



Schaeffler Group Mobility for tomorrow

Klaus Rosenfeld
Chief Executive Officer

Capital Markets Day
July 20th, 2016
London

- 1** Overview
- 2** Our Strategy
- 3** Our Action Plan
- 4** Our Financial Ambitions
- 5** Summary

The Schaeffler Executive Team – Long-term industry experience




Executive Team



Klaus Rosenfeld
Chief Executive Officer
Joined Schaeffler in 2009

CEO Functions




Prof. Dr. Peter Pleus / Norbert Indlekofer
CEOs Automotive
Joined Schaeffler in 2001/1989

Automotive



Prof. Dr.-Ing. Peter Gutzmer
Chief Technology Officer / Deputy CEO
Joined Schaeffler in 2001

Technology




Dr. Stefan Spindler
CEO Industrial
Joined Schaeffler in 2015

Industrial



Dr. Ulrich Hauck
Chief Financial Officer
Joined Schaeffler in 2015

Finance



Oliver Jung
Chief Operating Officer
Joined Schaeffler in 2008

Operations



Corinna Schittenhelm
Chief Human Resources Officer
Joined Schaeffler in 2016

Human Resources

+ 4 Regional CEOs

Key aspects

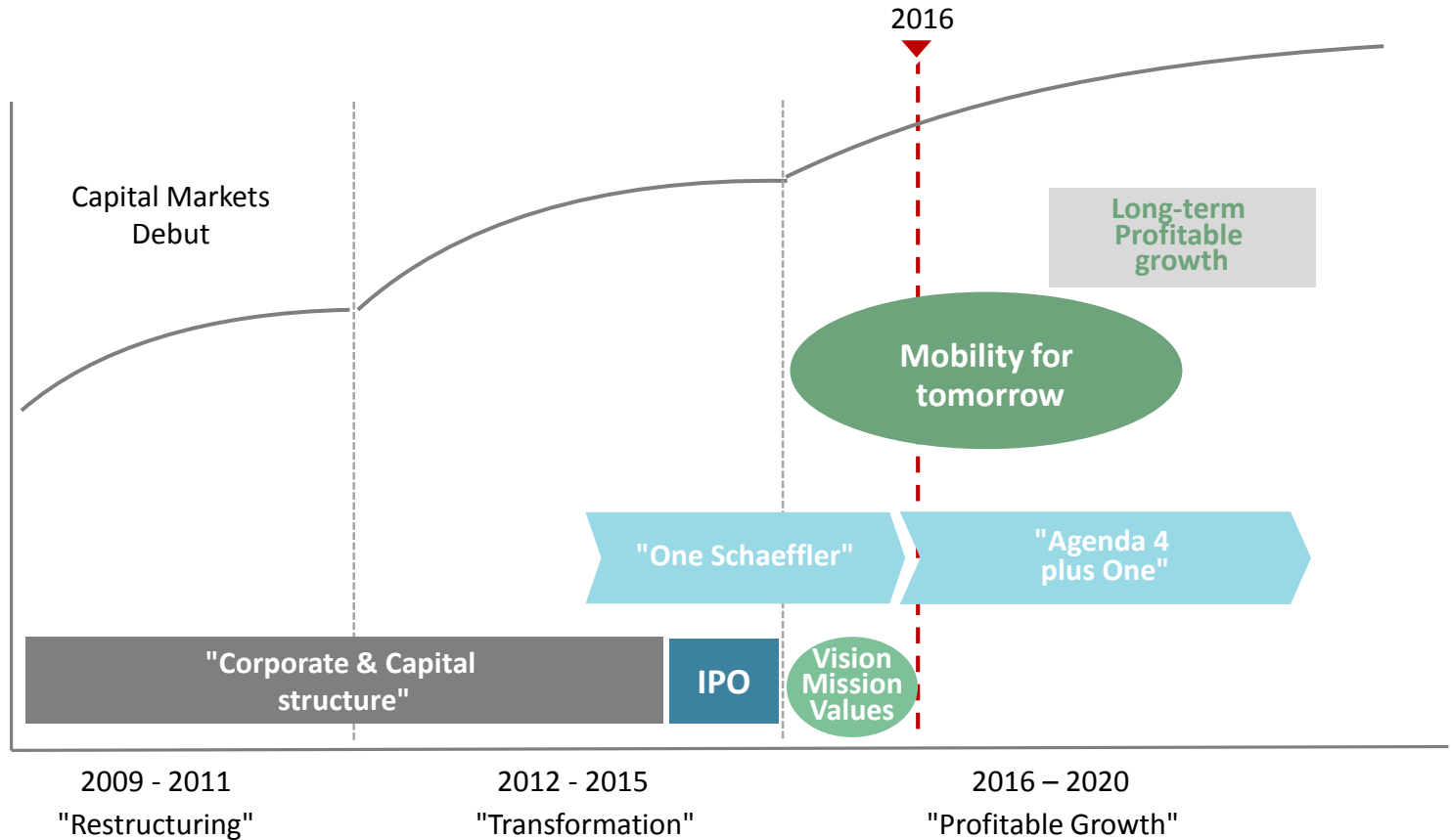
- ▶ Integrated business model with two divisions, five functions and four regions
- ▶ Executive Board with 8 Board members plus 4 Regional CEOs
- ▶ Matthias Zink replaces Norbert Indlekofer as of January 1st, 2017 (joined Schaeffler in 1994)



Year-long industry experience and service at Schaeffler

Chronology 2009-2016 – "Where we are coming from"

Our way forward



Key achievements

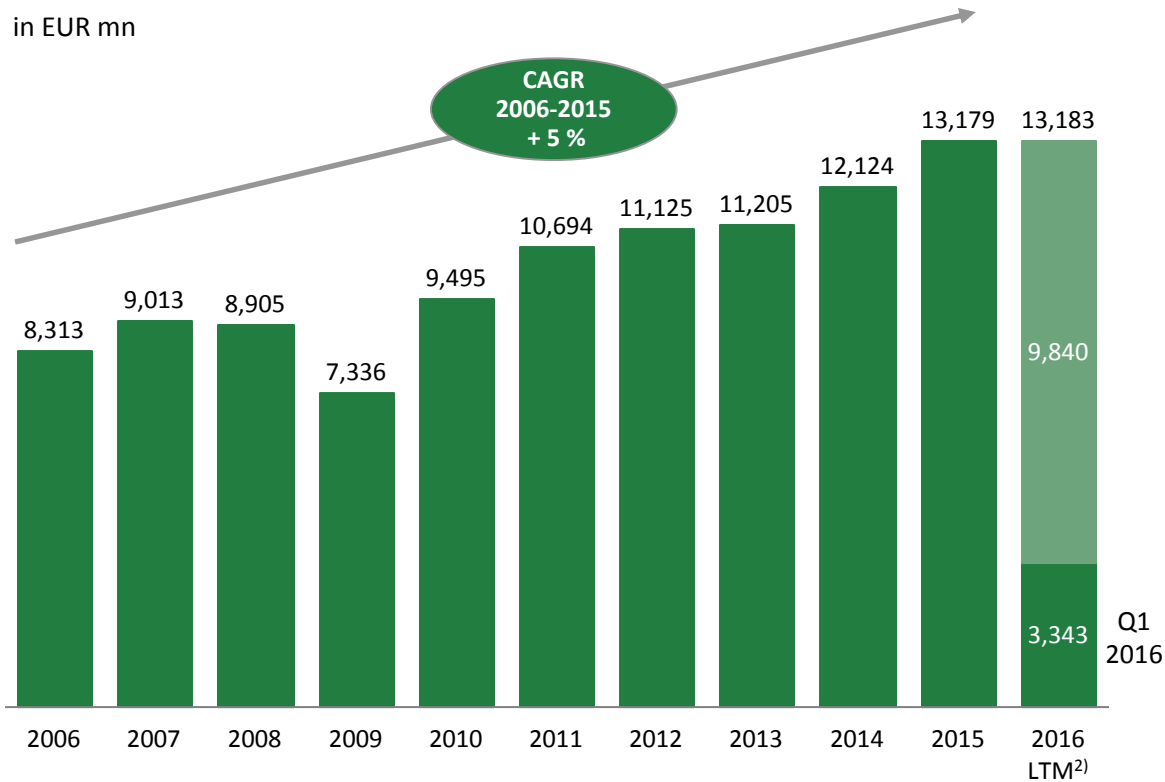
- ▶ Restructuring and transformation phase finalized
- ▶ Program "One Schaeffler" 2013-2015 finished
- ▶ New "Corporate & Capital structure" implemented
- ▶ Leadership team completed
- ▶ Vision, Mission, Corporate Values & Brand Promises established

Solid starting position with further value creation potential

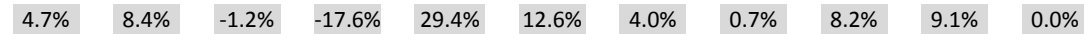
10-year look-back – Sales and EBIT

Development of Sales 2006 - 2016¹⁾

in EUR mn



Sales growth (y-o-y)

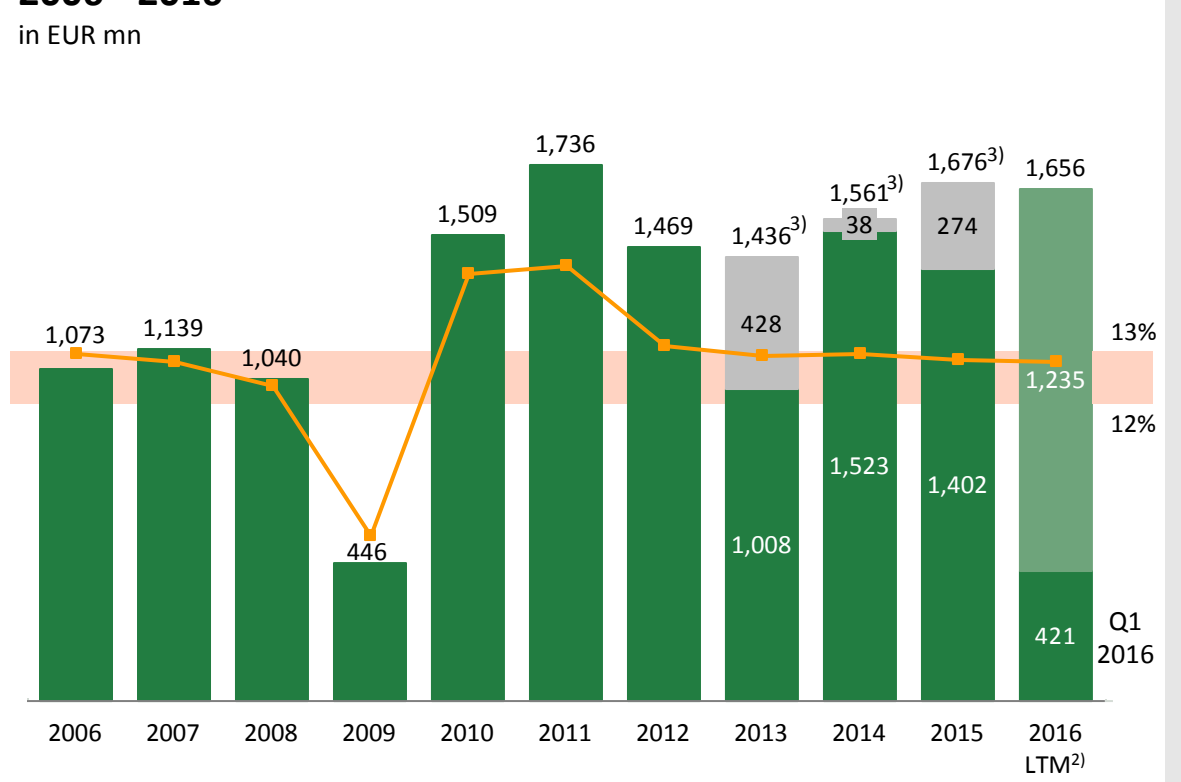


1) 2006-2010 relates to financials of a different entity (Schaeffler VZ GmbH)

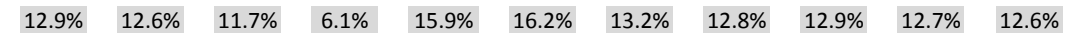
2) LTM = Last twelve month based on Q1 2016

Development of EBIT 2006 - 2016¹⁾

in EUR mn



Adjusted EBIT margin



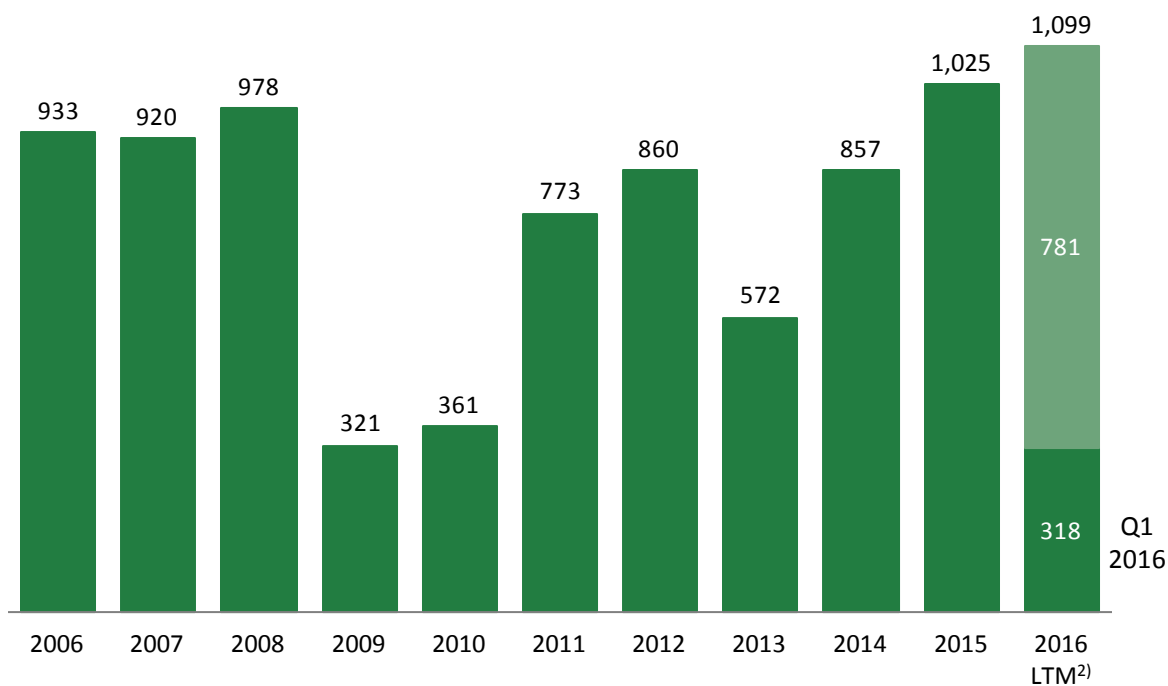
3) Before one-off effects

Adjusted EBIT margin

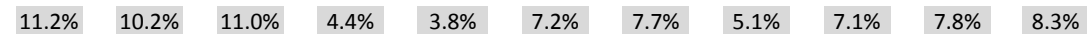
10-year look-back – Capex and Operating Cash flow

Development of Capex 2006 - 2016¹⁾

in EUR mn



in % of Sales

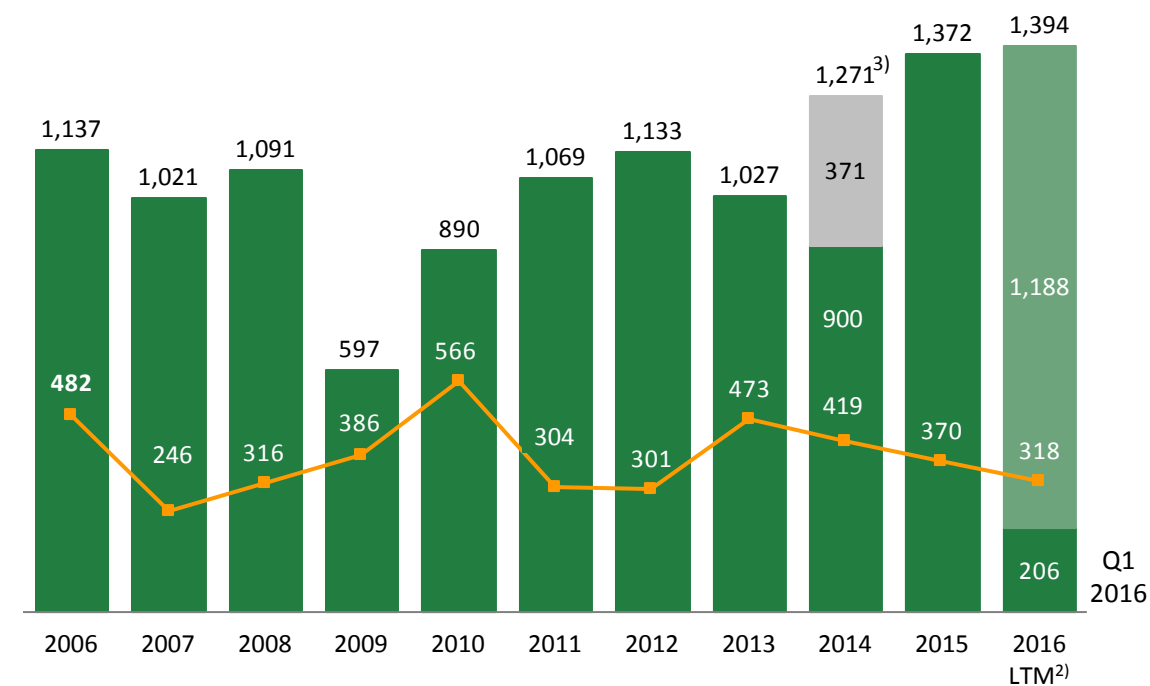


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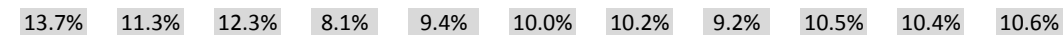
2) LTM = Last twelve month based on Q1 2016

Development of Operating Cash flow 2006 - 2016¹⁾

in EUR mn



Adjusted in % of Sales



Adjusted Free Cash flow

3) Before one-off effects

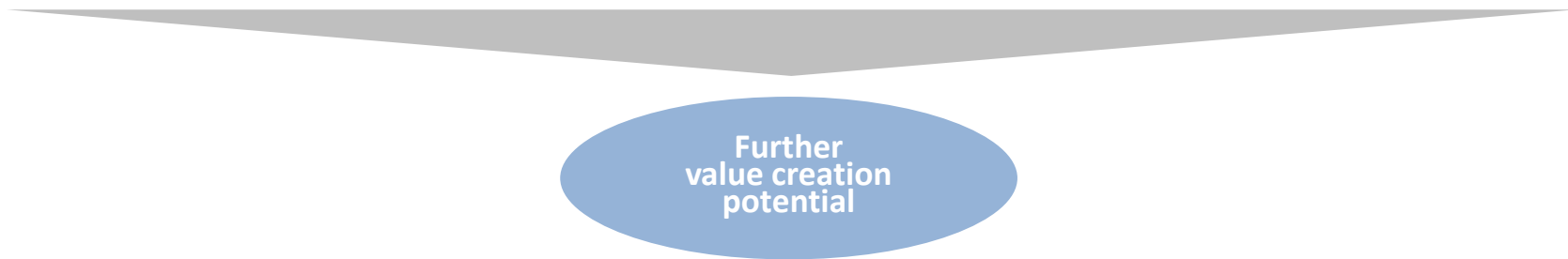
Good starting position – Further value creation potential

"Where we lead"

- ▶ Best-in-class Automotive business with above average growth and profitability
- ▶ Proven innovation strength and technological competence
- ▶ Superior manufacturing & systems expertise and product development competence
- ▶ One globally aligned organizational structure
- ▶ Long-term focus supported by family business culture
- ▶ Above average results and operating performance compared to peers

"Where we lag"

- ▶ Industrial business with below average growth and profitability
- ▶ Financial flexibility still limited
- ▶ Delivery performance
- ▶ Complex process structure with improvement potential in particular in indirect areas
- ▶ Strong competition for talents
- ▶ Share price development



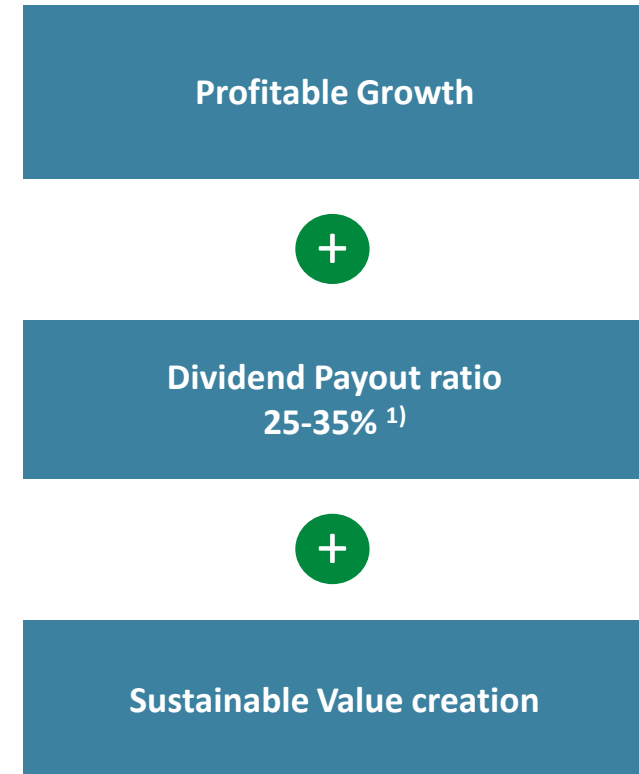
Guidance 2016

Sales growth	plus 3-5% FX-adjusted
EBIT margin	12-13% of Sales before one-off effects
Free Cash flow	~ 600 EUR mn

Market assumptions

- ▶ Automotive: Global light vehicle production growth of around 2%
- ▶ Industrial: Low single-digit growth in global industrial production

Midterm targets



1) of Net income

The Schaeffler Equity Story – 3 main pillars

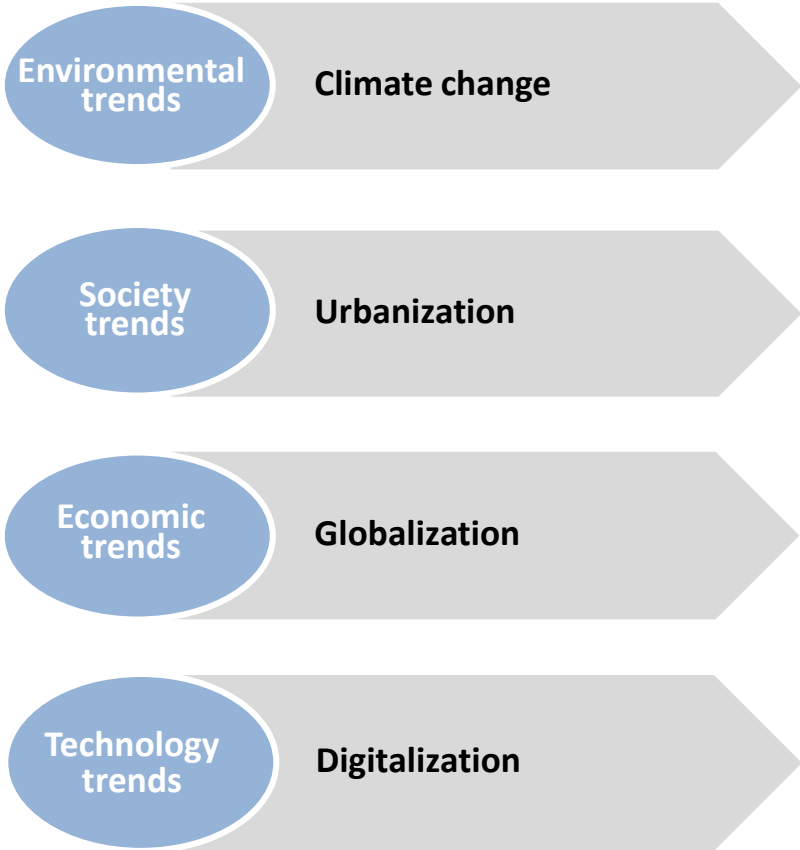
3 main pillars

1 Outperformance in Automotive	Growth <ul style="list-style-type: none">▶ Best-in-class business with superior growth and margin profile▶ Quality, Technology and Innovation drive outperformance▶ Global light vehicle production continuously outperformed
2 Margin upside in Industrial	Margin <ul style="list-style-type: none">▶ CORE program launched to revitalize Industrial division▶ Margin upside potential + 3%-points▶ Industrial division contributes 23% of total sales
3 Strong Free Cash flow generation	Cash flow <ul style="list-style-type: none">▶ Strong operating Cash flow generation▶ Underlying Free Cash flow improved due to reduced interest paid▶ Continuous deleveraging from Operating Cash flow

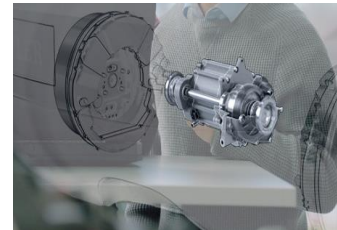
Key objectives



Megatrends



Focus areas



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



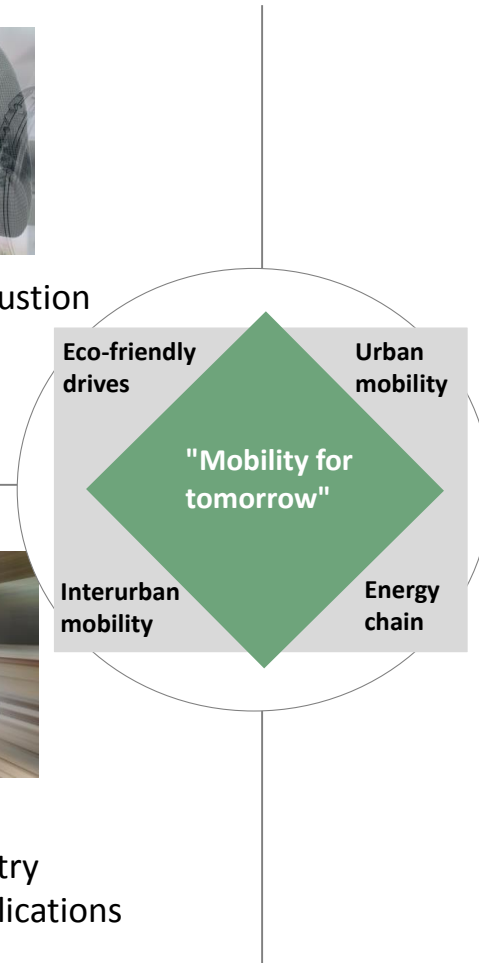
- ▶ Railway
- ▶ Aerospace industry
- ▶ Off-highway applications



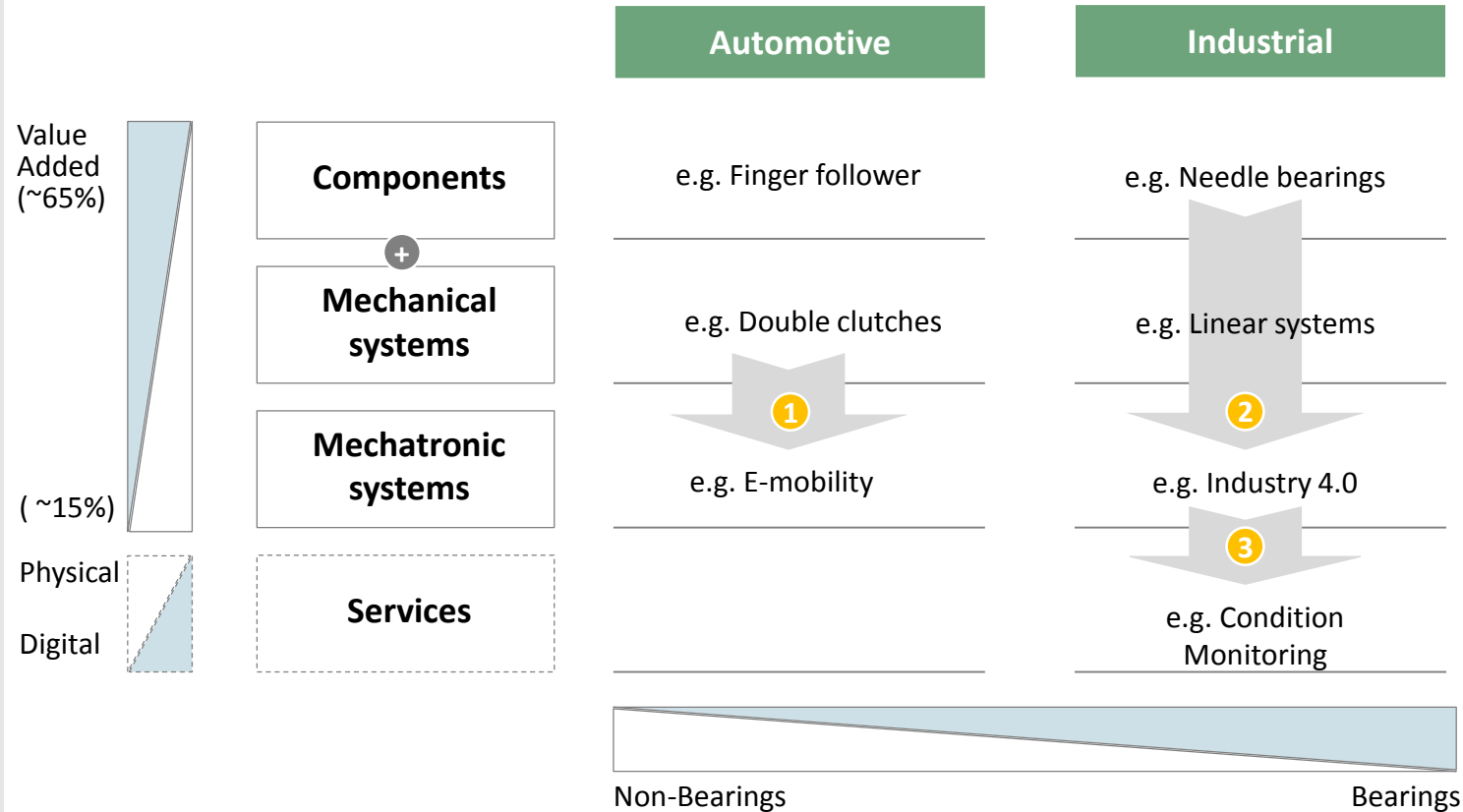
- ▶ Micro-mobility
- ▶ City vehicles
- ▶ Urban rail traffic



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

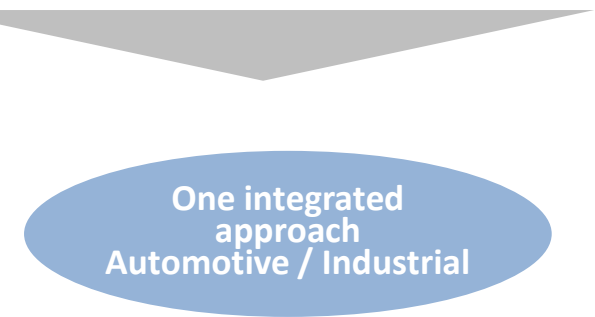


Product spectrum



Key aspects

- ▶ Components and mechanical system business remain core and key to success
- ▶ Move into mechatronic systems driven by ① E-Mobility and ② Industry 4.0 initiative
- ▶ Build-up of ③ service business in particular relevant for Industrial division (also with respect to digitalization)



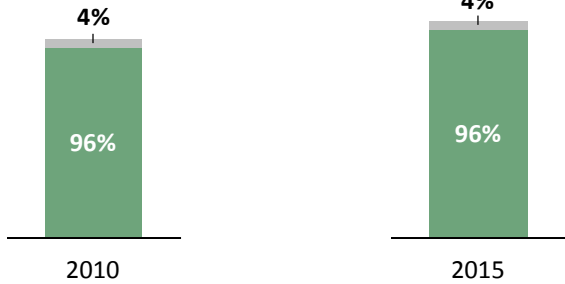
Localization strategy – "In the region for the region"

Localization ratio 2015 by region

Produced outside the region Produced in the region

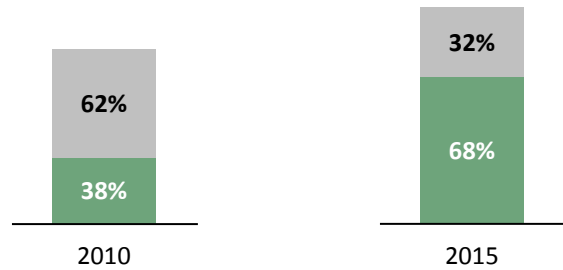
Europe

7.0 EUR bn in 2015 ¹⁾



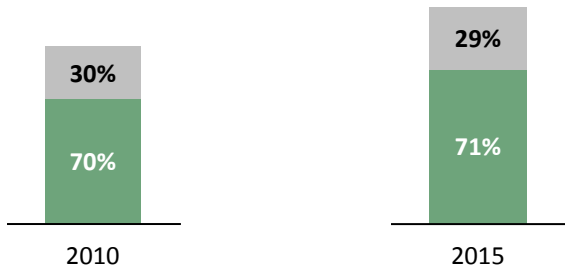
Greater China

1.9 EUR bn in 2015 ¹⁾



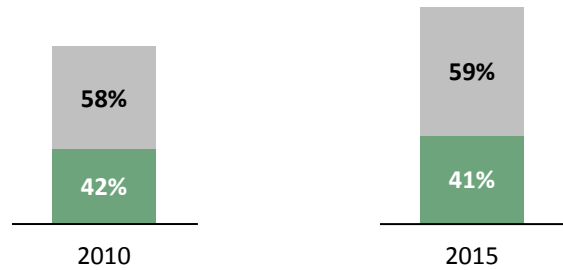
Americas

2.9 EUR bn in 2015 ¹⁾



Asia/Pacific

1.4 EUR bn in 2015 ¹⁾



Key aspects

- ▶ High degree of localization in Europe
- ▶ Significant opportunities for further localization outside Europe
- ▶ Greater China, India and Asia/Pacific as key growth areas

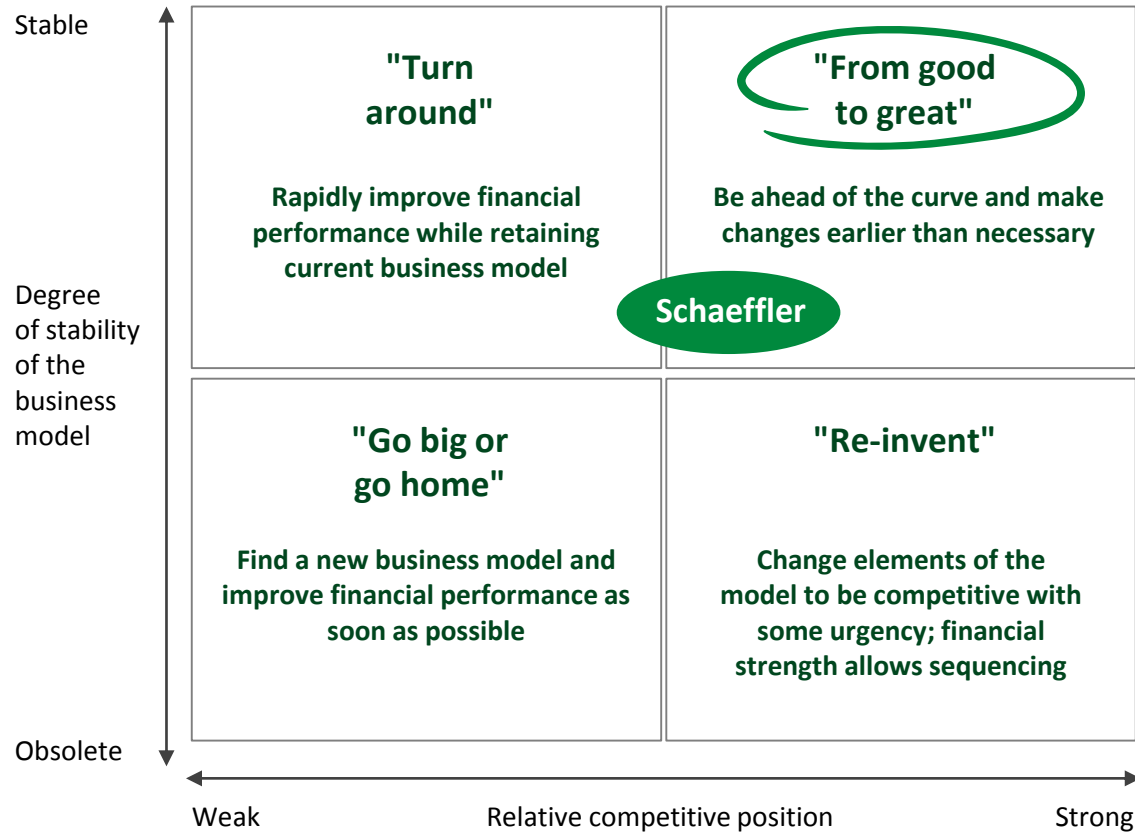


Localization as success driver going forward

1) Market view

Our key challenge – "From good to great"

Competitive position vs. Business model ¹⁾



Key aspects

- ▶ Schaeffler follows a proven business model with a high degree of stability
- ▶ Schaeffler enjoys in most of its business a strong competitive position (Top 1-3 position)
- ▶ No disruptive change or significant change to the business model expected

Excellence Program
"Agenda 4 plus
One"

1) Modified chart from Bain & Company

"Agenda 4 plus One" – 20 Flagship initiatives

Agenda 4 plus One



Initiatives

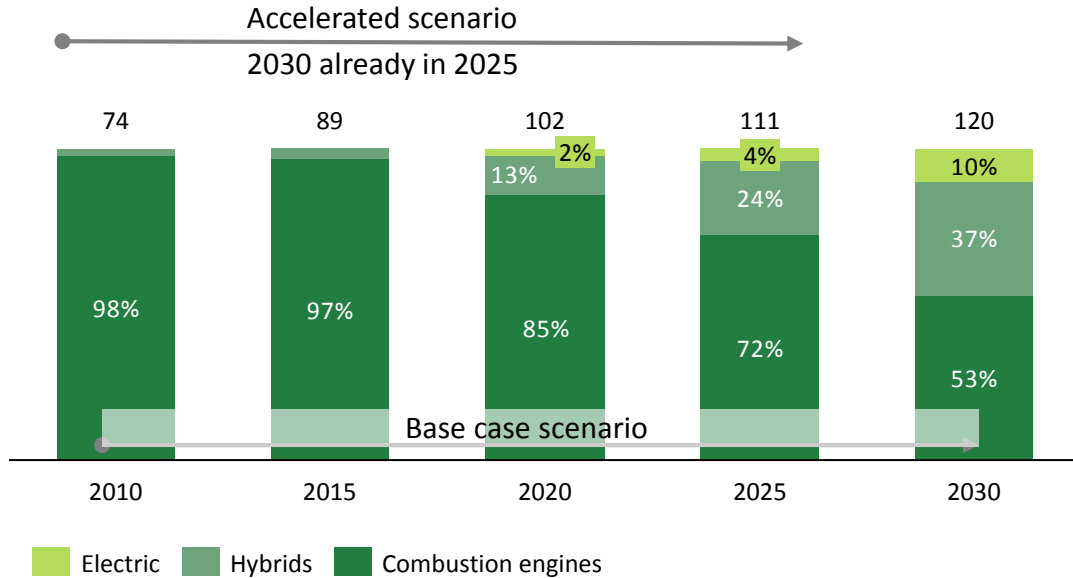
Sponsor

Initiatives	Sponsor
1 Customer Excellence	Prof. Pleus / Dr. Spindler
2 E-Mobility	Prof. Gutzmer
3 Industry 4.0	Dr. Spindler
4 Automotive Aftermarket	Indlekofer
5 Quality for Tomorrow	Rosenfeld
6 Global Footprint	Rosenfeld
7 Factory for Tomorrow	Jung
8 Global Reporting	Dr. Hauck
9 Shared Services	Dr. Hauck
10 Process Excellence	Rosenfeld
11 Deleveraging	Dr. Hauck
12 Complexity Reduction	Rosenfeld
13 Leadership & Corporate Values	Schittenhelm
14 Talent Management	Schittenhelm
15 Qualification for Tomorrow	Schittenhelm
16 New Work	Schittenhelm
17 Program CORE	Dr. Spindler
18 Digital Agenda	Prof. Gutzmer
19 IT Strategy 2020	Prof. Gutzmer
20 Global Branding	Rosenfeld

1 Automotive – "What does E-Mobility mean for Schaeffler?"

For illustration purposes

Market Development



- ▶ Phasing of technology development highly uncertain (accelerated vs. base case scenario)
- ▶ Dual strategy with 2 main directions:
 - ➔ Pursue further growth from optimizing combustion engines
 - ➔ Leveraging superior systems expertise to build and expand E-Mobility business

Source: IHS and Schaeffler assumptions

Business characteristics

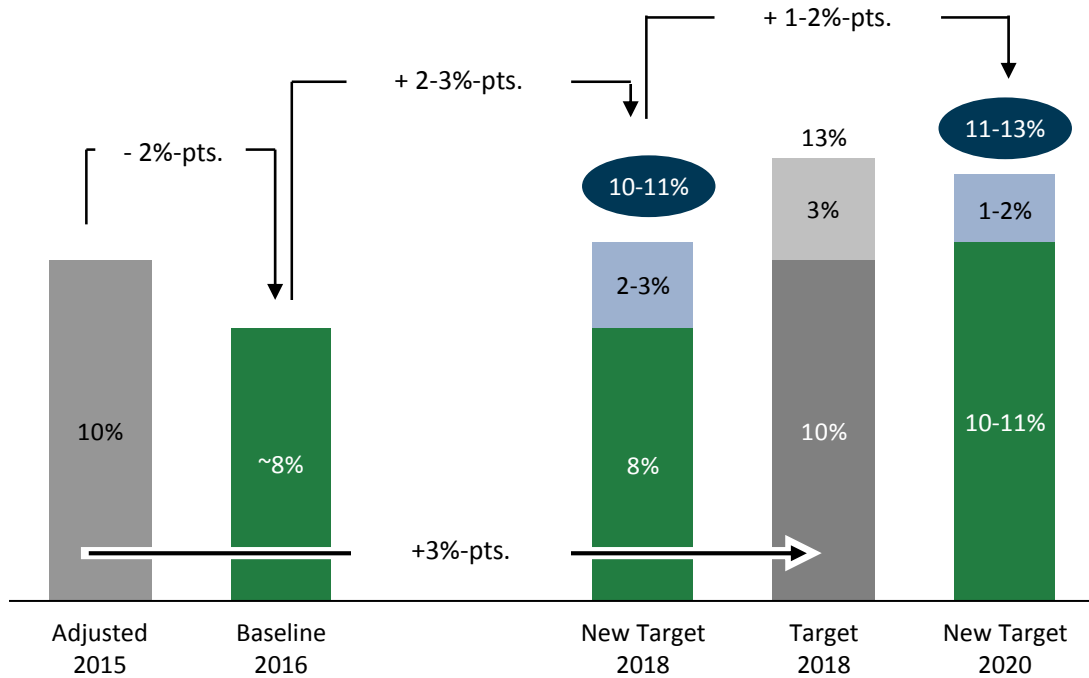
	Existing business ¹⁾	New (system) business
1 Content per vehicle	~ 100 EUR	↗
2 EBIT margin	13 – 14 %	↘
3 Value Added	~ 60%	↘
4 Capex needed	High	↘
5 ROCE	~ 20 %	↗

Sustainable growth above market

¹⁾ including Aftermarket business

2 Industrial – "Is 13% EBIT margin achievable?"

EBIT margin



- ▶ Project CORE to revitalize Industrial division further strengthened and enforced
- ▶ EBIT margin target of 13% not achievable until 2018 due to further market decline in 2016

Key aspects

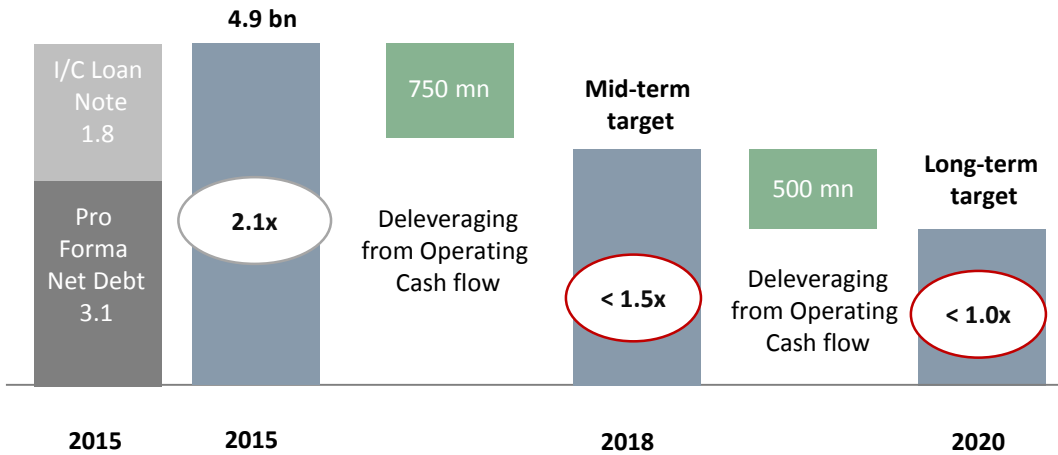
- ▶ EBIT margin improvement plan assumes stable market conditions ¹⁾ with moderate growth
- ▶ 3 main profitability drivers (EBIT margin) remain in place (2018)
 - Growth + 0.25 – 0.5%-pts.
 - Production cost + 0.75 – 1.25%-pts.
 - Overhead cost + 1.0 – 1.25%-pts.
- ▶ Execution of Program CORE on track

Ambition to bring Industrial division back to 13% remains in place, achievable 2020

¹⁾ Regarding pricing, material prices and FX

3 Free Cash flow – "How will Schaeffler further deleverage?"

Net Debt and Leverage Target ¹⁾ in EUR



- ▶ Leverage Target 2020 < 1.0x EBITDA
- ▶ Loan Note Receivable (4% coupon) repaid over time
- ▶ Further upside from working capital optimization

1) w/o external growth

Cash flow profile Schaeffler Group

Cumulative ²⁾	2011-2015	2016-2020
Operating Cash flow ³⁾	8,300	10,000
- Net Interest paid	-2,800	-500
- Capex	-4,000	-6,000
Free Cash flow	1,500	3,500
- Deleveraging (net) ⁴⁾	-600	-1,250
- Dividends	-850	-1,750
Δ Net Cash	+50	+500

Strong Cash flow generation and Debt reduction potential to achieve Investment Grade rating

2) Indicative figures for illustration purposes

3) Before net interest paid

4) w/o equity proceeds

Digital World



Digital Agenda 2020



Real World

Key aspects

- ▶ Digitalization as an opportunity for Schaeffler
- ▶ Digital Agenda 2020 with 5 key building blocks
- ▶ Digital technology already in products and production

Big data analytics as well as digitally enabled products, services and equipment offer additional opportunities

Key Strategic Targets – One integrated model

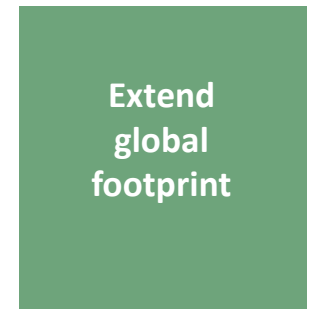
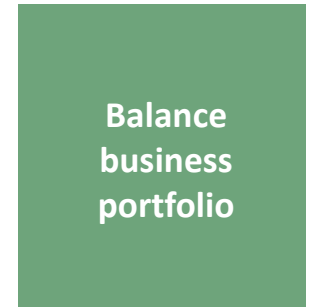
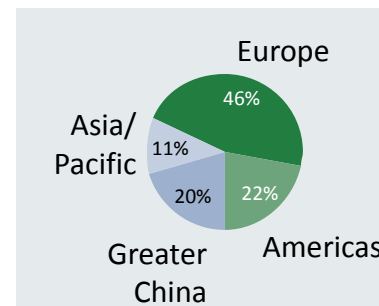
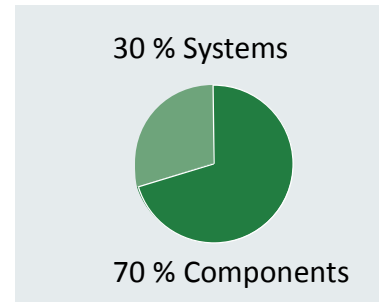
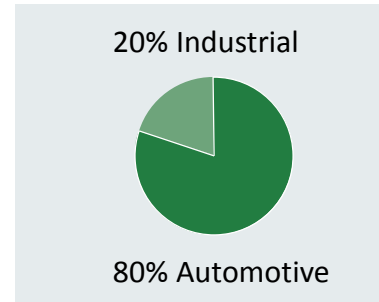
Key objectives



Key drivers

- ▶ Profitable growth strategy based on the key success factors "Quality, Technology and Innovation" and balanced business portfolio
- ▶ Continuous growth into system business based on highly profitable component business
- ▶ Balanced regional business mix with increasing sales share of Greater China and Asia/Pacific
- ▶ Integrated business model using internal synergies and leveraging superior production technology

Strategic Targets 2020



Financial Target System



Financial Ambitions 2020

- 1 Sales Growth ¹⁾ Ø 4 – 6 % p.a.
- 2 EBIT margin ²⁾ 12 – 13 % p.a.
- 3 Free Cash flow ³⁾ ~ 900 EUR mn in 2020
- 4 Leverage Ratio ³⁾ < 1.0 x EBITDA in 2020
- 5 Dividend Payout ratio 25 – 35 % of Net income
- 6 Rating Investment Grade in 2020

1) Fx-adjusted 2) Before one-off effects 3) w/o external growth

8 Key messages – "Why invest into Schaeffler"

- 1 Strong starting position, Guidance 2016 confirmed
- 2 Proven integrated business model with strong track record and balanced business portfolio
- 3 Continued execution of long-term growth strategy "Mobility for tomorrow"
- 4 Excellence Program "Agenda 4 plus One" with 20 key initiatives started to position Schaeffler for long-term competitiveness and value creation
- 5 Continued optimization of combustion engine and move into E-Mobility offer significant upside potential in Automotive
- 6 Project CORE on track, EBIT margin target of 13% remains intact but is moved to 2020
- 7 Strong Cash flow generation will allow continued deleveraging from internal sources and to achieve Investment Grade rating
- 8 Strategic targets aligned, financial ambitions 2020 set



**Long-term profitable
growth and
sustainable value
creation**