

Press and IR release

Schaeffler Group meets targets in 2018

HERZOGENAURACH, 2019-03-06.

- **Revenue grows 3.9 percent at constant currency in challenging environment, EBIT margin before special items declines to 9.7 percent (prior year: 11.3 percent) in 2018**
- **Earnings of both Automotive divisions lower while Industrial division significantly improves earnings (up 47 percent)**
- **Free cash flow before M&A activities of 384 million euros better than expected**
- **Proposed dividend of 55 cents per common non-voting share at prior-year level**
- **Cautious guidance for 2019**

Global automotive and industrial supplier Schaeffler presented its results for 2018 today. The Schaeffler Group's revenue for the reporting period amounted to approximately 14.2 billion euros (prior year: approximately 14.0 billion euros). At constant currency, revenue increased by 3.9 percent during this period. All three divisions and all four regions contributed to the group's constant currency revenue growth. The Greater China region once more reported the highest revenue growth rate, albeit with considerably less momentum than in previous years. The Schaeffler Group generated earnings before financial result and income taxes (EBIT) before special items of 1,381 million euros in 2018, (prior year: 1,584 million euros), less than in the prior year. This represents an EBIT margin before special items of 9.7 percent (prior year: 11.3 percent).

Net income attributable to shareholders of the parent company for the reporting period amounted to 881 million euros, falling short of the prior year level (980 million euros). Earnings per common non-voting share were 1.33 euros (prior year: 1.48 euros). On that basis, Schaeffler AG's Board of Managing Directors will propose a dividend of 55 cents to the annual general meeting. This represents a dividend payout ratio of approximately 40 percent (prior year: approximately 35 percent) of net income attributable to shareholders before special items.

Klaus Rosenfeld, CEO of Schaeffler AG, commented on the performance of the business in 2018: "Following a good first six months for the Schaeffler Group, market conditions in the global automotive business deteriorated considerably during the second half of 2018. This put pressure on our earnings. The Industrial division's very strong development over the course of 2018, which has partially offset the weaker performance of the two Automotive divisions, was encouraging.

It proves that our positioning as a global automotive and industrial supplier is invaluable.”

Klaus Rosenfeld was not satisfied, however, with the Automotive OEM division's earnings. “The decrease in Automotive OEM division earnings resulted mainly from the difficult competitive and market environment and the growing pressure to change. However, there are also a number of homegrown factors we need to address. That is why we have launched the program RACE, which is aimed at increasing efficiency and optimizing the portfolio. If we are going to improve our productivity and competitiveness, we need more focus and more speed.”

The objectives and measures of RACE are described in more detail in the press and IR release also issued today.

Automotive OEM revenue drops in second half of the year

The Automotive OEM division generated approximately 8,997 million euros (prior year: approximately 8,991 million euros) in revenue during the year. At constant currency, revenue increased by 2.1 percent from the prior year. Following the encouraging revenue trend in the first six months, the Automotive OEM division reported less dynamic revenue growth for the second half of 2018 due to the persistently challenging environment in the automotive sector. However, the 2018 growth rate was still 3.2 percentage points higher than average growth in global production volumes for passenger cars and light commercial vehicles, which declined by 1.1 percent during the reporting period. Orders won in 2018, known as lifetime sales, amounted to 12.8 billion euros, representing a “book-to-bill ratio”, the ratio of order intake to revenue for the year, of 1.4 (prior year: 1.3).

The lower growth rate was mainly attributable to weaker demand in the Europe and Greater China regions during the latter half of 2018. In Europe, this weaker demand was mainly attributable to production delays resulting from the changeover to the new WLTP emissions standard, while China felt the effect of consumer restraint and the trade conflict with the U.S. All four of the Automotive OEM division's business divisions contributed to its revenue growth for the year, with the E-Mobility business division reporting the highest revenue growth rate at constant currency, 18.1 percent. The Automotive OEM division generated the

largest increase at constant currency in the Americas region with 5.6 percent, ahead of Asia/Pacific with 2.3 percent, Greater China with 1.2 percent, and Europe with 0.9 percent.

In 2018, the division generated EBIT before special items of 693 million euros (prior year: 973 million euros). This resulted in an EBIT margin before special items of 7.7 percent for the same period, significantly less than the 10.8 percent EBIT margin reported in the prior year. The decrease was primarily attributable to less dynamic markets in the second half of 2018 and the resulting lower utilization of production

capacity on hand. In addition, the division could not increase production efficiency sufficiently to offset the adverse impact of pricing and the revenue mix. The adjusted full-year guidance for 2018 issued October 30, 2018, which called for the division to generate constant currency revenue growth of 3.5 to 4.5 percent and an EBIT margin before special items of 8 to 8.5 percent, was not met.

Automotive Aftermarket in line with guidance

Following a solid first half of 2018 overall, the Automotive Aftermarket division reported a temporary drop in revenue in the third quarter compared to the prior year. This decrease was primarily attributable to strong growth in the Europe and Americas regions in the third quarter of the prior year. The division increased its revenue by 2.2 percent at constant currency, generating 1,859 million euros in revenue (prior year: 1,880 million euros). At 36.5 percent and 12.5 percent, respectively, the Greater China and Asia/Pacific regions reported the highest constant currency revenue growth rates, followed by Europe with 2.5 percent. Revenue in the Americas region declined by 5.2 percent at constant currency due to non-recurring additional requirements of an Original Equipment Services (OES) customer in the prior year.

The Automotive Aftermarket division's EBIT before special items for the reporting period amounted to 316 million euros (prior year: 358 million euros). Based on this, the EBIT margin before special items was 17.0 percent (prior year: 19.0 percent). Reasons for the decline from prior year include adverse pricing impacts and increased logistics costs. The division met the adjusted full-year guidance for 2018 issued October 30, 2018, which called for the Automotive Aftermarket division to generate constant currency revenue growth of 1.5 to 2.5 percent and an EBIT margin before special items of 17 to 17.5 percent.

Industrial business increases EBIT margin by 3 percentage points

The Industrial division increased its revenue considerably to approximately 3,385 million euros (prior year: approximately 3,150 million euros) in 2018. At constant currency, revenue growth for the reporting period amounted to 10.1 percent following 5.7 percent in 2017. Based on a favorable market environment, the Raw Materials, Railway, Power Transmission, and Offroad sectors reported double-digit revenue growth rates. The largest increase at constant currency was generated by the Greater China region at 25.4 percent, ahead of Americas with 9.7 percent, Europe with 7.3 percent, and Asia/Pacific with 5.6 percent.

The Industrial division generated 372 million euros in EBIT before special items in 2018 (prior year: 253 million euros), representing an EBIT margin before special items of 11.0 percent (prior year: 8.0 percent). The increased margin is attributable to the favorable impact of economies of scale, cost savings resulting from the program CORE, and the impact of pricing and the revenue mix. Thus, the division

significantly exceeded the full-year revenue guidance for 2018 issued October 30, 2018, which called for constant currency growth of 8 to 9 percent. The target of achieving an EBIT margin before special items of 11 to 13 percent by 2020 was met two years earlier than originally planned.

Free cash flow better than expected

At 384 million euros (prior year: 515 million euros), free cash flow before cash in- and outflows for M&A activities was positive. Thus, the Schaeffler Group has significantly exceeded the adjusted guidance issued October 30, 2018, for free cash flow before cash in- and outflows for M&A activities of approximately 300 million euros. Capital expenditures (capex) on property, plant and equipment and intangible assets for the reporting period of 1,232 million euros were slightly below the prior year level (1,273 million euros), representing a capex ratio of 8.7 percent of revenue (prior year: 9.1 percent).

Net financial debt amounted to 2,547 million euros as at December 31, 2018, (December 31, 2017: 2,370 million euros), with the gearing ratio, i.e. the ratio of net financial debt to shareholders' equity, declining to 83.2 percent (December 31, 2017: 91.8 percent). As at December 31, 2018, the Schaeffler Group had total assets of approximately 12.4 billion euros (prior year: approximately 11.5 billion euros) and employed a workforce of 92,478 (prior year: 90,151), an increase of approximately 2.3 percent.

Dietmar Heinrich, CFO of Schaeffler AG, said: "Our free cash flow of 384 million euros and the improved equity ratio, which is now back at 25 percent, attest to the solid quality of the Schaeffler Group's balance sheet. We will watch cost discipline and efficient allocation of capital even more closely in order to further strengthen this quality."

Cautious guidance 2019

The Schaeffler Group expects its revenue to grow by 1 to 3 percent at constant currency in 2019. In addition, the company expects to generate an EBIT margin before special items of 8 to 9 percent in 2019. The Schaeffler Group also anticipates approximately 400 million euros in free cash flow before cash in- and outflows for M&A activities for 2019.

The group anticipates that its Automotive OEM division will continue to outperform the global automobile production of passenger cars and light commercial vehicles, expected to decline by about 1 percent, in 2019. Based on this anticipated outperformance, the Schaeffler Group expects its Automotive OEM division to generate revenue growth of 1 to 3 percent at constant currency in 2019 (adjusted comparative figure for 2018: 2.1 percent). The company also expects an EBIT margin before special items of between 6 and 7 percent for 2019 (adjusted comparative figure for 2018: 7.5 percent) for the Automotive OEM division.

Given lower growth in the global vehicle population than in 2018 and a nearly unchanged average vehicle age, the Aftermarket business is expected to grow slightly as well. Based on its own observation of the market, the group expects the Automotive Aftermarket division to generate revenue growth at constant currency of 1 to 3 percent (adjusted comparative figure for 2018: 2.2 percent) and an EBIT margin before special items of 15 to 16 percent in 2019 (adjusted comparative figure for 2018: 18.2 percent).

In the Industrial division, the macroeconomic environment points to slowing growth in global industrial production. Based on this indication, the Schaeffler Group expects its Industrial division to generate 1 to 3 percent (adjusted comparative figure for 2018: 10.1 percent) in revenue growth at constant currency in 2019. In addition, the Industrial division anticipates generating an EBIT margin before special items of between 10 and 11 percent for the same period (adjusted comparative figure for 2018: 10.9 percent).

The Financial Ambitions 2020 formulated in 2016 can no longer be maintained given the persistently challenging market environment.

"We are anticipating that the environment, especially in the global automotive business, will remain extremely demanding and challenging. At the same time, we expect the global economy to slow down further. The cautious guidance for the Schaeffler Group reflects these assessments," stated Klaus Rosenfeld. "However, we are confident that we will continue to grow profitably. Our strategy is the right one. We are consistently pushing ahead with the transformation. With additional measures and at an increased pace where necessary, as the program RACE shows.

You can find our annual report at: www.schaeffler-annual-report.com

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.

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Schaeffler AG

Herzogenaurach

Germany

Tel.: +49 9132 82-5000

E-Mail: presse@schaeffler.com**Dr. Axel Lüdeke****Head of Business and Financial Communications & PR**

Schaeffler AG

Herzogenaurach

Germany

Tel.: +49 9132 82-5000

E-Mail: presse@schaeffler.com**Renata Casaro****Head of Investor Relations**

Schaeffler AG

Herzogenaurach

Germany

Tel.: +49 9132 82-4440

E-Mail: ir@schaeffler.com**Jens Briemle****Investor Relations**

Schaeffler AG

Herzogenaurach

Germany

Tel.: +49 9132 82-4440

E-Mail: ir@schaeffler.com