5.1 CFO Presentation

Dietmar Heinrich
CFO

September 20, 2018
Capital Markets Day 2018
Berlin
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Agenda

1. Introduction
2. Key Actions to Further Improve Financial Performance
3. Outlook and Summary
1 Introduction

Dietmar Heinrich – Today’s Speaker

Dietmar Heinrich (55)
CFO

- 1995 Joined Schaeffler
- 2001 Commercial Director at Schaeffler Korea in Seoul / Korea
- 2006 Vice President Finance for Asia/Pacific in Shanghai / China
- 2009 Vice President of the Business Unit Linear Technology (Division Industrial) based in Homburg
- 2011 Vice President Finance for the Europe region (without Germany) based at the global headquarters in Herzogenaurach
- 2014 Regional CEO Europe
- Since 2017: Chief Financial Officer of Schaeffler AG
2 Key Actions to Further Improve Financial Performance

Four Key Action Points to Improve Group Performance

### Adjusted EBIT in % of Sales

- **Establishment of Shared Services Center (SSC)** in Poland to achieve operational excellence and to increase efficiency
- **Dissolution of Bearing and Components Technologies (BCT)** to increase organizational efficiency and strengthen entrepreneurship

### Actions to drive cash flow generation in the Schaeffler Group:

1. **Optimization of Working Capital** with measurable positive impact from improvement programs for accounts payables and accounts receivables
2. **Leverage and Financing**: decrease of net financial debt and improvement of rating to investment grade

### Free Cash Flow in EUR mn

- **2016**
  - Q1: 328
  - Q2: 263
  - Q3: 256
  - Q4: -112

- **2017**
  - Q1: 41
  - Q2: -130
  - Q3: 333
  - Q4: -71

- **2018**
  - Q1: -89
  - Q2: 577
  - Q3: 488
  - Q4: -76

### Key Action Points

1. **Establishment of Shared Services Center (SSC)** in Poland to achieve operational excellence and to increase efficiency
2. **Dissolution of Bearing and Components Technologies (BCT)** to increase organizational efficiency and strengthen entrepreneurship
Establishment of Shared Services Center – Status

6 Key Parameters

1. Focus on region Europe
2. Multi-functional SSC
3. 'Captive' SSC
4. 'Greenfield' approach
5. Reporting line to CFO
6. Separate legal entity

Scope for European Shared Services Center

- Finance
- Human Resources
- Information Technologies
- Purchasing
- Logistics (incl. SCM)

Target

- Establishment of a state-of-the-art multi-functional Shared Services Center in Wroclaw (Poland)

Aspects

- Multi-functional and captive SSC
- Cost savings through standardization, automation and digitalization and by leveraging best cost locations

Achievements and Next Steps

- Recruiting activities for five functions in progress
- Pilot processes implementation until year end 2018
Establishment of Shared Services Center – Business Case

### Expected EBIT Impact
in EUR mn

- 2017: ca. -39
- 2018: ca. -8
- 2019: ca. -3
- 2020: ca. 6
- 2021: ca. 22
- 2022: ca.

### Headcount Development

- **Stable growth to target size of around 800 employees** in the Shared Services Center until 2022
- **Transfer of tasks** to Poland and subsequent **reduction of headcount** in various European locations

### Key Actions to Further Improve Financial Performance

- **Restructuring expenses of EUR 39 mn posted in 2017**
- **Ramp-up costs of around EUR 8 mn expected for 2018 and 2019**
- **First positive contribution expected by 2021**
Dissolution of Bearing and Components Technologies – Status

2 Key Actions to Further Improve Financial Performance

Divisionalization of Global Plant Network

<table>
<thead>
<tr>
<th></th>
<th>Q1 2018</th>
<th>1.1.2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>AOEM</td>
<td>37</td>
<td>56</td>
</tr>
<tr>
<td>BCT/Operations</td>
<td>27</td>
<td>-</td>
</tr>
<tr>
<td>Industrial</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Total plants</td>
<td>73</td>
<td>80</td>
</tr>
<tr>
<td>Campus plants</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>Total locations</td>
<td>61</td>
<td>61</td>
</tr>
</tbody>
</table>

Target

- Assignment of plants to divisions and efficiency improvement through headcount reduction

Aspects

- Improvement of management effectiveness and enhancement of customer proximity
- Implementation of target organization by Jan. 1st 2019 and reduction of 950 headcounts worldwide until year-end 2020

Achievements and Next Steps

- Interim organization established by July 1st 2018
- Overhead function re-dimensioned and restructuring expenses posted; plant overhead re-dimensioning in progress

Divisionalization of Headcount

<table>
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</tr>
<tr>
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<td>61</td>
</tr>
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Divisionalization of headcount: +37%-pts.

- HCO (divisional) 80%
- HCO (non-divisional) 20%
First restructuring expenses in the amount of EUR 22 mn posted in June 2018

Positive contribution from 2019; full-year impact to be achieved in 2021

Expected EBIT Impact in EUR mn

- Automotive OEM ca. EUR 33 mn
- Industrial ca. EUR 27 mn

Headcount Development

- Reduction of 950 headcount by 2020 initiated
- Thereof reduction of approximately 450 headcount in Germany
Optimization of Working Capital – Status

Working Capital Development\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Trade receivables</th>
<th>Inventories</th>
<th>Trade payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>03</td>
<td>2.7</td>
<td>1.9</td>
<td>1.3</td>
</tr>
<tr>
<td>06</td>
<td>2.8</td>
<td>2.0</td>
<td>1.4</td>
</tr>
<tr>
<td>09</td>
<td>2.8</td>
<td>2.0</td>
<td>1.4</td>
</tr>
<tr>
<td>12</td>
<td>2.5</td>
<td>2.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>

in EUR bn

<table>
<thead>
<tr>
<th>in % of LTM sales</th>
<th>20.8</th>
<th>21.2</th>
<th>21.2</th>
<th>18.7</th>
<th>20.8</th>
<th>20.2</th>
<th>19.7</th>
<th>16.7</th>
<th>18.4</th>
<th>19.4</th>
</tr>
</thead>
</table>

1) Working Capital ratio includes provisions for outstanding invoices. 2) Impact on trade receivables due to ABCP-Program

Target

- Optimization of cash flow generation and capital employed

Aspects

- Improvement of payables by transition to **new payment term model** and **payment dates**
- Harmonization of **receivable payment terms** and reduction of overdues through **effective dispute management**

Achievements and Next Steps

- **New standardized payment term model** and payment logic implemented in 2017
- **System-based operating KPIs** established
- **Dispute management system** in implementation
2. Key Actions to Further Improve Financial Performance

Optimization of Working Capital – Business Case

- One-off cash inflow
- Harmonization of payment terms and logic
- System-based dispute management
- Sustainable increase of Schaeffler Value Added (SVA) and ROCE

Development of Accounts Receivables and Accounts Payables

<table>
<thead>
<tr>
<th></th>
<th>Change in trade receivables</th>
<th>Change in trade payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>0.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Trade payables</td>
<td>-0.1</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Note: 1) Excluding inventories.

Change in trade receivables

- Growth of receivables and payables
- Estimated effect from optimization of receivables and payables

Change in trade payables

Growth of receivables and payables

Estimated effect from optimization of receivables and payables

Working Capital

- Q2 2017
- Q2 2018
- 2020

Working Capital Q2 2017

Working Capital Q2 2018

Working Capital 2020
### Leverage and Financing – A Lever for EPS Improvement

#### Target
- Establishment of **investment grade financing structure** and **reduction of interest costs**

#### Aspects
- Rating upgraded to **investment grade** at all three major agencies
- **Terms and conditions** of bank facilities and bonds shall reflect enhanced credit quality of Schaeffler

#### Achievements and Next Steps
- Amendment and extension of maturity of existing bank term loan and revolving credit facility (RCF) by two years until September 2023
- **Release of remaining security interests** granted to secure facilities agreement and bonds

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### Net Financial Debt and Gearing Ratio

**Development of Ratings of Schaeffler AG**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net financial debt (EUR mn)</th>
<th>Gearing ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>BBB - / Baa3</td>
<td>114%</td>
</tr>
<tr>
<td>2013</td>
<td>BB+ / Ba1</td>
<td>136%</td>
</tr>
<tr>
<td>2014</td>
<td>BB / Ba2</td>
<td>109%</td>
</tr>
<tr>
<td>2015</td>
<td>BB- / Baa3</td>
<td>93%</td>
</tr>
<tr>
<td>2016</td>
<td>B+ / B1</td>
<td>89%</td>
</tr>
<tr>
<td>2017</td>
<td>B / B2</td>
<td>107%</td>
</tr>
<tr>
<td>2018</td>
<td>B- / B3</td>
<td>93%</td>
</tr>
</tbody>
</table>

**Corporate Credit Rating Standard & Poor’s**

- **Issuer Credit Rating Moody’s Investors Services**
- **Issuer Default Rating Fitch Ratings**
- **Net financial debt Schaeffler AG (right-hand scale)**
Maturity Profile of Schaeffler AG
in EUR mn

- **Extension of maturity** of existing bank term loan and RCF
- **Switch to improved terms and conditions** in progress
- New financing structure provides potential for interest cost savings generating positive impact on EPS

Extension of bank loan under until September 2023.
Focus on continuously improving the Group performance

Roll out of Shared Services Center contributing to operational excellence going forward

Dissolution and reallocation of BCT plants to improve efficiency and to simplify the organizational structure

Working Capital initiative contributes to Free Cash flow generation and increase of SVA / ROCE

Refinancing activities initiated to align financial instruments with investment grade rating and further enhance EPS