

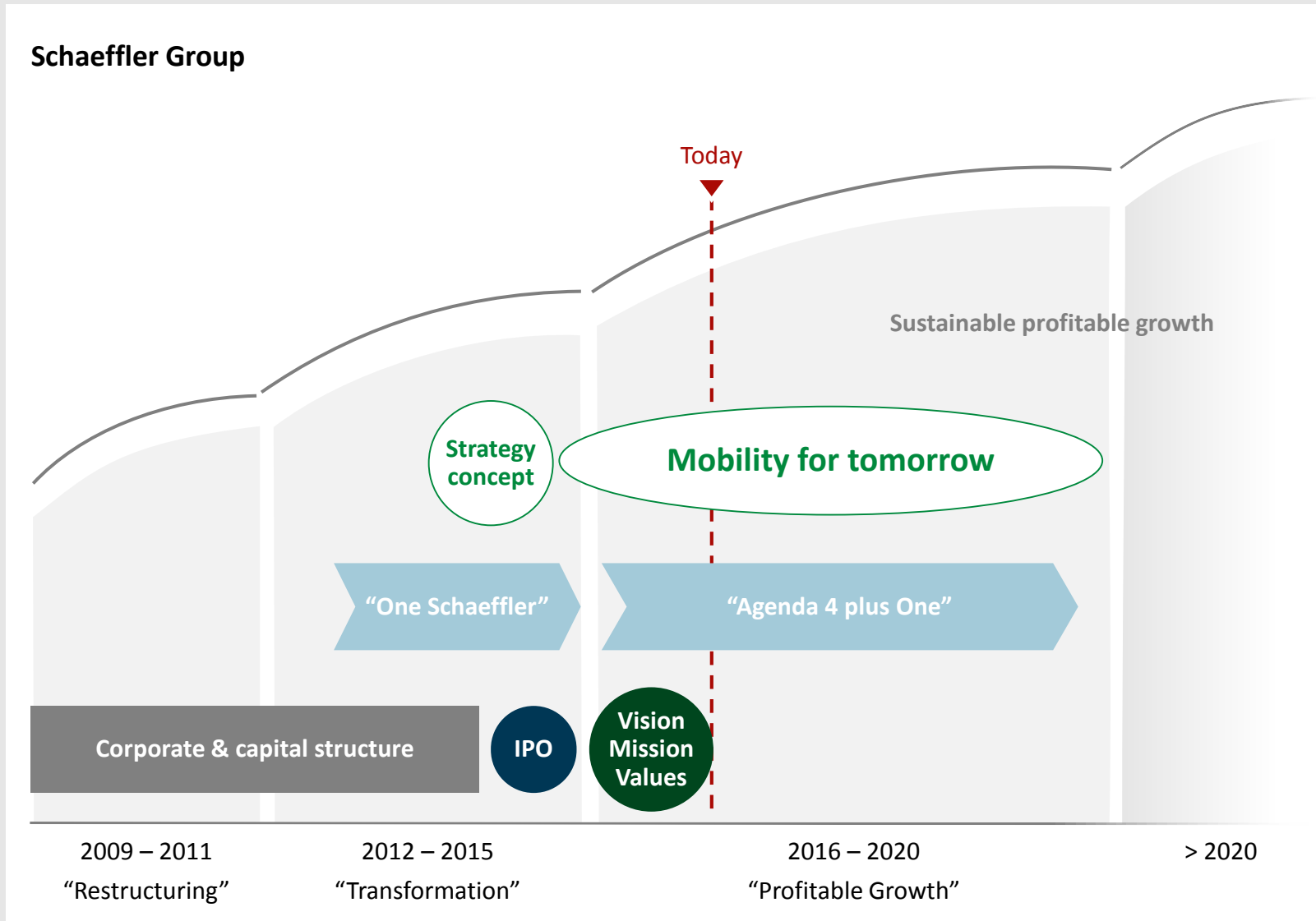


## Update Strategy "Mobility for tomorrow" and Financial Ambitions 2020

Klaus Rosenfeld  
Conference Call  
November 9, 2016

- 1 Introduction
- 2 Strategy "Mobility for tomorrow"
- 3 Financial Ambitions 2020
- 4 Summary

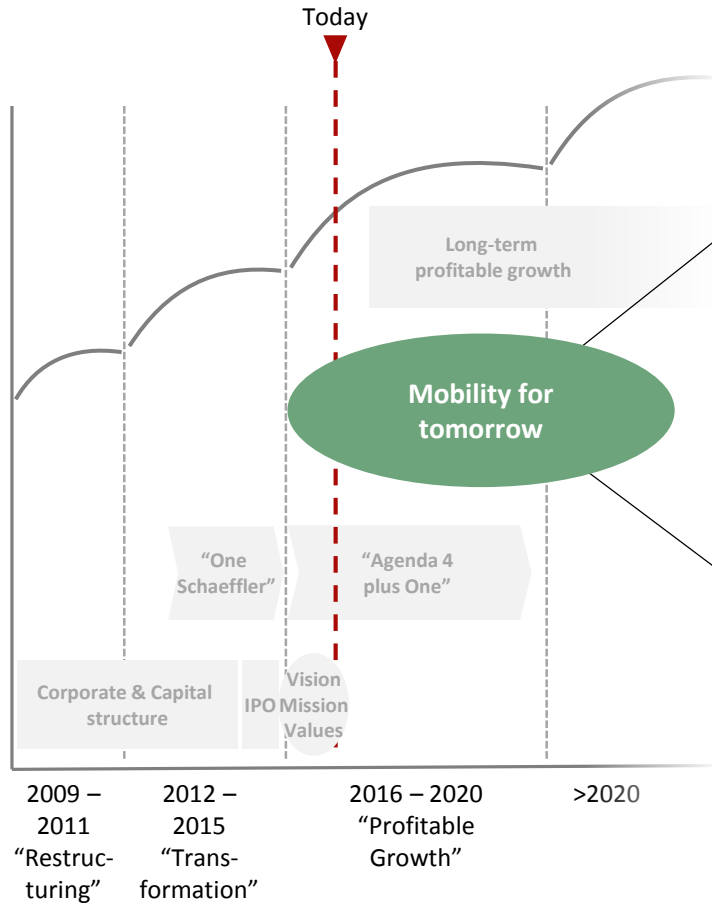
# Chronology 2009-2016 – Foundation for further profitable growth



## Key milestones

- ▶ Restructuring and transformation phase finalized
- ▶ “One Schaeffler” implemented in 2013-2015
- ▶ New corporate and capital structure implemented
- ▶ Strategy “Mobility for tomorrow” with 4 focus areas established
- ▶ Vision, mission and corporate values defined
- ▶ Investment Grade rating received

## Chronology and way forward

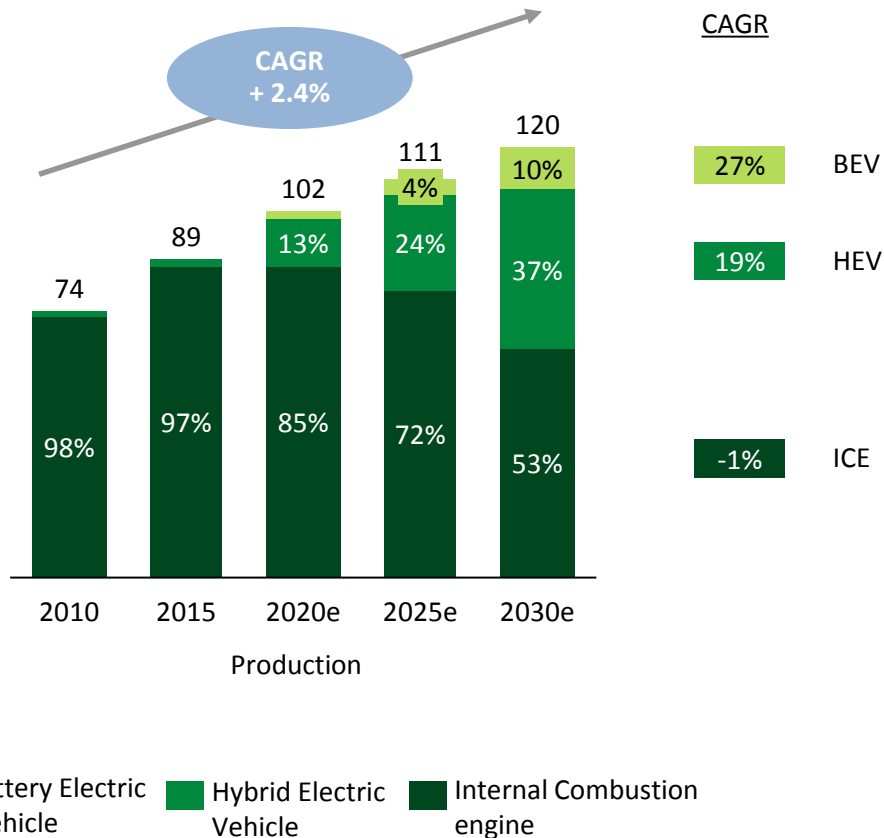


Strategy Dialogue	
Feb 29	Strategy Dialogue kick-off
March - June	Strategy Workshops & Review Meetings
July 11-13	Strategy Dialogue 2016
July 20	Capital Markets Day
Aug - Sept	9 Global Challenge & Feedback Meetings
Oct 6/7	Strategy meeting with Supervisory Board
Oct 17-19	Planning Dialogue
Nov 9	Communication of strategy

## Development of the Automotive Market

Global production volume <sup>2)</sup>

Base case <sup>1)</sup>



CAGR

27%	BEV
19%	HEV
-1%	ICE

Source: IHS, LMC Automotive, Schaeffler assumptions

<sup>1)</sup> Base case, according to announcement of OEMs accelerated adoption of E-Mobility possible as well (accelerated case)

<sup>2)</sup> Expected annual global production volume, passenger cars/light vehicles in mn units

<sup>3)</sup> Global no. of vehicles in mn units

## Growth Drivers



### Electrification

- ▶ Stricter global regulation of CO<sub>2</sub> emissions
- ▶ Gradual shift toward (purely) electric propulsion with hybrids serving as transitional technology



### Autonomous driving

- ▶ Vision of accident-free driving
- ▶ Gradual shift towards semi-autonomous driving



### Connectivity

- ▶ Increasing integration of vehicles and software expertise as crucial success factor
- ▶ Vehicle as communication hub for connected mobility



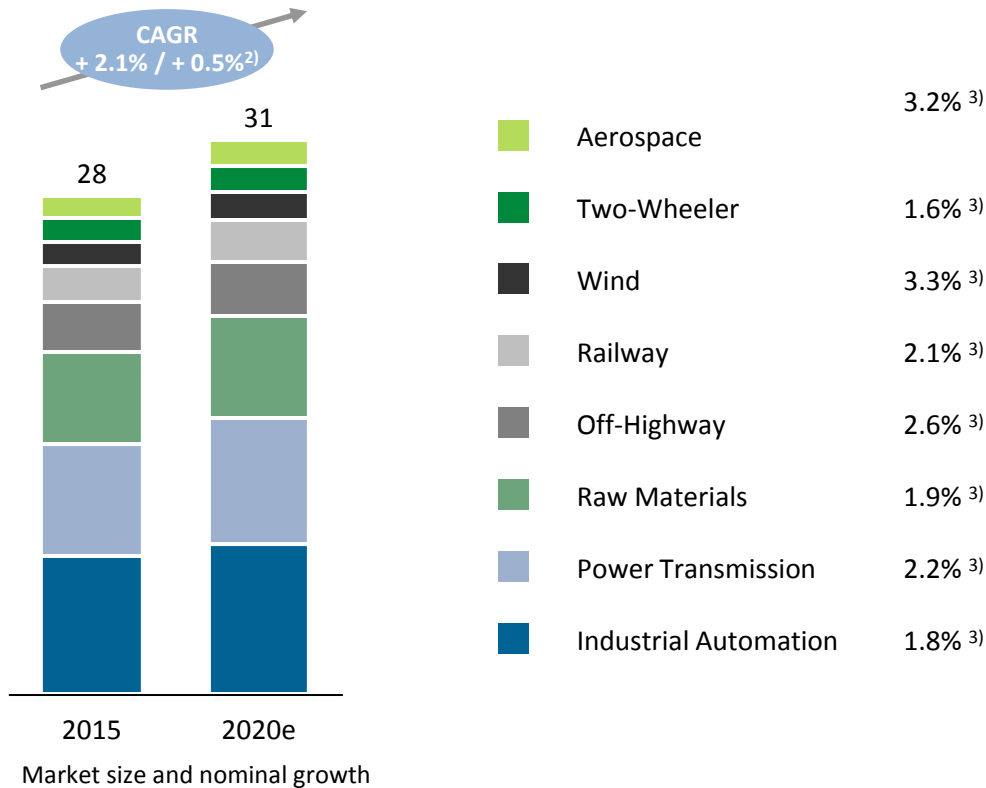
### Added value of automotive suppliers

- ▶ Increasingly supply modules/systems rather than individual components
- ▶ Systems business requires increasing willingness to cooperate, at the same time, there is a threat that OEMs will bring this added value in-house

## Global market volume<sup>1)</sup>

in EUR bn

Base scenario



<sup>1)</sup> Global market for plain and roller bearings, linear technology, and service products  
<sup>2)</sup> CAGR 2015/2020 adjusted; 1st value: constant prices; 2nd value: with price drop factored in  
<sup>3)</sup> CAGR 2015/2020 – growth rates based on external forecasts and our own estimates  
 (Basis: Oxford Economics Industrial Products Classification)

## Growth drivers



### Energy efficiency

- ▶ Increasing importance of efficient drive technologies
- ▶ Conventional drivetrains (hydraulics, combustion engines) increasingly being replaced by electric drives



### Innovation

- ▶ Highly innovative technologies for continuous improvement of conventional products
- ▶ Surface coatings to improve machine "uptime" and minimize friction



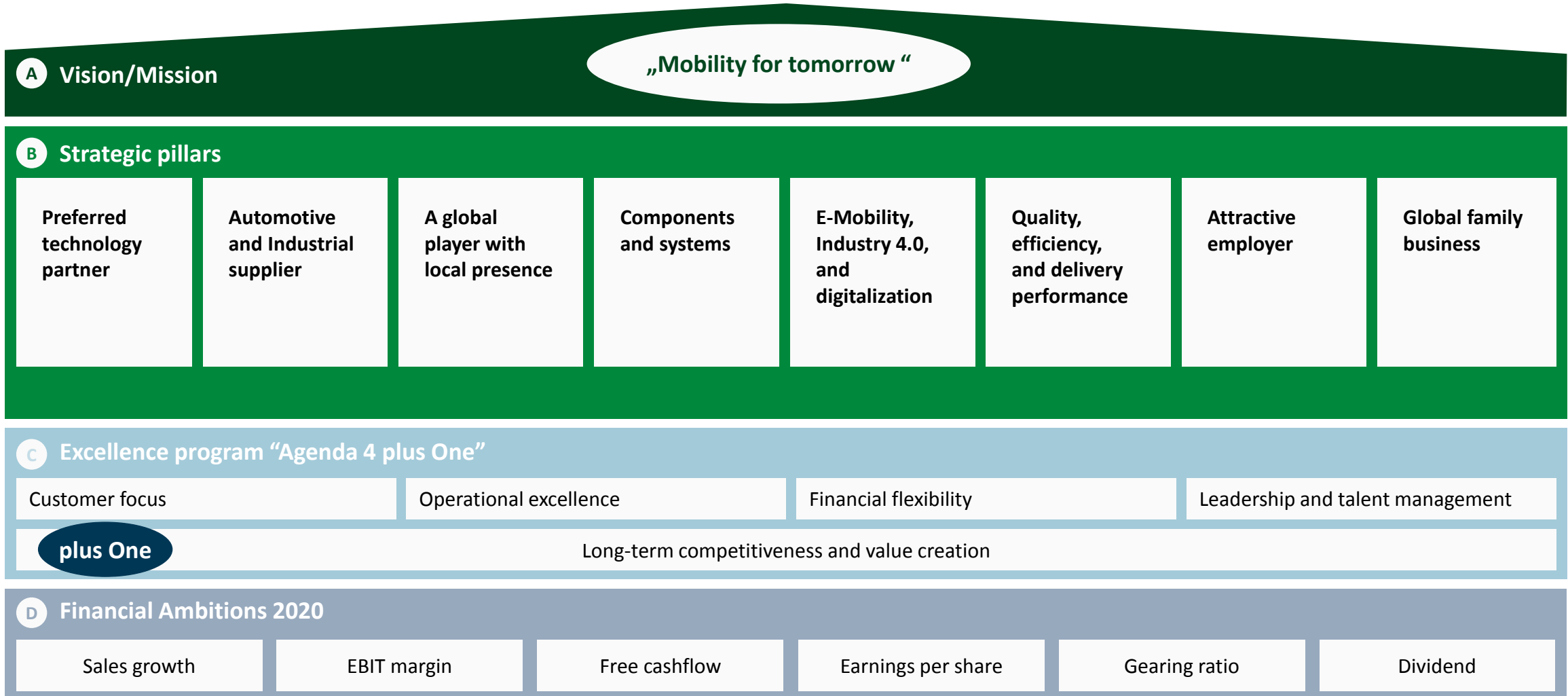
### Industry 4.0

- ▶ Developed Machine 4.0, create Industry 4.0 series machine with focus on predictive maintenance
- ▶ Smart sensor technology to optimize maintenance intervals and setup times



### Service business

- ▶ Greater market penetration in Services sector by optimizing product portfolio
- ▶ Expansion of digital service solutions

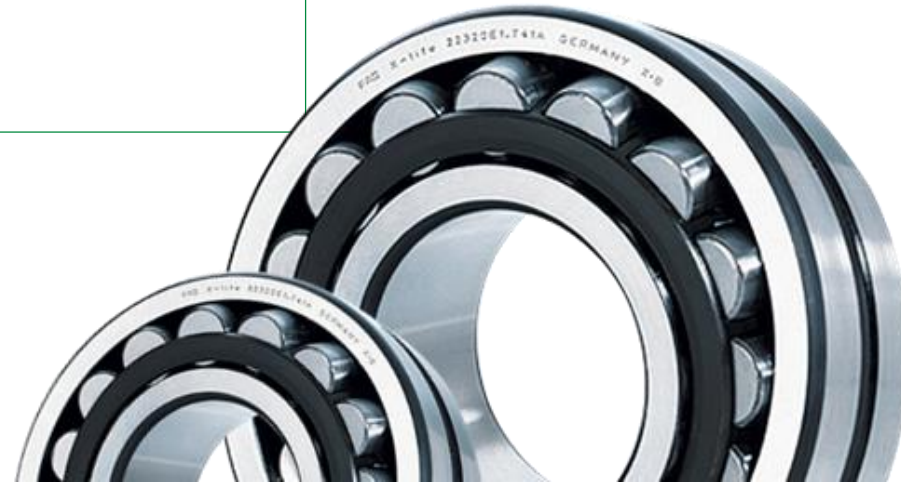


## Mission

“Guided by the values of a global family business, we work closely together with our customers as true partners to deliver a compelling value proposition through our best-in-class expertise in systems and manufacturing technology. In doing so, we contribute to the success of our customers, the advancement of our employees, and the prosperity of our society.”

## Vision

„As a leader in technology, we combine a passion for innovation with the highest standards of quality to shape the future of mobility for a world that will be cleaner, safer, and smarter.“





**B** 8 strategic pillars – Our strategic framework

**1** We want to be the preferred technology partner for our customers.

**2** We are an Automotive and Industrial supplier.

**3** We are a global company with a local presence throughout the world.

**4** We produce components and systems.

**5** We view E-Mobility, Industry 4.0, and Digitalization as key opportunities for the future.

**6** We strive for the highest possible quality, efficiency, and delivery performance.

**7** We want to be an attractive employer.

**8** We live by the values of a global family business.

**C 16 strategic initiatives – Excellence program “Agenda 4 plus One”**

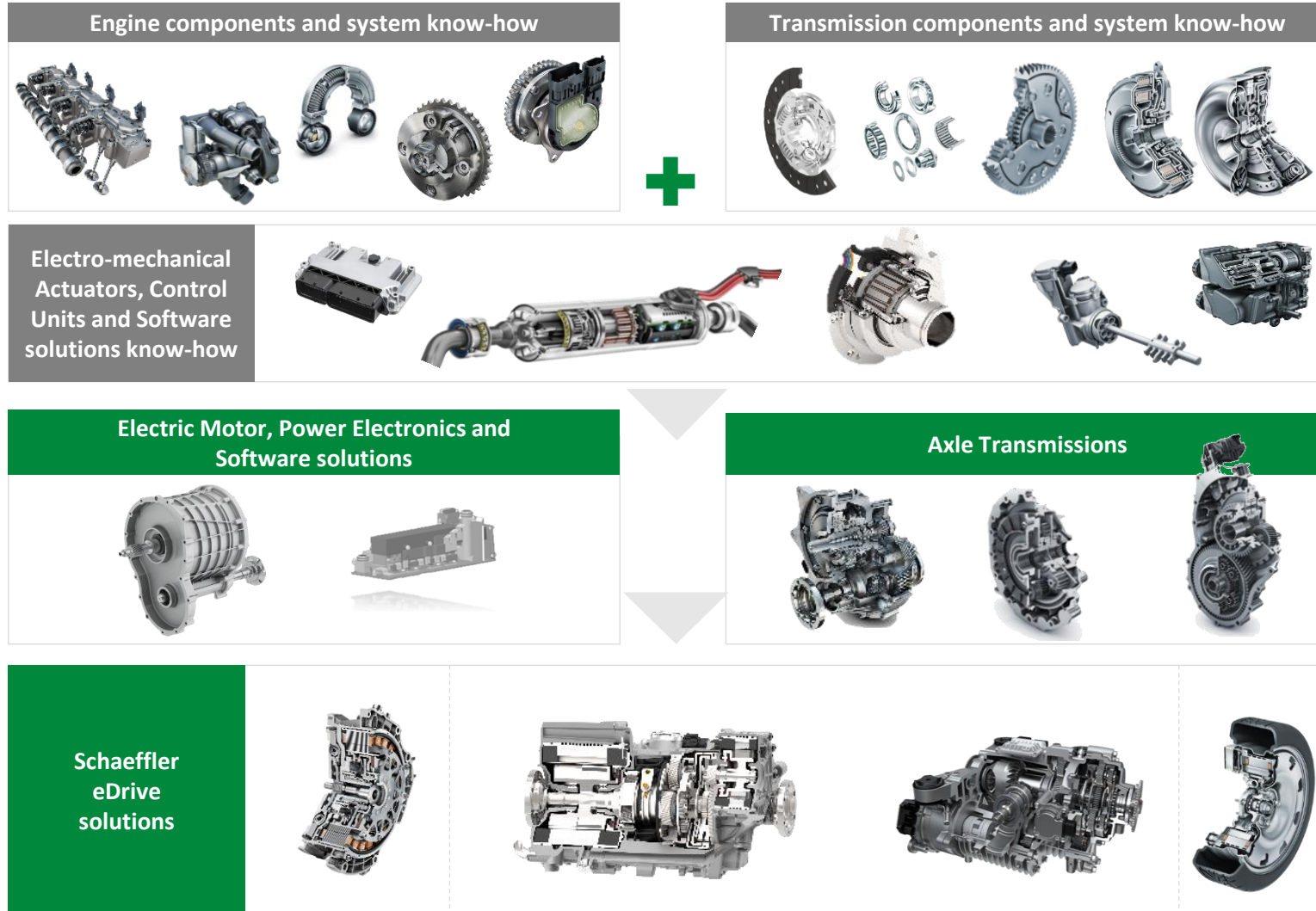
**Agenda 4 plus One**



**Initiatives**

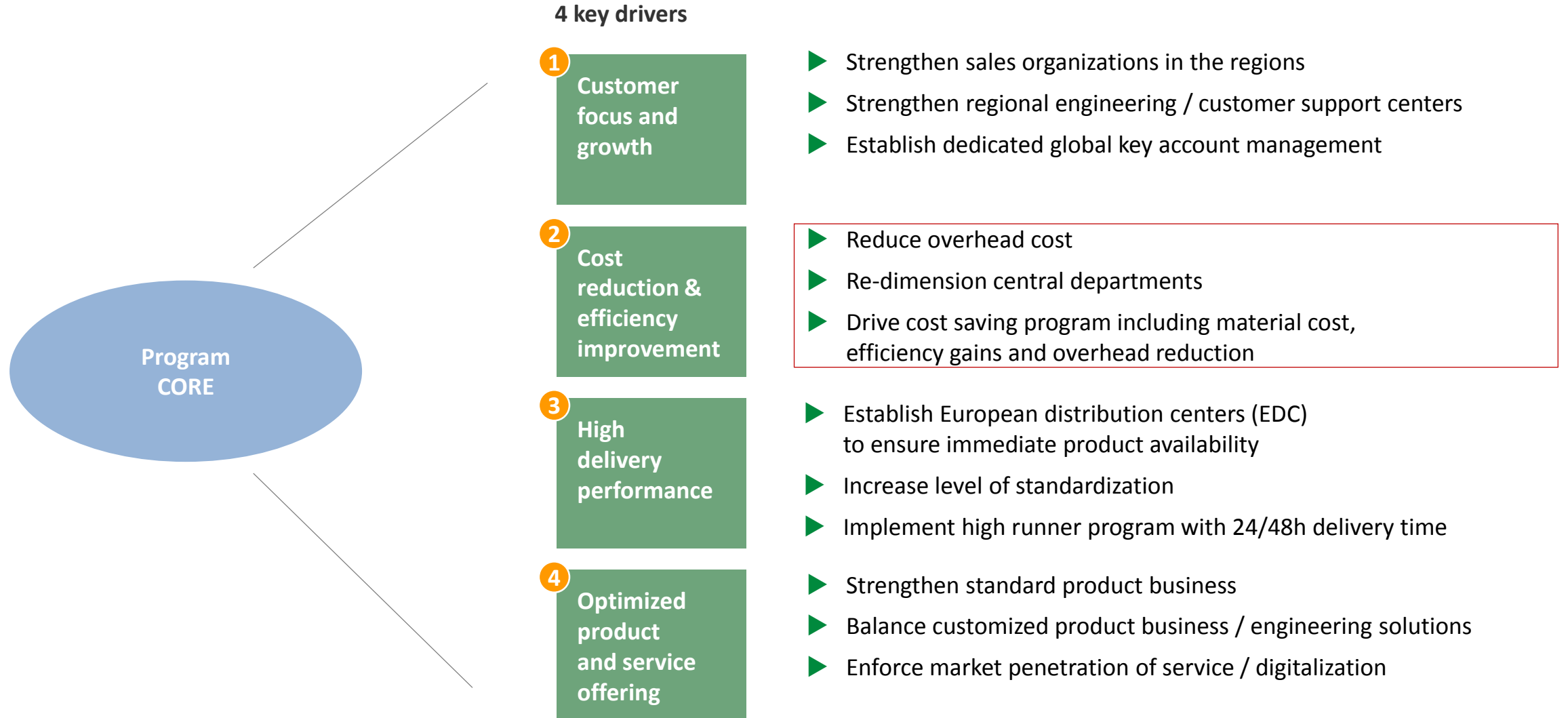
**Sponsor**

1	Customer Excellence	Prof. Pleus / Dr. Spindler
2	E-Mobility	Prof. Gutzmer
3	Industry 4.0	Dr. Spindler
4	Quality for Tomorrow	Rosenfeld
5	Global Footprint	Rosenfeld
6	Factory for Tomorrow	Jung
7	Shared Services	Dr. Hauck
8	Process Excellence	Rosenfeld
9	Working Capital	Dr. Hauck
10	Leadership & Corporate Values	Schittenhelm
11	Qualification for Tomorrow	Schittenhelm
12	New Work	Schittenhelm
13	Program CORE	Dr. Spindler
14	Digital Agenda	Prof. Gutzmer
15	IT 2020	Prof. Gutzmer
16	Global Branding	Rosenfeld



## Key aspects

- ▶ Competence in entire drivetrain is key to develop new e-mobility solutions
- ▶ We already sell engine, transmission and/or chassis components into most existing hybrid and electric vehicles
- ▶ We combine our knowledge of engine and transmission solutions with deep mechatronics and software know-how to develop systems for hybrid and electric vehicles (BEV)
- ▶ First series production for hybrid modules and e-axles already in 2017
- ▶ We see great potential to significantly increase the content per car by further increasing our systems share in hybrid and electric powertrain solutions



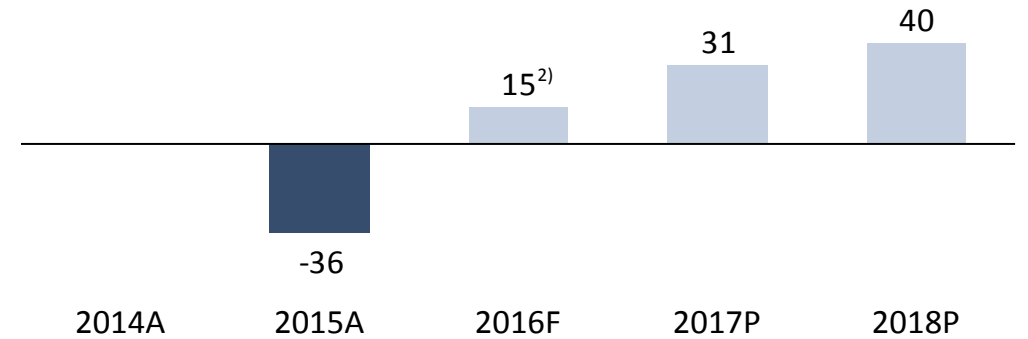
# Cost reduction and efficiency improvements – First wave mostly completed

## Key aspects

- ▶ First wave announced in August 2015
- ▶ Cost savings through HCO reduction in overhead functions of the Industrial Division
- ▶ Reduction of 500 HCO mainly in Germany until 12/2017
- ▶ Approximately 40 EUR mn overhead cost savings (full run rate 2018)
- ▶ 36 EUR mn restructuring provisions (booked in Q IV 2015)

## Indicative Financial Impact

Δ EBIT in EUR mn



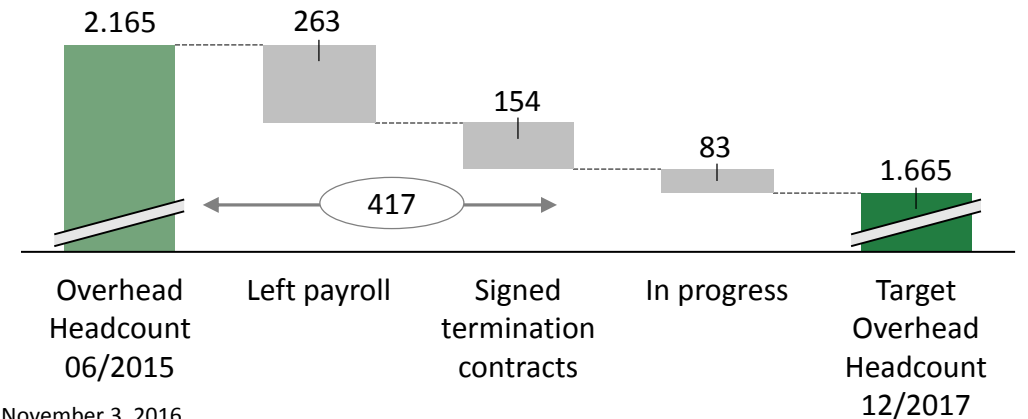
<sup>1)</sup> Financial impact in specific year

<sup>2)</sup> thereof 9 mn Euro YTD September 2016

EBIT Improvement (light blue), One-off effects (dark blue)

## HCO reduction Overhead

Completion Ratio 83 % <sup>3)</sup>



<sup>3)</sup> as of November 3, 2016

# Cost reduction and efficiency improvements – Second wave initiated

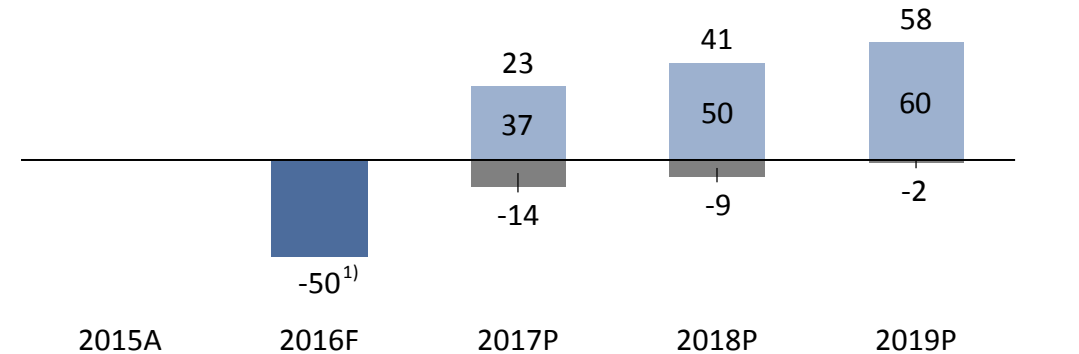
## Key aspects

- ▶ Second wave announced in November 2016
- ▶ Cost savings through consolidation of plants in Europe and Americas and HCO reduction in overhead functions also outside the Industrial division
- ▶ Reduction of 500 HCO in Germany<sup>1)</sup>, Europe and other regions targeted
- ▶ Approximately 60 EUR mn improvement from Gross Profit optimization and Overhead cost reduction until 2019 planned
- ▶ Around 75 EUR mn one-off-cost until 2019 of which approximately 50 EUR mn shall be booked as restructuring provisions as of year end 2016

<sup>1)</sup> Subject to negotiation with working council

## Indicative Financial Impact

Δ EBIT in EUR mn

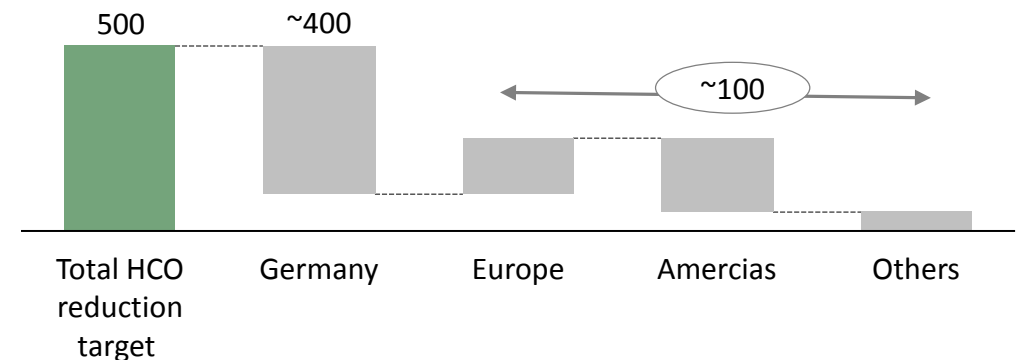


<sup>1)</sup> 2016-2019 in total 75 mn Euro, thereof 50 mn Euro booked as restructuring provision

■ EBIT Improvement ■ One-off costs

## HCO reduction Plants/Overhead

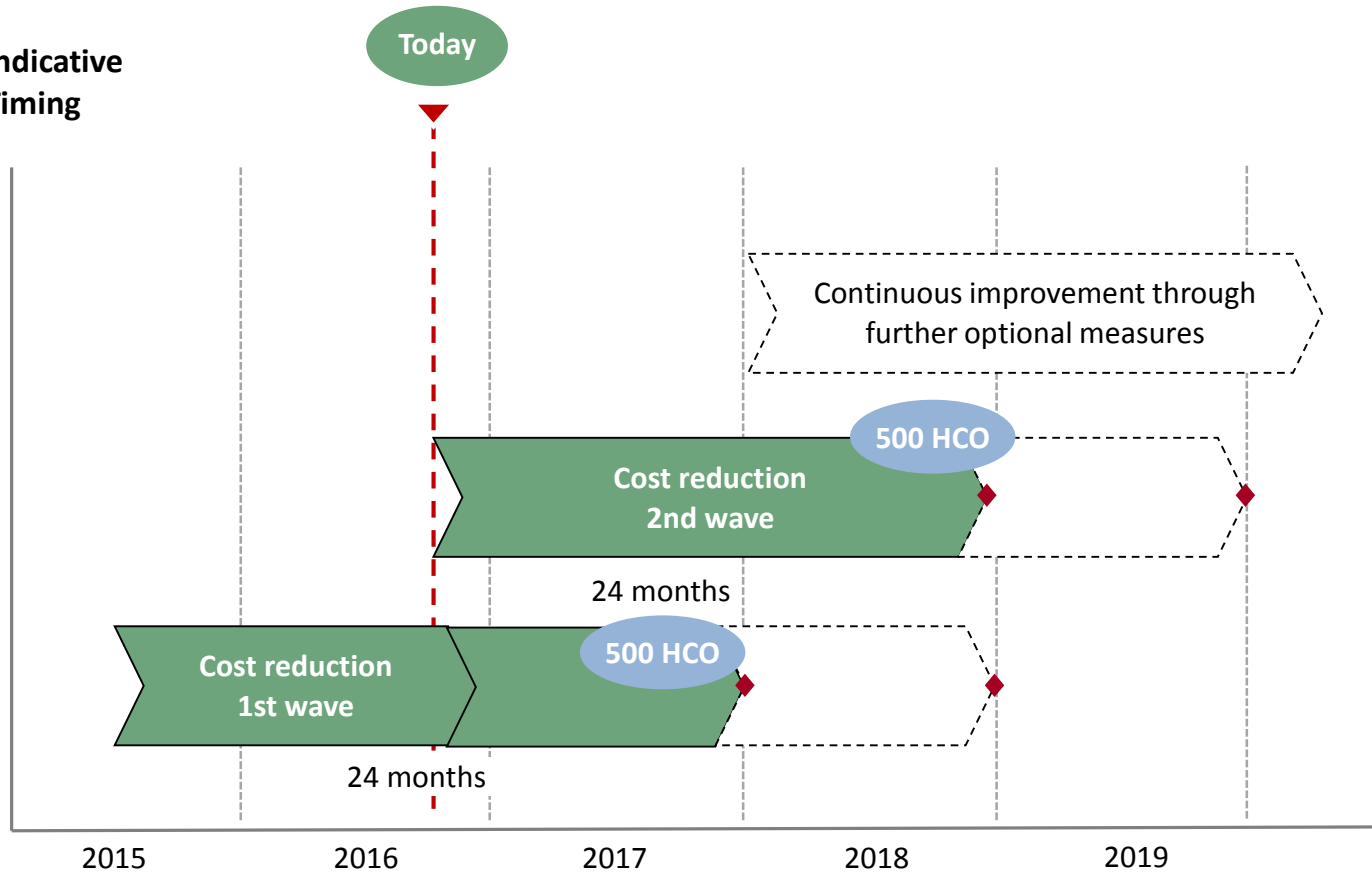
Indicative figures



# Program CORE – Overall target remains in place

## Successful implementation

Indicative  
Timing



## Financial ambitions



**D Revised Financial Ambitions for 2020 – Sustainable value creation**

**Capital Markets Day July 20, 2016**

Old

<b>Sales Growth</b>	Ø 4-6% p.a. w/o external growth, FX-adjusted
<b>EBIT Margin</b>	12-13% p.a. Before one-off effects, w/o external growth
<b>Free Cash flow</b>	~€ 900M in 2020 w/o external growth
<b>Leverage Ratio</b>	<1.0x EBITDA in 2020 w/o external growth
<b>Dividend <sup>2)</sup></b>	25-35% of Net income
<b>Rating <sup>3)</sup></b>	Investment Grade Rating

**Strategy Communication Nov. 9, 2016**

New

<b>Sales Growth</b>	Ø 4-6% p.a. w/o external growth, FX-adjusted
<b>EBIT Margin</b>	12-13% p.a. Before one-off effects, w/o external growth
<b>Free Cash flow</b>	~€ 900M in 2020 w/o external growth
<b>Earnings per Share</b>	~€ 2.00 per share in 2020 w/o external growth
<b>Gearing ratio <sup>1)</sup></b>	<75% in 2020
<b>Dividend <sup>2)</sup></b>	30-40% of Net income

**Market assumptions**

- ▶ Automotive: Growth of global passenger car production around 2%
- ▶ Industry: Low single-digit growth of industrial production

1) Net-debt to equity ratio (excluding pensions), see Backup

2) Payout ratio based on Net income

3) Investment Grade Rating shall be maintained

**Market assumptions**

- ▶ Automotive: Growth of global passenger car production around 2%
- ▶ Industrial: Low single-digit growth of industrial production



## M&A strategy

### Approach

- ▶ Focus on technological competence to maintain our strong position as technology and innovation leader
- ▶ Focus on smaller add-on acquisitions that contribute to a sustainable value creation

### Acquisition Criteria

- ▶ Strategic and cultural fit, technological excellence and value contribution as the most important acquisition criteria
- ▶ Possible acquisitions will be in the three-digit million range

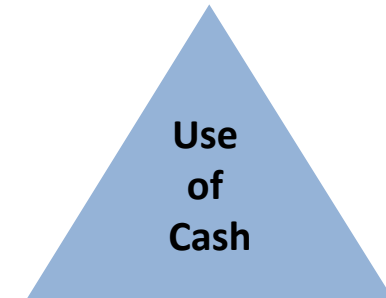
### Automotive & Industrial

- ▶ Attractive pipeline of potential acquisition targets for both divisions
- ▶ Focus in Automotive and Industrial is on technology and on strengthening market positions

## Use of cash

### External growth

Add-on acquisitions



### Deleveraging

Further optimization of balance sheet

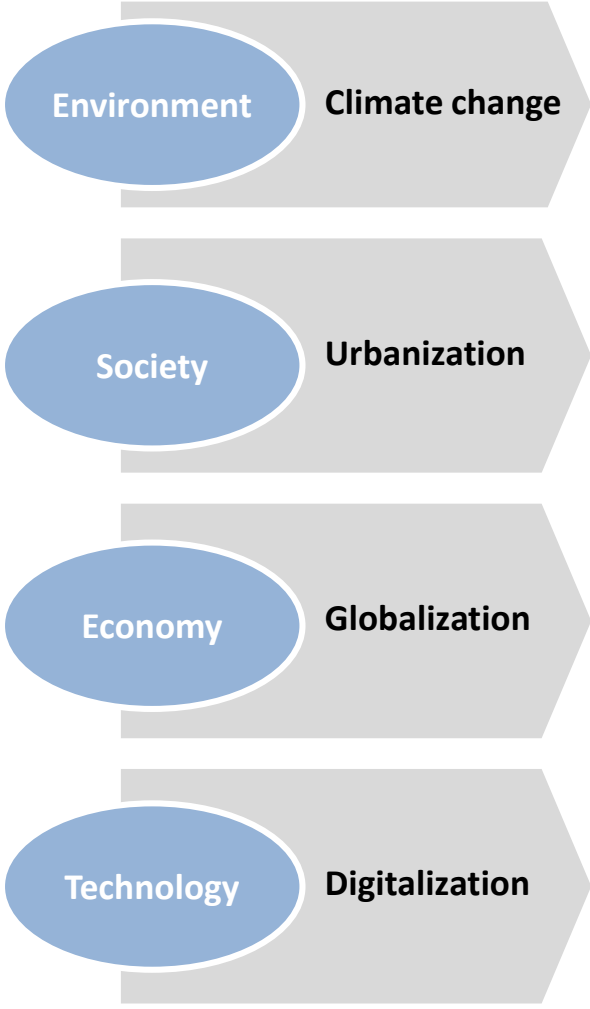
### Dividends

30-40% of net income

- 1 Restructuring and transformation phase finalized, foundation laid for further profitable growth
- 2 Long-term growth strategy "Mobility for tomorrow" based on eight strategic pillars agreed
- 3 Excellence Program "Agenda 4 plus ONE" with 16 key initiatives to secure long-term competitiveness and value creation
- 4 Continued optimization of combustion engine and move into E-Mobility offer significant upside potential in Automotive
- 5 Program CORE to revitalize the Industrial division extended, second wave of efficiency measures initiated
- 6 Enhanced financial flexibility and strong cash flow generation allow for selected technological add-on acquisitions
- 7 Revised Financial Ambitions 2020 with focus on EPS, gearing ratio and increased dividend payout ratio

**Mobilität  
für morgen**

**Backup**



### Eco-friendly drives

- ▶ Optimized combustion engine
- ▶ Electric vehicles
- ▶ Industrial drives



### Urban mobility

- ▶ Two-wheelers
- ▶ Metro rail traffic
- ▶ Micro mobiles



## Mobility for tomorrow



### Interurban mobility

- ▶ Railway vehicles
- ▶ Airplanes
- ▶ Off-highway



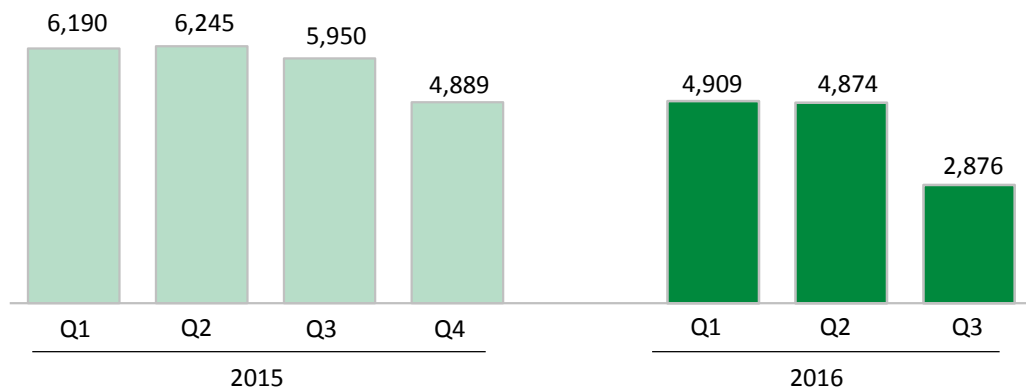
### Renewable energy

- ▶ Wind energy
- ▶ Solar energy
- ▶ Conventional power generation

- |    |                               |  |
|----|-------------------------------|--|
| 1  | Customer Excellence           | Improve customer focus and develop best-in-class Customer Relationship Management                            |
| 2  | E-Mobility                    | Establish Schaeffler as technology partner for E-Mobility powertrain solutions                               |
| 3  | Industry 4.0                  | Position Schaeffler as a premium supplier for innovative Industry 4.0 solutions                              |
| 4  | Quality for Tomorrow          | Continuously optimize Quality Management   |
| 5  | Global Footprint              | Create one common global footprint and improve localization  |
| 6  | Factory for Tomorrow          | Design and implement the Schaeffler “Factory for Tomorrow”   |
| 7  | Shared Services               | Establish one global cross-functional shared services platform   |
| 8  | Process Excellence            | Develop a customized business process framework with an implementation master plan                           |
| 9  | Working Capital               | Optimize working capital   |
| 10 | Leadership & Corporate Values | Create one common leadership approach based on consistent values   |
| 11 | Qualification for Tomorrow    | Raise the qualification level through improved training and knowledge-transfer practices                     |
| 12 | New Work                      | Establish a work environment that stimulates transparency, cooperation, and innovation                       |
| 13 | Program CORE                  | Revitalize the Industrial division and achieve EBIT margin of 13% in 2020                                    |
| 14 | Digital Agenda                | Implement the Digital Agenda   |
| 15 | IT 2020                       | Optimize our IT platform and mobilize for the Digital Agenda   |
| 16 | Global Branding               | Establish “Schaeffler” as a global umbrella brand and concentrate the focus of the individual product brands |

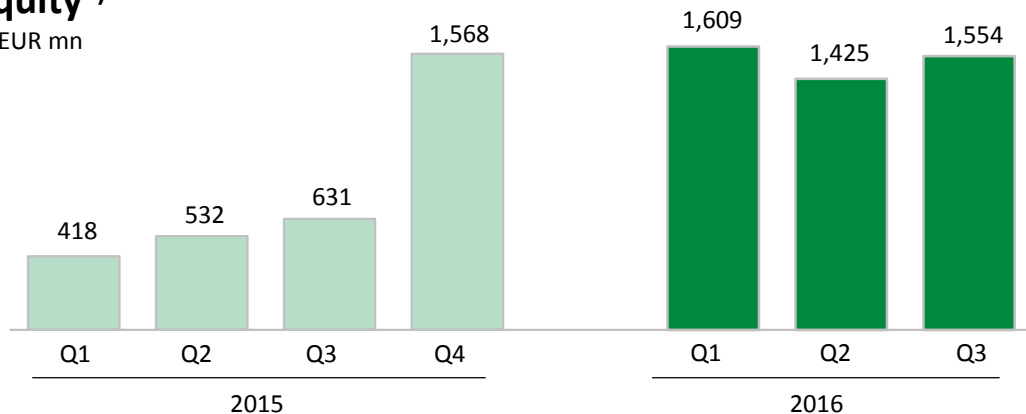
### Net financial debt

in EUR mn



### Equity<sup>1)</sup>

in EUR mn



1) Including non-controlling interests

### Development Gearing Ratio

	31/12/2015	30/09/2016
Gross debt (in EUR mn)	5,688	5,441
- Cash (in EUR mn)	799	2,565
= Net financial debt (in EUR mn)	4,889	2,876
/ Equity <sup>1)</sup> (in EUR mn)	1,568	1,554
= Gearing Ratio	312%	185%