

Press and IR Release

Earnings quality improved in third quarter, measures taken making an impact

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- **Revenue of 10.8 billion euros for the first nine months at prior year level**
- **EBIT margin before special items improved to 8.1 percent in Q3**
- **Strong free cash flow before cash in- and outflows for M&A activities generated in Q3 (362 million euros)**
- **Automotive OEM division also reports outperformance in Q3, Industrial division reports weaker growth in Q3 than in H1**
- **Efficiency measures are making an impact and are being consistently pushed ahead**
- **Current year outlook confirmed for the group and the divisions**

Global automotive and industrial supplier Schaeffler presented its interim report for the first nine months of 2019 today. The Schaeffler Group's revenue for the reporting period amounts to 10,839 million euros (prior year: 10,714 million euros). At constant currency, revenue for the period decreased slightly, declining by 0.1 percent. Third-quarter revenue was up 1.2 percent at constant currency. Of the four regions, the Americas region contributed constant currency revenue growth of 7.6 percent in the first nine months, Asia/Pacific 1.1 percent, and Greater China 0.5 percent, while revenue declined by 3.6 percent in the Europe region.

The Schaeffler Group generated earnings before financial result, income (loss) from equity-method investees, and income taxes (EBIT) of 795 million euros (prior year: 1,149 million euros) in the first nine months. These earnings were affected by special items for the reporting period of 88 million euros, largely consisting of expenses related to the efficiency program RACE in the Automotive OEM division. The resulting EBIT before special items amounted to 883 million euros (prior year: 1,150 million euros), representing an EBIT margin before special items of 8.1 percent (prior year: 10.7 percent). The decline from the prior year was primarily attributable to the decrease in gross margin. The lower margin is largely due to an adverse impact of selling prices and increased production costs. The margin trend was also hampered by higher administrative expenses. The EBIT margin before special items improved from 7.9 percent in the second quarter to 9.1 percent in the third quarter.

Automotive OEM also outperforms market by 4.6 percent in Q3

Automotive OEM division revenue amounted to approximately 6,768 million euros (prior year: approximately 6,778 million euros) for the first nine months of 2019. At constant currency, the division generated 1.5 percent less revenue than in the prior year, outperforming global automobile production, which fell by 5.9 percentage points during the same period, by 4.4 percentage points. In the third quarter, this outperformance amounted to 4.6 percent. Following a decline in revenue of 2.9 percent at constant currency in the first half of 2019, the division generated 1.4 percent in additional revenue in the third quarter of 2019.

The Americas region reported constant currency revenue growth of 8.6 percent in the reporting period, the highest constant currency growth rate of the Automotive OEM division's four regions, primarily as a result of a few major customers' increased requirements resulting from product ramp-ups. The Asia/Pacific region generated revenue growth of 2.1 percent. Revenue fell considerably in the Greater China and Europe regions, declining by 6.0 percent and 5.2 percent, respectively. The decreases in the Greater China and Europe regions were driven by the considerable decline in automobile production in both these regions. The Greater China region generated 7.1 percent in additional revenue at constant currency in the third quarter, partly due to the low growth rate in the prior year period. The E-Mobility business division reported the largest growth of the four Automotive OEM business divisions, increasing its revenue by 38.8 percent at constant currency. The growth in the E-Mobility business division was mainly attributable to product ramp-ups of primary components for continuously variable transmissions (CVTs) and in the actuators field. Revenue of the Chassis Systems BD increased by 0.5 percent, partly due to a favorable trend in revenue from chassis actuators. The Transmission Systems business division reported a decline in revenue by 6.1 percent, due especially to lower demand for components for manual transmissions. Revenue in the Engine Systems business division was down 2.6 percent, although the thermal management module generated extensive additional revenue for this business division during the reporting period.

The division earned 371 million euros (prior year: 592 million euros) in EBIT before special items in the first nine months. This resulted in an EBIT margin before special items for the period of 5.5 percent, significantly less than the 8.7 percent EBIT margin reported in the prior year. The decline was primarily due to the lower gross margin resulting from lower volumes and the impact of pricing and the revenue mix, as well as to high fixed costs and the increase in administrative expenses.

According to the current guidance for the Automotive OEM division for the full year 2019 dated July 29, 2019, the division is expected to generate constant currency revenue growth of minus 2 to 0 percent and an EBIT margin before special items of between 5 and 6 percent.

Automotive Aftermarket revenue up slightly in Q3

The Automotive Aftermarket division reported a drop in revenue for the reporting period of 1.5 percent at constant currency to 1,386 million euros (prior year: 1,403 million euros) as a result of the decline in revenue in the Europe region, the region generating the highest revenue by far. However, a slight increase in revenue was reported for the third quarter. The decline in Europe region revenue, partly driven by a reduction in customers' inventory levels both in the Independent Aftermarket (IAM) and in the OES business (OES - Original Equipment Service), amounted to 3.7 percent at constant currency. The revenue decline in Europe was not fully offset by the 7.1 percent revenue growth in the Americas region. This growth resulted primarily from increased requirements and business with new customers in the Independent Aftermarket. The Greater China region increased its revenue by 8.6 percent at constant currency, while revenue in the Asia/Pacific region fell by 8.9 percent at constant currency.

These developments resulted in EBIT before special items of 219 million euros (prior year: 266 million euros). This represents an EBIT margin before special items of 15.8 percent (prior year: 18.9 percent). The decrease compared to the prior year is primarily attributable to the reduced gross margin and higher administrative expenses. The division's gross margin declined due to lower sales volumes combined with increased product costs.

Based on the guidance dated July 29, 2019, the group expects the Automotive Aftermarket division to generate revenue growth of minus 2 to 0 percent at constant currency and an EBIT margin before special items of 15 to 16 percent for the full year 2019.

Industrial division reports weaker growth in Q3 following strong H1

The Industrial division increased its revenue to 2,685 million euros (prior year: 2,533 million euros) during the first nine months of 2019 despite weaker momentum in global industrial production. At constant currency, revenue growth amounted to 4.3 percent and was primarily driven by the wind sector cluster in the Greater China region and the raw materials sector clusters in the Europe and Greater China regions. Industrial Distribution also contributed to growth during the reporting period. Demand decreased especially in the industrial automation, power transmission, and offroad sector clusters which are particularly sensitive to economic conditions. In the third quarter, constant currency revenue growth amounted to 1.2 percent. Three of the Schaeffler Group's four regions contributed to the growth in revenue during the reporting period. The largest increase at constant currency was once again generated by the Greater China region, which grew by 20.9 percent, ahead of Americas (4.5 percent) and Europe (0.1 percent).

In the Asia/Pacific region, revenue declined slightly by 0.8 percent at constant currency.

The Industrial division generated approximately 292 million euros (prior year: 292 million euros) in EBIT before special items for the first nine months, representing an EBIT margin before special items of 10.9 percent (prior year: 11.5 percent).

The guidance for the Industrial division's constant currency revenue growth for the full year 2019 is 2 to 4 percent. The division is expected to generate an EBIT margin before special items of 10 to 11 percent.

Positive free cash flow with strong Q3 – full-year guidance for 2019 confirmed

Net income attributable to shareholders for the first nine months of 2019 decreased considerably compared to the prior year period, amounting to 485 million euros (prior year: 762 million euros). Earnings per common non-voting share were 0.73 euros (prior year: 1.15 euros). Free cash flow before cash in- and outflows for M&A activities for the third quarter amounted to 362 million euros; its level for the reporting period of 133 million euros was approximately flat with prior year (127 million euros). Capital expenditures (capex) on property, plant and equipment and intangible assets for the first nine months of 823 million euros were below the prior year level (857 million euros), representing a capex ratio of 7.6 percent of revenue (prior year: 8.0 percent). The capex ratio increased slightly in the third quarter, rising to 6.3 percent from 6.1 percent in the second quarter.

“Strong discipline regarding cost and capital will remain our focus in the final quarter as well. We will further reduce the capex ratio compared to the third quarter and continue to concentrate on generating cash flow,” said Dietmar Heinrich, CFO of Schaeffler AG.

Net financial debt as at September 30, 2019, declined to 2,842 million euros, decreasing the gearing ratio, i.e. the ratio of net financial debt to shareholders' equity, to approximately 103.1 percent (December 31, 2018: approximately 83 percent). Total assets amounted to 13,127 million euros as at September 30, 2019 (December 31, 2018: 12,362 million euros). The group employed a workforce of 89,036 at the reporting date (December 31, 2018: 92,478), a decline of 3.7 percent.

Based on the adjusted full-year guidance dated July 29, 2019, the Schaeffler Group anticipates revenue growth of minus 1 to 1 percent at constant currency, an EBIT margin before special items of 7 to 8 percent, and free cash flow before cash in- and outflows for M&A activities of 350 to 400 million euros.

“We did well in the third quarter in a persistently challenging market environment. The measures we have taken to become more flexible are making an impact, the transformation is gathering speed and our three divisions’ efficiency programs are being implemented consistently. My fellow Managing Directors and I are confident that we will meet our full-year guidance for 2019,” stated Klaus Rosenfeld, CEO of Schaeffler AG.

Forward-looking statements and projections

Certain statements in this press release are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should not place any undue reliance on forward-looking statements which speak only as of the date of this press release. Statements contained in this press release regarding past trends or events should not be taken as representation that such trends or events will continue in the future. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Schaeffler, or persons acting on its behalf, may issue.

Schaeffler Group – We pioneer motion The Schaeffler Group has been driving forward groundbreaking inventions and developments in the field of motion technology for over 75 years. With innovative technologies, products, and services for electric mobility, CO₂-efficient drives, chassis solutions, Industry 4.0, digitalization, and renewable energies, the company is a reliable partner for making motion more efficient, intelligent, and sustainable – over the entire life cycle. The Motion Technology Company manufactures high-precision components and systems for drive train and chassis applications as well as rolling and plain bearing solutions for a large number of industrial applications. The Schaeffler Group generated sales of EUR 16.3 billion in 2023. With around 84,000 employees, Schaeffler is one of the world’s largest family-owned companies and one of Germany’s most innovative companies.

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