmar, you want to do the China one? Can you say again, Sascha?

Sascha Gommel, Crédit Suisse AG
Yeah. Sure. On slide 29 you have the minus 3% in Q4, so I was wondering if that is part of your guidance and – or if you have a different internal planning?

Dietmar Heinrich
No. That's actually on the one side part of the guidance, so when we changed the guidance, we looked into the development and especially looking to Q4, but we also use additional internal sources because IHS is basically sometimes delayed in regard to a holiday reflect changes in the market. So we also used internal sources and that also what caused us finally to the guidance adjustment.

Sascha Gommel, Crédit Suisse AG
I see. Okay. Can I just follow-up on the diesel question since we have Mr. Zink here. Is the change of diesel having a material impact on your profitability? I understand

that the content might be not so different or even more in gasoline, but does it have an impact on your profitability?

Matthias Zink

No. No. No. On average not. I guess we have certain customer dependency on diesel gasoline, but as I say technical equipment is rather on the higher on the gasoline side and the profitability all in average I would say is more or less same, diesel and gasoline.

Sascha Gommel, Crédit Suisse AG

All right. Great. I appreciate the answer. Thank you very much.

Henning Cosman, HSBC

Yes. Thank you. Maybe to continue on that point because we have Matthias on the call. I was hoping you could maybe discuss the dynamics around the plug-in penetration compared to the battery electric vehicle penetration a bit more. We touched on it a bit at the Capital Markets Day, but my impression is that the tone from OEMs and I think also yourself, gets more constructive towards plug-ins versus battery-electric partly because the battery costs aren't coming down and other factors. So, can you maybe share again how you expect this to materialize in your results and the timing of that? I mean, I think the general understanding is that that's quite positive for you, that the transition will take longer than maybe previously anticipated.

Matthias Zink

Yeah. I would rather – or simply confirm what we said since the beginning of last year and that's first number is this 30-40-30. I definitely would confirm that. This is the new normal as well on the OEM side. Secondly, I've been, last week, in Japan for our symposium with whole Japanese automotive industry, and that's exactly the same discussion. So, hybrid and plugin hybrid. There is the leading the supplier for that. That's the technology to be for the next one and two decades for the transition to the pure E-Mobility.

And Klaus said it before, we are in very close discussions with European OEMs about those kind of hybrids as well. Too early to give there a book to bill or order intake number or even a profitability number. But if this 30-40-30 come true, I guess then we talk additional clutches, additional actuation systems in time for the transition. I guess then we would be on a similar level than today. But again too early to say but very clearly that will be a long enough lasting hybrid phase clear statement.

Henning Cosman, HSBC
So, maybe just directionally, it's fair to say that plug-ins are maybe gaining a bit more momentum than previously expected? Or is it just the wider market perception that's the case, and you yourself, you've already always anticipated plug-ins to be stronger than maybe the wider market, is that fair?

Matthias Zink
Yeah. Absolutely fair. And the rationale outside, when we discuss about that, there is a bit of a weird discussion how we see energy structure? What is the infrastructure for charging and what about the batteries? I guess this now exactly leads to this extended hybrid volumes and timing there. That's it.

Henning Cosman, HSBC
Thank you very much.

Klaus Rosenfeld
You're welcome.

Edoardo Spina, Exane BNP Paribas
Thank you. Good morning. I have two questions. The first one, on your Chinese revenue exposure. If possible, to give a bit more detail, surely, about the exposure to the local Chinese? But if you can comment also on your business with the non-German or non-European, so we have a better understanding of your customers in China.
And the second question, if possible, on the cost. I wanted to ask, considering what you said about the future growth today and maybe lower visibility, are you taking any actions, or you consider to take any action on – to increase the flexibility of the cost structure? I guess the fixed cost especially?

Klaus Rosenfeld
Well let me tackle the first and then Matthias, maybe you want to add to the – because I assume that most of your questions are automotive OEM-related.

I mean the flexibility of cost is a very important topic, yeah? And it goes to the whole question of what's your operating leverage and how can you contain that. It goes hand-in-hand with capital as well, because in the discussions we see with our customers on the larger projects, and again, that is driving the automotive OEM business. There's always this point of uncertainty what's going to happen with all these different platforms. And they are asking us, can you be a partner in terms of – can you be flexible on the capital as well?

And that is a concern and that for us means we have to be able to respond in a let's say, agile manner to these requests. It means more prioritization of certain things. But it also will be part of the discussion we're having at the moment, Matthias, how can we make our own cost structure more flexible? There are various ways to look at that, but it's something that we probably need to respond to – at a later stage with a little bit more granularity in what could be done there. Nothing for this call, but clearly a very important thought.

Matthias, you want to talk about the Chinese OEM business for a moment?

Matthias Zink
Well can I just reconsider the question, it was about our sensitivity there?

Klaus Rosenfeld
No. No. You asked – Edoardo asked about the share of local OEMs and global OEMs and what's happening at the moment there. How this is developing.

Matthias Zink
Okay. Okay. Well I would say that first of all, our share, I guess, is about 40 local, 60 global. So, we have an increasing share with the local Chinese about it. The interesting part this time is that the Chinese locals are as much under pressure as the global. So in the past, we always say it's the Koreans, the Japanese, sometimes the Europeans. The current markdown or dip is – as well relating to the Chinese locals, first of all.

If I would look through all the different ones and we did that and we do that with our team in China and in the board here. I guess there is not a clear pattern who is hit most. There are some Europeans, some Chinese, then there are some successful Chinese, very successful ones, where we have business with.
So on average, I think we are robust, that's the good news. The bad news is that everyone is affected currently in China of those OEMs. But as we supply, and that's part of this content per cars in China, as we supply the locals as well with our advanced technology with double clutches with variable valve train, with hybrids I

guess we're on a good track all overall in average and this is – and Dietmar showed it, this is why we still can outperform the market there, even in this phase of decline.

Edoardo Spina, Exane BNP Paribas
Thank you very much. Sorry. Can I have a very quick follow up, I think on the 60% of sales in China with the global. Can you give us an indication like where they come from? Just because in China sometimes it's important to have understanding of if your customer is American, Korean, you may – or European, sometimes in the future we may disruptions?

Matthias Zink
Yeah. But I could give you a list with 40 different OEMs there. I guess we supply from [indiscernible] Koreans still there's [indiscernible] and whatever kind of names are there. So we are – I would say probably 90% of all the carmakers, if not 99%, we are supplying.

Edoardo Spina, Exane BNP Paribas
Okay.

Klaus Rosenfeld
Hello, Edoardo, I think what you can take away at this, we are not sort of exposed to one customer there. We have the big Americans, we are the Germans. Clearly VW is a very important customer to us globally, but also in China. It's a very well balanced mix in terms of names.

Edoardo Spina, Exane BNP Paribas
Okay. Thank you.

Klaus Rosenfeld
You're welcome.

Julian Radlinger, UBS
Yes. Good morning, gentlemen. Thanks for talking my questions. I had a few, but they're all really short. So the first one is, the outperformance in Europe in Q3 really shot up compared to Q1 and Q2 this year. I was just wondering, how much of that is due to your E-Axle sakes for the e-tron, if any?

Second question, the outperformance in China the outperformance in China was single digit, and we understand that that's due in part to some order delays, etcetera, but it was single digit for the first time in a long time already in Q2 as well. And so I'm wondering if we adjust for these order delays there now, is a single – even if high single digit organic growth rate in China – or sorry, not organic growth, with outperformance in China, is that kind of a new normal compared to the last few years? And if so, why?

And then thirdly, just on your immobility order intake, really simple question here. Can you just remind us, if you got an order for E-Axle today, how long roughly would it take before start of production? Thank you.

Klaus Rosenfeld
I think, Matthias, all these questions are perfect questions to you. And it was a good idea to have you on the call while you were in Brussels somewhere. I'm not going to interject anything here. Why don't you just answer the questions of Julian, very good questions.

Matthias Zink
Okay. Thank you, Julian, for your questions. So maybe starting with Europe, if I got you correct, so I would say the e-tron launch doesn't play a major role this year. Even so, even so, our customer doubled their demands. But we are still on a low volume number. It doesn't matter too much whether we got 5,000 or 10,000 this year. There's not a big impact on the European results. Here in Europe, we really had this topic, WLTP. We had some preponing of orders of our OEMs than we – we had even some closing days of our OEMs. This is why we are where we are in Europe.
Secondly, talking – China is single digit the new normal? Too early to say. Part of the growth story and that you got completely right that most of these launches of new DCT software CVTs which all gives more value per vehicle to those customers. And as we are delayed there, we are as well not that much outperforming as we did in the past. But, as I said, I'm optimistic and even sure that this will return to the form normal where the Chinese market goes, whether we will still enjoy this high growth rate of vehicles per year. That's a different story. But as we still agree technology to those cars, I think we can continue the outperformance there. And last but not least, E-Mob from other intake operationalization still SOP. I would say, as we need normally for a standard product 24 -- 20 to 24 months from our RFQ till SOP, as this technology is still complex as well on customer side, I would give an average of 2.5 years from order intake till SOP to date because all these release

procedures as well on the customer side are not that established as they are on the [indiscernible] products. But if you note, 2.5 years I guess that's a reasonable number, even looking into those RFQs we're getting in these days.

Julian Radlinger, UBS

Okay. Perfect. Thank you. And then just a really quick follow up on that just came to mind. What's your latest intelligence on the ground or from the ground on China on government stimulus there?

Klaus Rosenfeld

What I can tell you is that the rumors that there would be a VHT cut of 50% have not been confirmed yet. There is no new intelligence at the moment about stimulus program. I can say, Matthias, we are in, I shouldn't say daily, but more on a weekly basis we get our updates there and at the moment, there's nothing to expect there. So, we adjust to the environment that it is that we have seen there, but we're not betting on any government action in the next couple of days.

Julian Radlinger, UBS

Yeah. Okay. Thanks a lot, guys. Really appreciate it.

Klaus Rosenfeld

Good. One more question?

Sascha Gommel, Crédit Suisse AG

Yes. Thank you. I have two more questions please. First one is again related to the aftermarket. Given that your top line growth is a bit below expectations I would say, do you see risk of inventory write-downs towards the end of the year?

And then, the second question is a bit more long term. I have the impression you kind of more appreciate the fact that you have an industrial business in your group. Is that a reading that you might expand the industrial business more in the future also through M&A?

Klaus Rosenfeld

Well, let me take the last one and Dietmar takes the first one. You have our M&A strategy. It's an articulated strategy with smaller additive selective technologically driven acquisitions. We have always said this is not only an automated OEM strategy, it's an industrial as well. There are clearly targets that are – would add to our competence on the industrial side. And I think I can say our major family shareholder has, and that's part of our strategy mobility for tomorrow, and the strategic principles and the pillars as we call them always said it's an automotive and industrial supplier. So, there is no priority that says it's only industrial or only automotive OEM. It will depend on whether the target fits into our strategy and adds to the competencies that we want to generate. The little targets that hits several birds with one stone that's not really possible, but I can tell you that the pipeline also on industrial situations that would be interesting is increasing.

Sascha Gommel, Crédit Suisse AG

Okay. But it's more on the technology side. It's not on customer access or market share regionally or something like that?

Klaus Rosenfeld

Well, I mean in this write-down we have said that it could be a sector expertise, it could be something that is technological driven. Think about Industry 4.0 . So it's a little bit of a question of the opportunity and you don't find – you can't paint your own targets. You have to see what's available and how that best fits into the equation.

Sascha Gommel, Crédit Suisse AG

I see. Thank you.

Dietmar Heinrich

Okay. So in regard to what you mentioned the aftermarket potential inventory write-downs, there was a clear “no” to that question.

Sascha Gommel, Crédit Suisse AG

That's good news. Thank you very much.

Operator
This concludes our Q&A session and I would like to hand back to you.

Renata Casaro
Thank you very much, operator. This closes our call today. As usual, Investor Relations we share with you the comment slides with the transcript tomorrow on our website. Our next event is on March 6 and under presentation that you find all day for 2019. Thank you very much. Bye.

Klaus Rosenfeld
Bye-bye.