4.1 Industrial

Dr. Stefan Spindler
CEO Industrial

September 20, 2018
Capital Markets Day 2018
Berlin
This presentation contains forward-looking statements. The words "anticipate", "assume", "believe", "estimate", "expect", "intend", "may", "plan", "project", "should" and similar expressions are used to identify forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about Schaeffler Group's beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of Schaeffler AG. Forward-looking statements therefore speak only as of the date they are made, and Schaeffler Group undertakes no obligation to update any of them in light of new information or future events.

By their very nature, forward-looking statements involve risks and uncertainties. These statements are based on Schaeffler AG management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, but not limited to, future global economic conditions, changed market conditions affecting the automotive industry, intense competition in the markets in which we operate and costs of compliance with applicable laws, regulations and standards, diverse political, legal, economic and other conditions affecting our markets, and other factors beyond our control).

This presentation is intended to provide a general overview of Schaeffler Group's business and does not purport to deal with all aspects and details regarding Schaeffler Group. Accordingly, neither Schaeffler Group nor any of its directors, officers, employees or advisers nor any other person makes any representation or warranty, express or implied, as to, and accordingly no reliance should be placed on, the accuracy or completeness of the information contained in the presentation or of the views given or implied. Neither Schaeffler Group nor any of its directors, officers, employees or advisors nor any other person shall have any liability whatsoever for any errors or omissions or any loss howsoever arising, directly or indirectly, from any use of this information or its contents or otherwise arising in connection therewith.

The material contained in this presentation reflects current legislation and the business and financial affairs of Schaeffler Group which are subject to change.
1 Industrial at a glance
2 Focus on growth
3 Focus on resources
4 Conclusion
Dr. Stefan Spindler (57)
CEO Industrial

- 1986: Mechanical Engineer and Doctorate (1992) at the Technical University in Munich
- 1986 – 2002: Various positions at MTU and Liebherr in the industrial engine and power train business
- 2002 – 2010: Member of the Executive Board of MAN Diesel SE
- 2010 – 2014: Member of the Executive Board of Bosch Rexroth AG
- Since 2015: CEO Industrial and Member of the Executive Board of Schaeffler AG
Industrial at a glance – Successful turnaround in 2017

Sales and EBIT margin

in EUR mn

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>3,000</td>
<td>3,150</td>
</tr>
<tr>
<td>EBIT margin(\text{\textsuperscript{2}})</td>
<td>7.3%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

\(\text{\textsuperscript{1}}\) FX adjusted  \(\text{\textsuperscript{2}}\) adjusted & before one off effects

Industrial sales by region H1 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>17%</th>
<th>9%</th>
<th>57%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>57%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Industrial sales by sector cluster H1 2018

- Wind: 31%
- Raw Materials: 13%
- Aerospace: 11%
- Rail: 10%
- Offroad: 6%
- Two-Wheelers: 5%
- Power Transmission: 5%
- Industrial Automation: 7%
- Industrial Distribution: 7%

Sales and EBIT margin

\(+5.7\%\(\text{\textsuperscript{1}}\)

\(+10.0\%\(\text{\textsuperscript{1}}\)

Industrial product structure

Industry 4.0
- Industry 4.0 Services
- Mechatronical Systems

Core business
- Mechanical Systems
- Components

Sales and EBIT margin

\(+5.7\%\(\text{\textsuperscript{1}}\)

\(+10.0\%\(\text{\textsuperscript{1}}\)

EBIT margin\(\text{\textsuperscript{2}}\) 11.6%
1 Industrial at a glance

Revitalizing the Industrial Division – Strategic and structural realignment since 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Volume scale &amp; cost down</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Increase content per application</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Grow Industry 4.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**New Industrial Strategy**

- **CORE Wave I**
  - Overhead cost

- **CORE Wave II**
  - Pricing, production, logistics & overhead costs

**New Industry 4.0 organization**

- Footprint expansion
  - Localization linear China
  - Ground-breaking Vietnam
  - EDC central opening

**Reallocation of plants**

- Dissolution of internal bearing supply unit
- Allocation of all plants to divisions
- Industrial plants to increase from 9 to 24<sup>1)</sup>
- +27 mn EUR EBIT contribution in 2021

---

<sup>1</sup> As of 1st January 2019
Focus on growth
Leverage market growth in Asia and cope with market volatility

Industrial production growth rates 2001-2023E (Y.O.Y. in %)

- CAGR '00-'17: 3.8%
- CAGR '17-'23: 3.3%

Historic vs. future growth (CAGR '17-'23 vs. '00-'17)

- World: 3.3% vs. 3.8%
- India: 7.1% vs. 13.1%
- Greater China: 4.7% vs. 13.7%
- South East Asia: 2.9% vs. 4.4%

Growth volatility ('00-'17)

- World: 26.9 ppt
- India: 31.2 ppt
- Greater China: 26.8 ppt
- South East Asia: 28.1 ppt

1) Oxford Economics selected sectors: Air, space, rail, ships & other transport equipment (NACE rv2 30), Mechanical engineering (NACE rv2 28), Motors, generators & transformers (NACE rv2 27.1)
## 2 Focus on growth

**Balance Industry 4.0 growth with growth, profit improvement and restructuring of core business**

<table>
<thead>
<tr>
<th>Target</th>
<th>Strategy</th>
<th>M&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow 3-4% p.a. (long-term)</td>
<td>New business models supported by digitalization</td>
<td>Strengthen technological competencies</td>
</tr>
<tr>
<td>Increase EBIT margin</td>
<td>Increase content per application</td>
<td>in progress</td>
</tr>
<tr>
<td>10-11% in 2018</td>
<td>Operational Excellence</td>
<td>Expand market reach</td>
</tr>
<tr>
<td>11-13% in 2020</td>
<td>Supply chain improvement and plant restructuring in progress</td>
<td></td>
</tr>
</tbody>
</table>

**Components**

- Mechanical Systems
- Mechatronical Systems
- Industry 4.0 Services

### Strategy

1. **Standard components**
2. **Customized components**
3. See breakout session
4. **Operational Excellence**
   - Supply chain improvement and plant restructuring
5. **Localization**
6. **Profit improvement**
   - Program CORE (Cost down, pricing, process improvement)
Focus on growth

Standard components – Digitalization for efficient and reliable sales growth

New E-Commerce solution Industrial

- State of the art e-commerce and support solution as central access point
- Broad range of our standard catalogue components (rotative and linear) can be purchased 24/7
- Customer is supported with high quality product information & consultancy

Handle standard product purchases in an efficient way

Schaeffler’s digital solution simplifies checking of product authenticity

- Important step in the fight against product piracy
- In 2017 alone, more than 700 suspected cases of product counterfeiting were reported

Increase customer’s trust in Schaeffler’s product brands
2 Focus on growth

Customized components – Improve Total Cost of Ownership (TCO)

High performance spindle bearings (Vacrodur steel)

- Innovative bearing steel that increases the nominal operating life by up to 13 times (compared to standard steel 100Cr6)
- Higher cost efficiency for customers due to longer machine running times and higher availability. Application to other sectors ongoing
- Schaeffler was awarded the MATERIALICA Design + Technology Award of Munich Expo

Improve total cost of ownership (TCO)

Optimized support bearings for Wind applications

- Shaft and hub support bearings cope with highly-dynamic loads induced by wind
- Most efficient bearing support is selected based on operating conditions
- Partnership with ZF Friedrichshafen to provide precise analyses and prediction for gearbox conditions ("LifetimeAnalyzer" digital service)

Improve total cost of ownership (TCO)
2 Focus on growth

3 Increase content per application – Improve Total Cost of Ownership (TCO)

Rotative bearing solution package incl. condition monitoring for electric motors

- Bearing system incl. condition monitoring and lubrication for increasing the bearing's operating life and avoiding bearing failure
- Ready-to-fit module that reduces customer efforts for design and production / logistics
- Higher output and lower maintenance costs for customers

Improve total cost of ownership (TCO)

Linear bearing solution package incl. condition monitoring for production machinery

- Bearing system incl. condition monitoring and lubrication for increasing the bearing's operating life and avoiding bearing failure
- System prevents costly downtimes even for heavily interconnected systems and thus increases machine availability
- Higher output and lower maintenance costs for customers

Improve total cost of ownership (TCO)
2 Focus on growth

Increase content per application – Improve Total Cost of Ownership (TCO) and provide new services

Rail 4.0 – Condition-based maintenance

- Condition monitoring solution based on vibrations and other sensor signals
- Schaeffler Smart Ecosystem as IT infrastructure which provides analysis, digital services and customer / partner cloud communication
- Extension of maintenance intervals together with optimized TAROL tapered roller bearings

Improve safety and total cost of ownership (TCO)

Railway axlebox generator

- Bearing system with electrical power generator
- Independent and reliable power supply for e.g. freight wagons to provide additional functions like GPS, condition monitoring, lighting, etc.
- System can be retrofitted to wagons already in use

Provide new functions
4. Operational Excellence – Reallocation of plants for better customer focus and higher efficiency

Before reallocation

SCHAEFFLER

<table>
<thead>
<tr>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive OEM (37)</td>
</tr>
<tr>
<td>Industrial (9)</td>
</tr>
<tr>
<td>Bearing Components &amp; Technologies (27)</td>
</tr>
</tbody>
</table>

Plants (73)

After reallocation:

~27 mn EUR cost savings for Industrial in 2021

SCHAEFFLER

<table>
<thead>
<tr>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive OEM (56)</td>
</tr>
<tr>
<td>Industrial (24)</td>
</tr>
</tbody>
</table>

Plants (80)

structure as of 1st January 2019

- Increased customer orientation
- Reduction of Overhead cost
- 100% divisional accountability
Focus on growth

Localization initiatives to grow in Asia and improve profitability

Footprint adjustments in Asia

Japan
- Industrial Automation, Two Wheelers

China
- Small size to large size bearings and linear products

Vietnam
- Small size bearings; 250 jobs to be created in Phase I by 2019

September 20, 2018

Capital Markets Day 2018 – 4.1 Industrial
### Profit improvement – Program CORE to ensure 11-13% EBIT margin in 2020

#### Program CORE

1. **Growth**
   - Leveraging pricing opportunities
   - Digitalization of sales processes

2. **Cost of Goods Sold**
   - Restructuring
   - Relocation
   - Productivity improvement

3. **Overhead**
   - HCO reduction

4. **Supply Chain Management**
   - Logistics cost reduction

**11-13% EBIT margin in 2020**
Key aspects

► Program “CORE” established in 2015 to revitalize the Industrial Division and regain profitability
► CORE Wave I successfully completed in 2017. The agreed HCO reduction targets were achieved
► CORE Wave II initiated in 2016 to focus on cost reduction, growth initiatives and measures to increase process efficiency

Impact analysis

► Financial impact: Improve EBIT margin to 10-11% by 2018
► Completion status: On Schedule
## Opportunities and Headwinds (until 2025)

### Top Line Drivers
1. Industry 4.0 with a sales share of 10% in 2022
2. Market growth >4% in India, China and South East Asia
3. Better availability due to localization and optimized Supply Chain (e.g. EDC, localization China/Vietnam)

### Top Line Challenges
1. Increased competitive pressure in standard business
2. Moderate market growth with high probability of an economic downturn in the next years
3. Geopolitical tensions (e.g. Iran-Embargo)

### EBIT Margin Drivers
1. Program CORE
   a. Price adjustments
   b. Footprint-optimization incl. reduction of freight cost and duties
   c. Fix cost reduction, especially in Overhead areas
2. Plant network restructuring
3. Mix improvement due to Industry 4.0 and product and customer portfolio optimization

### EBIT Margin Challenges
1. Ramp-up cost EDC Central
2. Increased competitive pressure in standard business
3. Increased raw material cost, especially with regard to macroeconomic risks (e.g. protectionism)
4. Cost for ramp-up of Industry 4.0 business (e.g. personnel and infrastructure)