

# Schaeffler Group

## Welcome to the 2020 Capital Markets Day

Renata Casaro, Head of Investor Relations  
Herzogenaurach, November 18<sup>th</sup> 2020

## 2020 Capital Markets Day – Mid-term Targets until 2025 announced in our Ad hoc yesterday

## Mid-term Targets

## Automotive Technologies

Outperformance<sup>1</sup>

200 to 500 bps

on average<sup>2</sup>

4 to 6%

EBIT margin before special items<sup>4</sup>

## Automotive Aftermarket

FX-adj. sales growth

&gt; GDP growth

on average<sup>2</sup>

13 to 15%

EBIT margin before special items<sup>4</sup>

## Industrial

FX-adj. sales growth

&gt; Ind. Prod. growth

on average<sup>2 3</sup>

12 to 14%

EBIT margin before special items<sup>4</sup>

## Schaeffler Group

ROCE

12 to 15%

based on EBIT reported<sup>4</sup>

FCF conversion

0.3 to 0.5

based on EBIT reported<sup>4 5</sup>

<sup>1</sup> FX-adj. sales growth above Light Vehicle Production (IHS) | <sup>2</sup> from 2021 to 2025 | <sup>3</sup> Industrial Production (Oxford Economics) | <sup>4</sup> latest in 2023 | <sup>5</sup> before cash in- and outflows for M&A

## 2020 Capital Markets Day – Presenting today



Klaus Rosenfeld  
CEO  
Schaeffler Group



Dr. Klaus Patzak  
CFO  
Schaeffler Group



Matthias Zink  
CEO Automotive Technologies  
Division



Dr. Jochen Schröder  
Head of E-Mobility  
Business Division



Michael Söding  
CEO Automotive Aftermarket  
Division



Dr. Stefan Spindler  
CEO Industrial  
Division

## 2020 Capital Markets Day – Agenda

|                           |                                    |                   |        |
|---------------------------|------------------------------------|-------------------|--------|
| ■ Roadmap 2025            | Klaus Rosenfeld                    | 13:00 – 13:25 CET | 25 min |
| ■ Automotive Technologies | Matthias Zink &<br>Jochen Schröder | 13:25 – 13:55 CET | 30 min |
| ■ Automotive Aftermarket  | Michael Söding                     | 13:55 – 14:10 CET | 15 min |
| ■ Industrial              | Stefan Spindler                    | 14:10 – 14:30 CET | 20 min |
| ■ Financial Framework     | Klaus Patzak                       | 14:30 – 14:50 CET | 20 min |
| ■ Conclusion              | Klaus Rosenfeld                    | 14:50 – 15:00 CET | 10 min |
| ■ Q&A                     | All                                | 15:00 – 15:30 CET | 30 min |



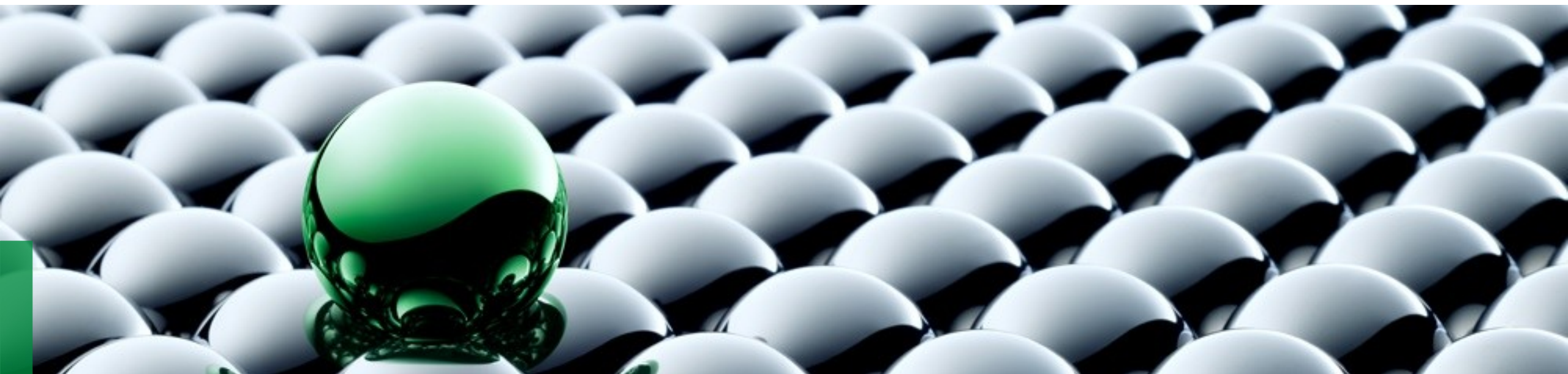
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# Schaeffler Group Roadmap 2025

Klaus Rosenfeld, Group CEO  
Herzogenaurach, November 18<sup>th</sup> 2020

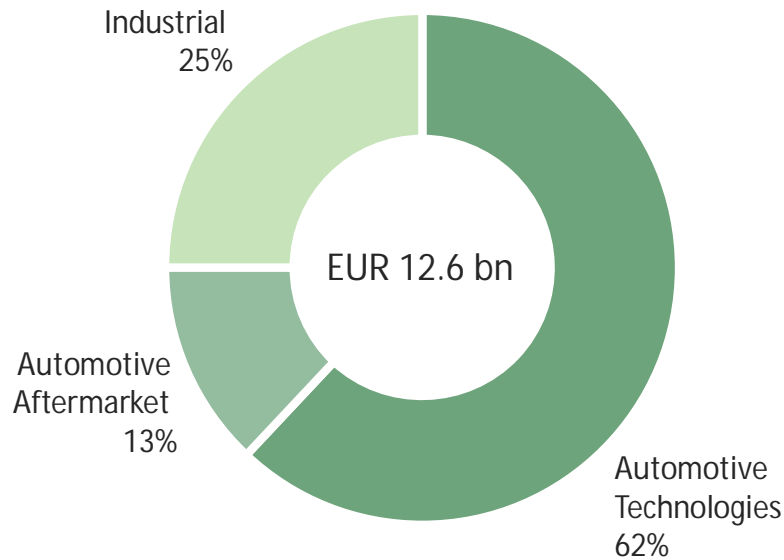
- 1 Where we stand
- 2 Where we play
- 3 How we win
- 4 How we create value

# 1 Where we stand

## Schaeffler Group at a glance – We are an Automotive and Industrial supplier

### 3 Divisions

In % of LTM Sales 9/2020

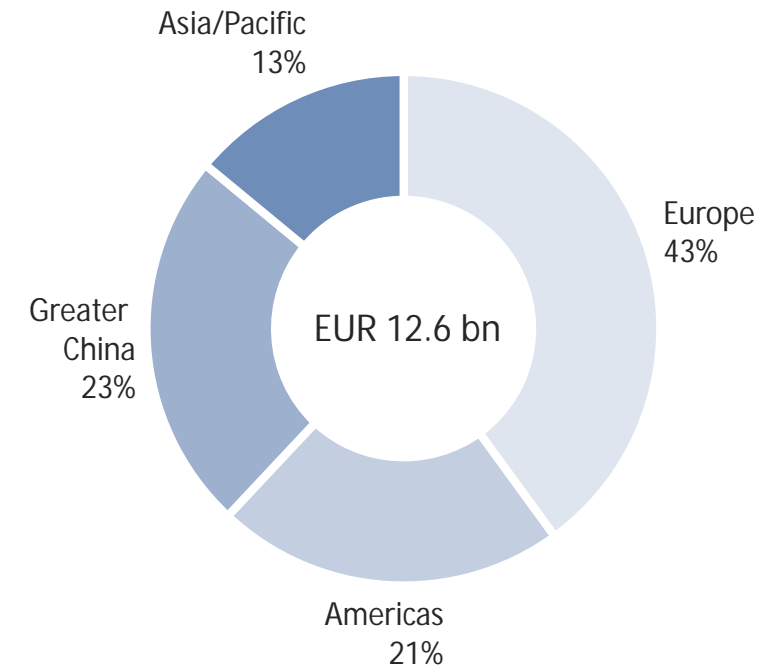


### Schaeffler Group

- Leading position in technology and innovation
- Diversified customer base serving 10 customer sectors
- Market leading product offering from components, systems to services
- Global footprint with 75 plants and 20 R&D centers
- ~84,000 employees in more than 50 countries
- Highly experienced leadership team with focus on execution

### 4 Regions

In % of LTM Sales 9/2020



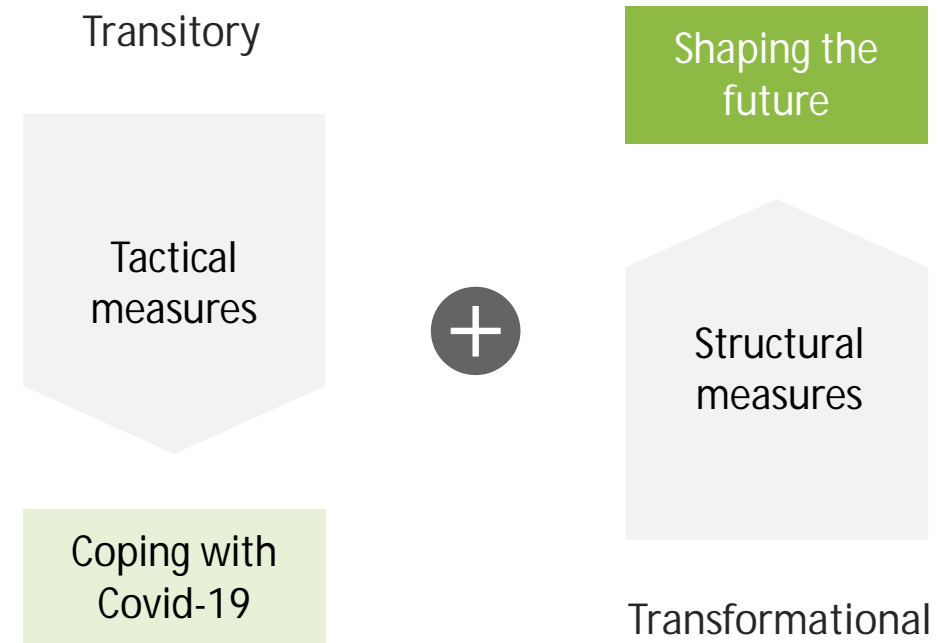
Well-diversified Automotive and Industrial supplier with global reach and synergistic businesses

## Proactively managing 2020 – Making Schaeffler even stronger

### Key milestones in 2020

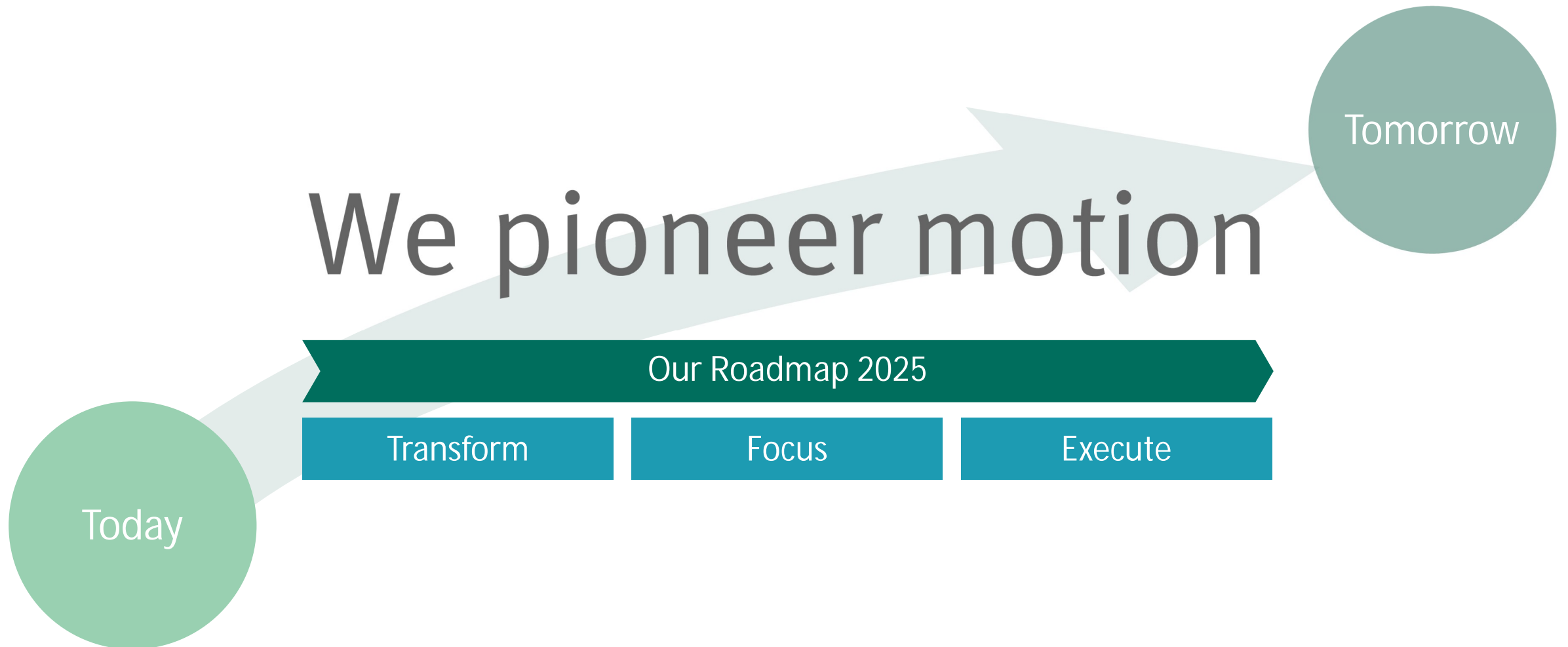
|        |   |
|--------|---|
| Mar 10 | FY 2019 results, Covid-19 lockdown started          |
| Mar 24 | Capital markets update, Guidance FY 2020 suspended  |
| May 6  | Q1 2020 results, countermeasures pay off            |
| Aug 1  | Appointment of new CFO Dr. Klaus Patzak             |
| Aug 4  | Q2 2020 results, countermeasures intensified        |
| Sep 9  | Additional structural measures announced            |
| Sep 15 | Financial toolbox completed, authorization approved |
| Oct 5  | Successful EUR 1.5 bn bond refinancing              |
| Nov 10 | Q3 results, new Guidance FY 2020                    |
| Nov 18 | Roadmap 2025 and Mid-term Targets 2025              |

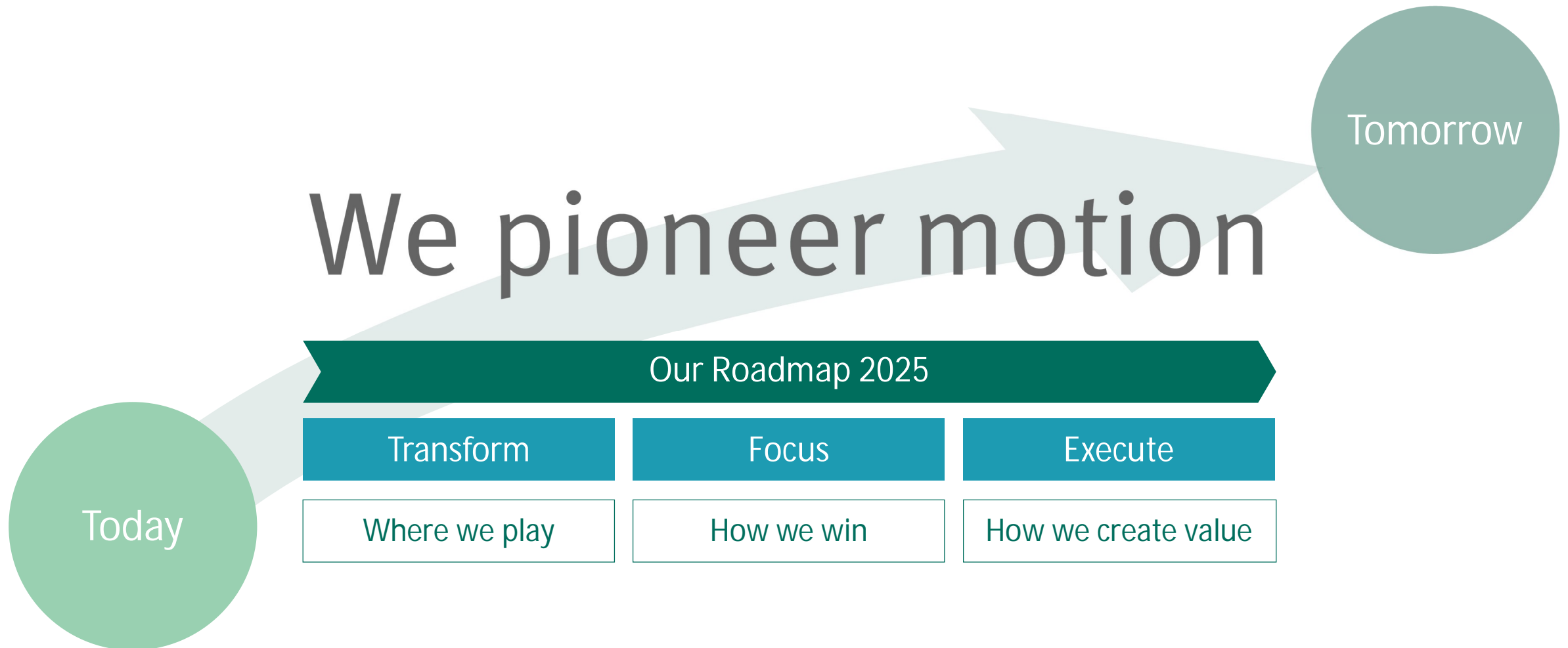
### Our response in 2020



Going beyond the Covid-19 situation – Shaping Schaeffler for future value creation







## Our strategic priorities – Transform, focus, execute

### Transform

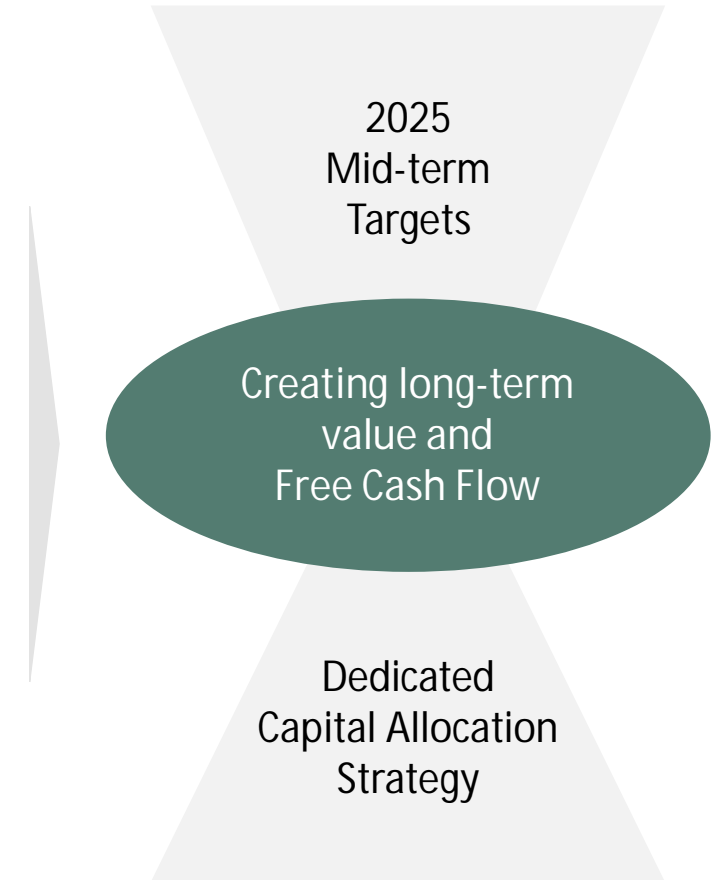
- Automotive Technologies: Accelerate portfolio shift to E-Mobility
- Automotive Aftermarket: Maintain high margin, open to 3<sup>rd</sup> party repair solutions
- Industrial division: Enter attractive new growth fields, further enhance profitability

### Focus

- Concentrate on core competencies
- Realize synergistic benefits across Divisions
- Deliver impact in sustainability by acting on all levers

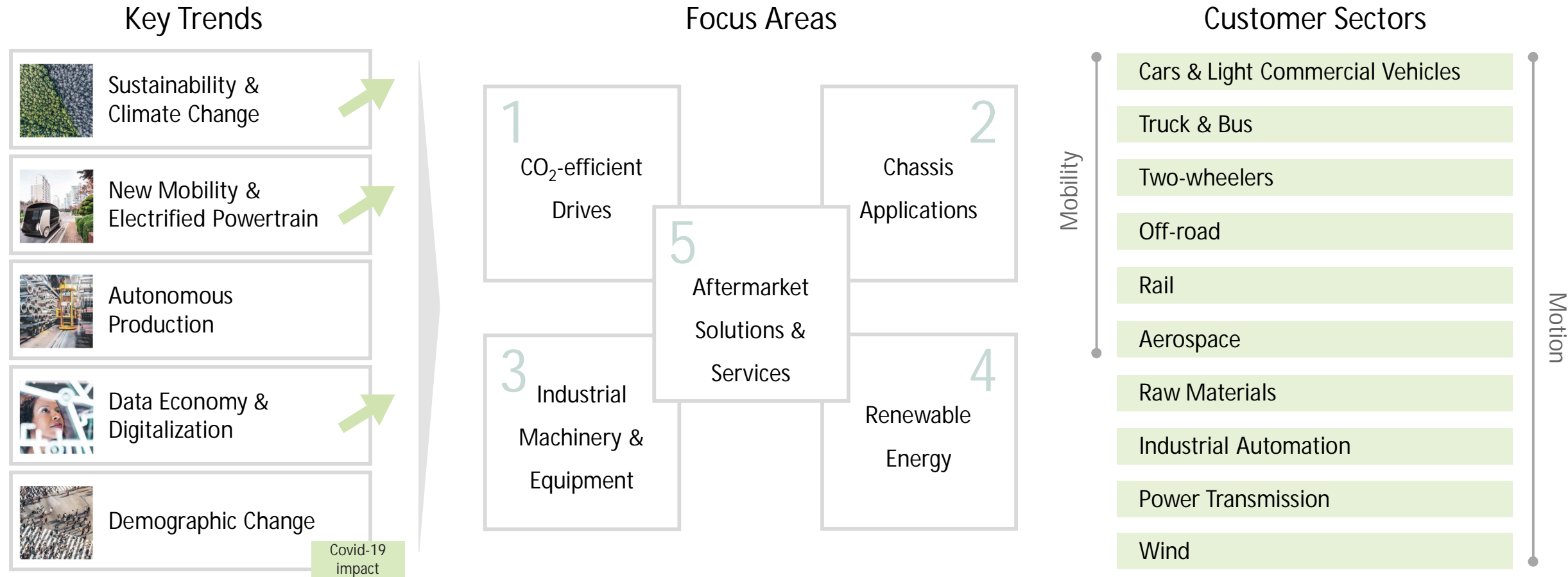
### Execute

- Continued operational discipline and consistent implementation
- Relentless focus on Free Cash Flow generation
- Compelling capital allocation and M&A strategy



## 2 Where we play

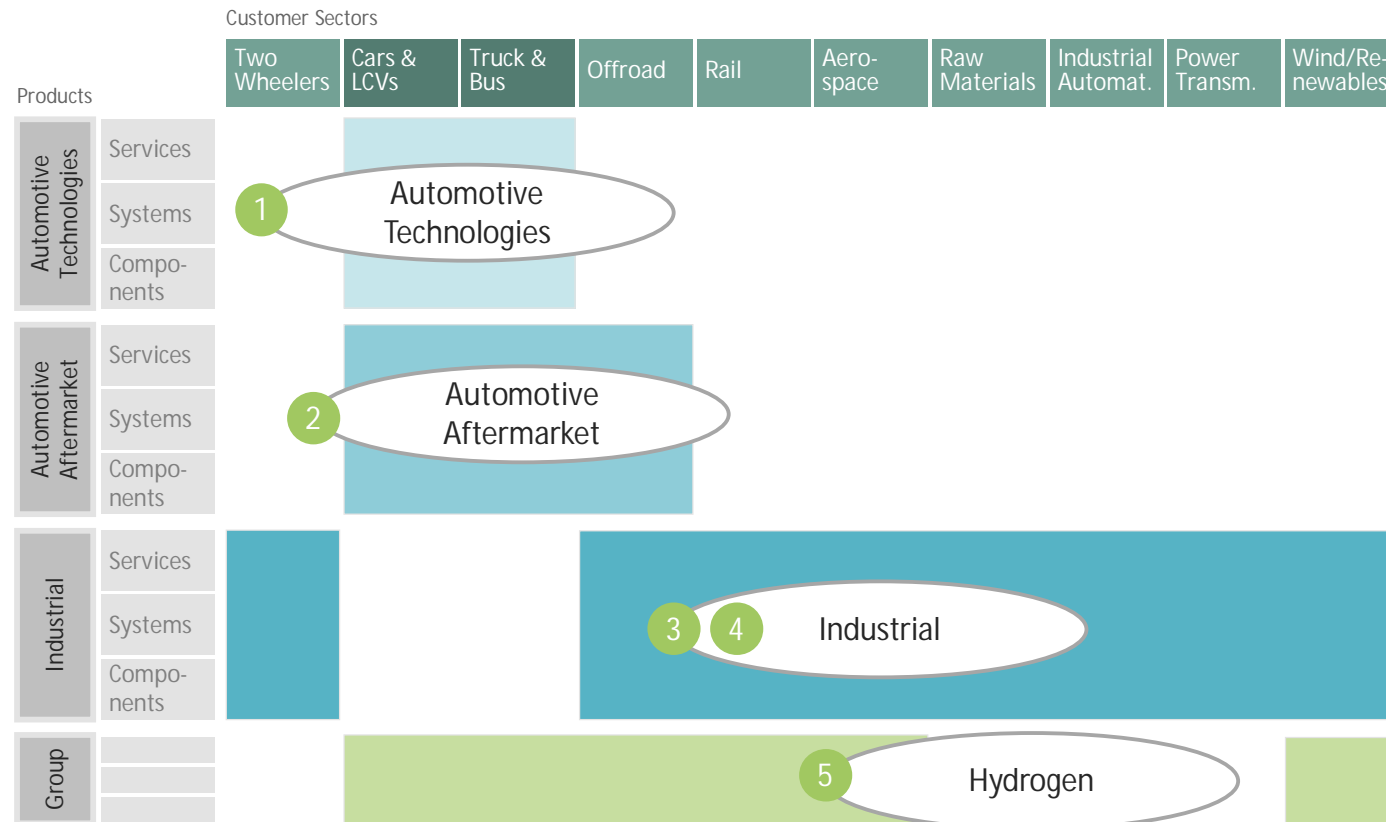
We are present in attractive markets, and deliver solutions to a diverse customer base – Trends reinforced by Covid-19



Schaeffler Divisions serve 10 joint Customer Sectors by focusing on 5 Focus Areas

We deliver value to our customers – Leveraging our technological core competencies

## Our Customer/Product Matrix



## Key action fields

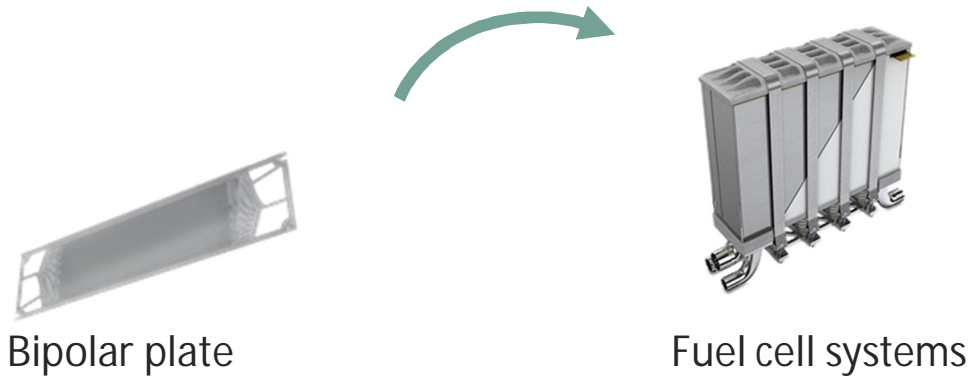
- 1 Push electrified powertrain and mechatronic systems
- 2 Open Aftermarket business for third party products, new markets and channels
- 3 Drive system and service solutions in Industrial applications
- 4 Sustain investments in renewable energies
- 5 Harness Hydrogen opportunity as a joint Automotive + Industrial growth initiative

5 key action fields leveraging our technological core competencies



We see hydrogen as a unique growth chance – Schaeffler manufacturing and industrialization excellence is key

## Fuel cell – Usage of hydrogen

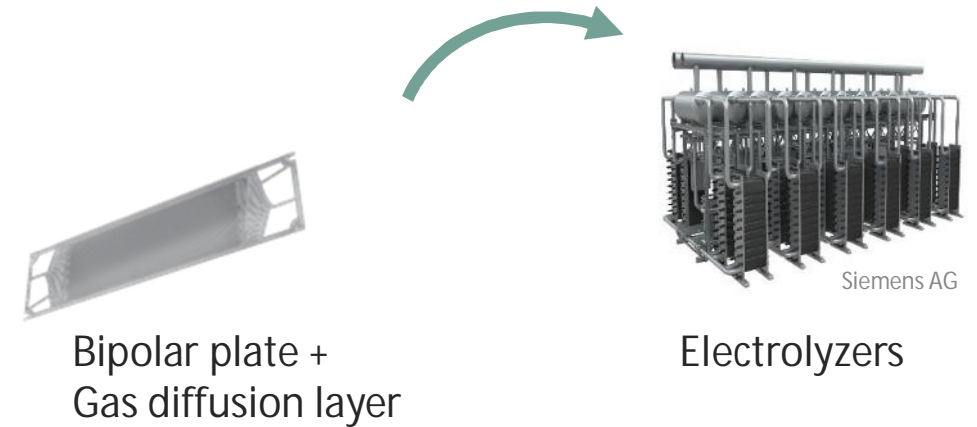


Market  
potential

**~240,000**  
Fuel Cell Trucks and Buses  
in 2030 expected



## Electrolysis – Production of hydrogen



Market  
potential

**~150 GW**  
Globally installed power of  
Electrolysis in 2030 expected

Schaeffler as a key partner for best-in-class components and systems both for fuel cells and electrolyzers

# 3

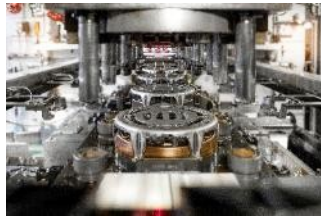
## How we win

We focus on our core competencies – Further leveraging our best-in-class manufacturing technologies

## Our manufacturing technologies



Large forging



Cold forming



Heat treatment



Machining



Grinding



Injection



Coating

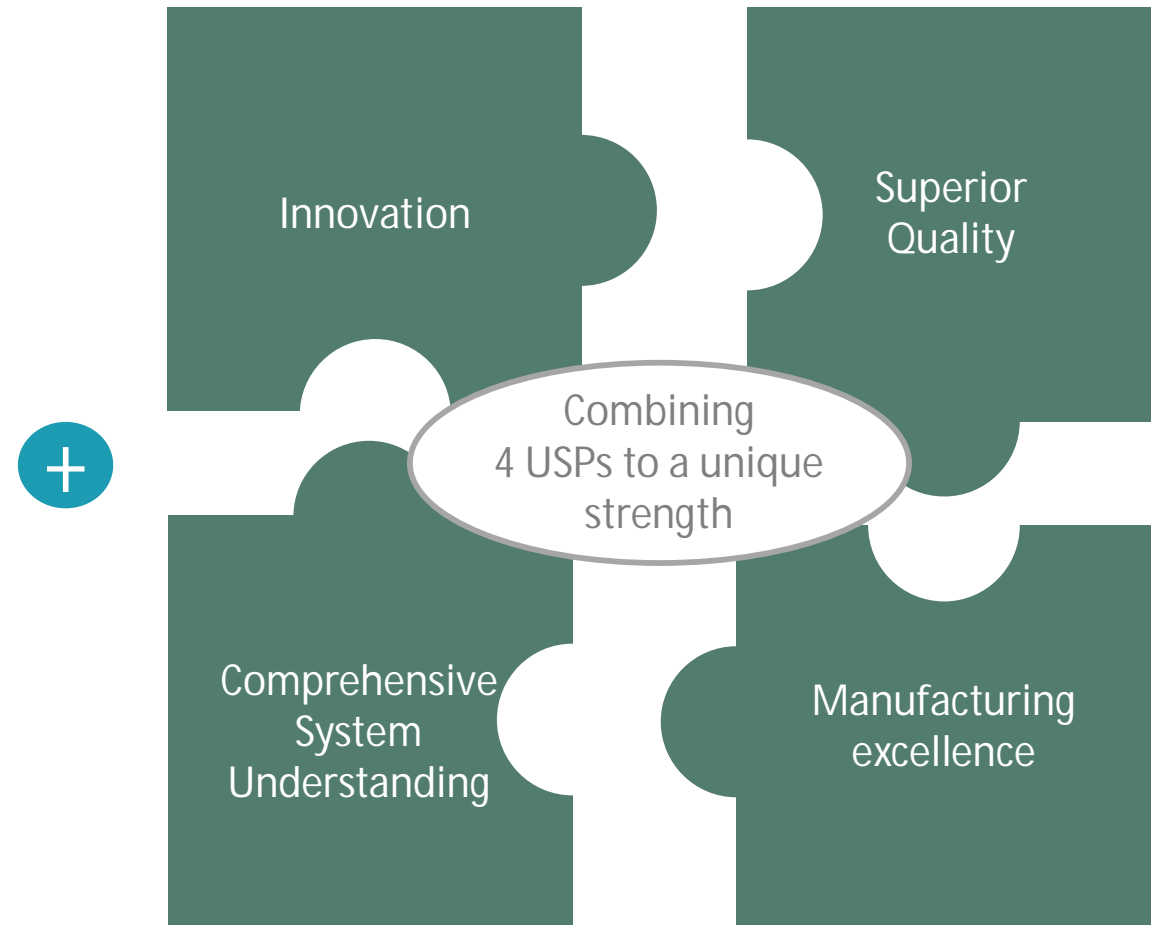


Winding



Assembly

## Our key strengths



## We leverage synergistic potential – Benefitting from scope and scale

### Scope of interdependencies

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- Same production technologies
- Equal materials and components
- Comprehensive Intellectual Property and Research & Development

### Technology transfer

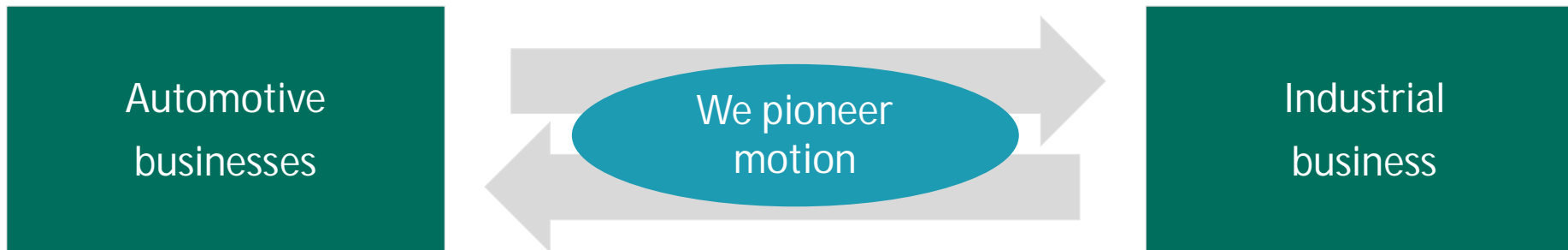
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- Dedicated Innovation Clusters
- Electrification and mechatronic know-how
- System understanding and market expertise

### Economies of scale

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- Joint procurement and supply chain management
- Shared services and functions
- Complementary regional presence and global footprint



## We foster a high-performance culture – Our people drive our success



We pioneer motion



### Qualification

- One 'Schaeffler Academy' providing flexible, target-group oriented learning programs on all levels and on a global scale
- Qualification programs to re- and upskill workforce aligned with strategic business needs and supported by a digital and state-of-the-art learning environment

### Diversity

- Incorporation of Diversity and Inclusion embedded in Execution Program 2025 and governed by Diversity Council
- Leveraging positive effects of diversity and inclusion by increasing visibility of D&I topics

### Collaboration

- Activities to foster collaboration across Divisions and Functions are an integral part of strategy execution program in all regions
- Interdisciplinary approach uniting IT, work organization, processes and corporate culture to empower flexible teams

Qualification, Diversity and Collaboration as key success factors

## We go for carbon neutrality in 2030 – Integrated approach across all divisions, functions and regions

### Board-level responsibility

- Sustainability Committee defined guidelines in 2020
- Sustainability targets are cascaded and included in Board compensation

### Sustainability Roadmap

- Structured approach with defined action fields
- Entire value chain covered – suppliers, operations and products

### Delivering impact

- All employees driving impact every day in production and along supply chain
- Delivering innovative product solutions to our customers

### Sustainability goals

-  **Energy efficiency:**  
100 GWh cumulated annual efficiency gains through implementation of energy efficiency measures until 2024
-  **Renewable energy:**  
100% purchased power from renewable sources until 2024
-  **CDP rating:**  
"A-" -rating for CDP Climate Score 2021
-  **Accident rate:**  
10% average annual reduction of accident rate until 2024
-  **Sustainable suppliers:**  
90% of purchasing volume of production material from suppliers with Sustainability self assessments until 2022



Carbon neutral  
production in  
2030

Scope 1 and 2



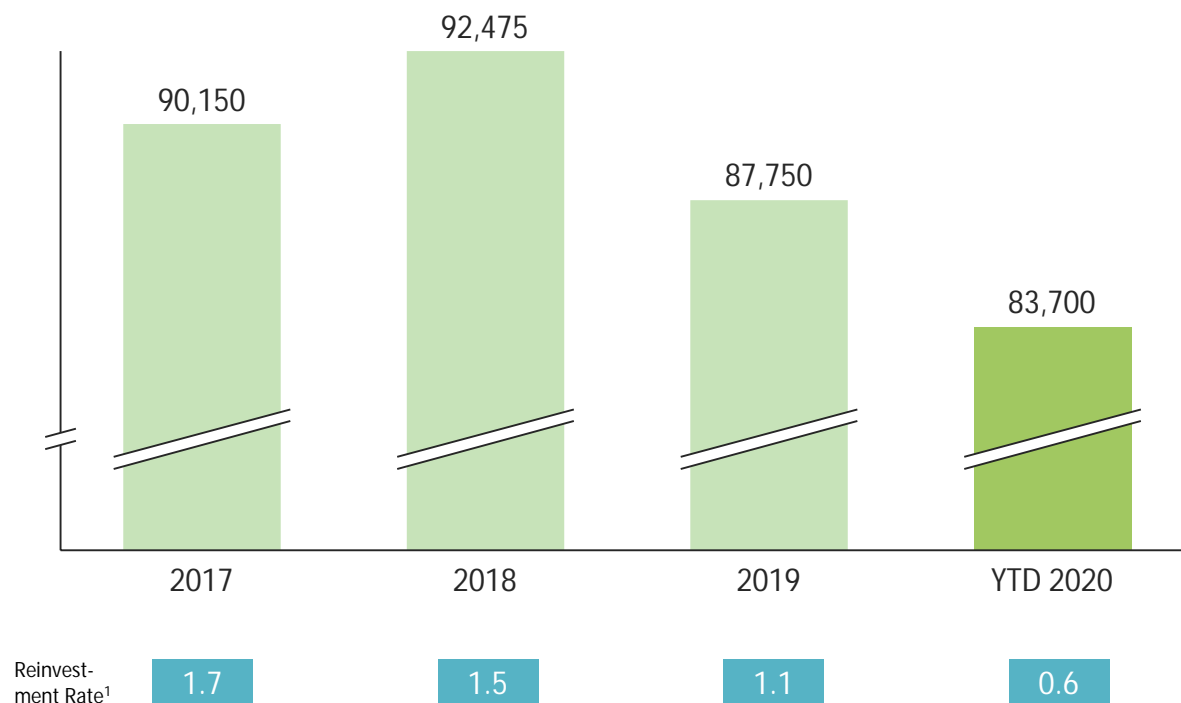
# 4

## How we create value

## We reinforce operational discipline – Proactive cost and capital management

### Headcount development

HCO Schaeffler Group



### Key aspects

- Continuous execution of efficiency measures reducing headcount
- Stringent divisionalization initiated in 2017 and implemented in 2018
- Divisional efficiency programs – RACE GRIP FIT – gain traction together with additional structural measures announced in September 2020
- Proactive capital management logic introduced in 2018 with RiR as main KPI, trend reversed, stringent and differentiated capital allocation logic

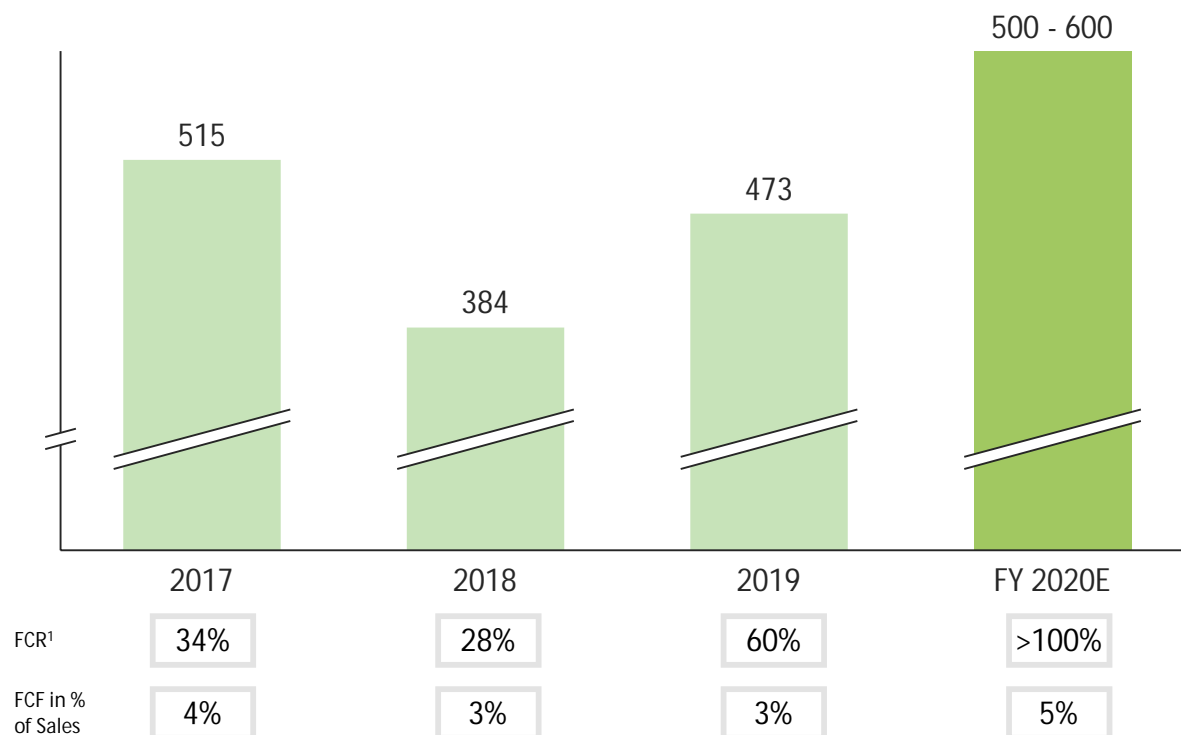
Proven track record of implementing efficiency measures

<sup>1</sup> Reinvestment Rate defined as Capex divided by D&A

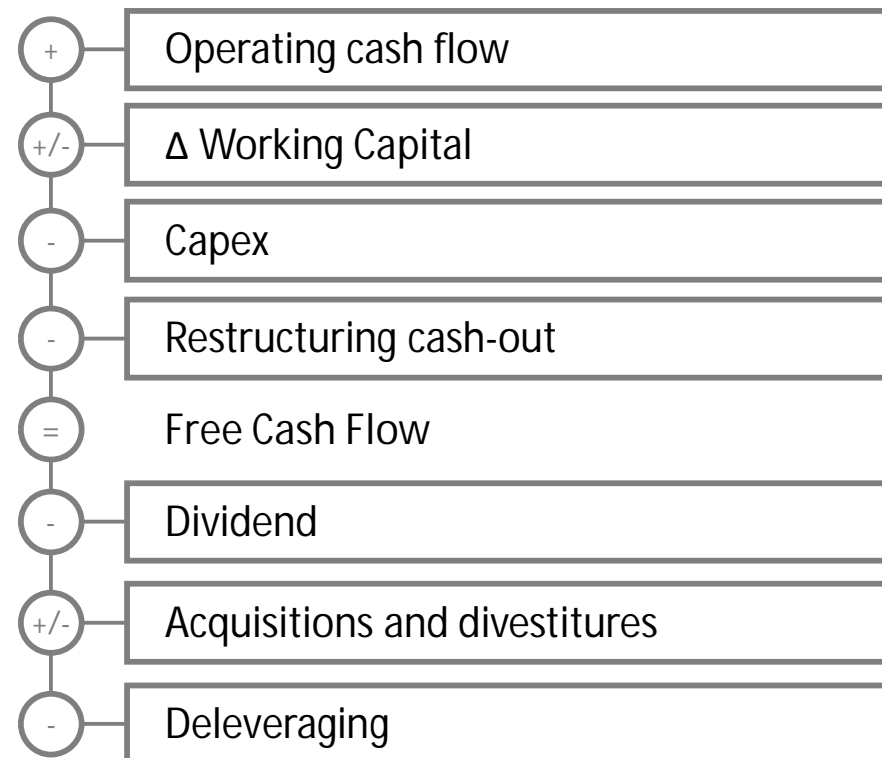
We focus on Free Cash Flow generation – Compelling use of cash remains key

## Free Cash Flow development

Free cash flow (FCF) before M&A in EUR mn



## Our cash formula

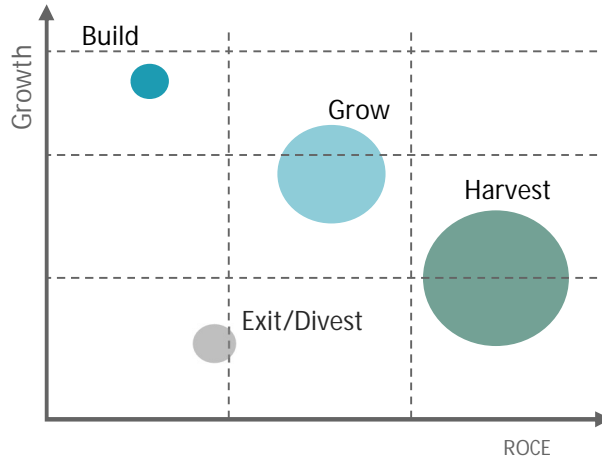


Further building on Free Cash Flow generation – One of Schaeffler Group's intrinsic strengths

<sup>1</sup> Free Cash Flow Conversion Ratio (FCR) defined as FCF before M&A divided by EBIT reported

We drive an efficient and impactful use of resources – Dedicated Capital Allocation Framework

## Portfolio Management



## 4 Investment Categories

## 4 Portfolio Strategies

## Capital Allocation

| Portfolio strategies \ Capex categories | 1 Growth <sup>1</sup> | 2 Rationalization | 3 Maintenance | 4 Safety and regulatory | Total       |
|---|-----------------------|-------------------|---------------|-------------------------|-------------|
| A Build                                 | ✓✓                    |                   |               | ✓                       |             |
| B Grow                                  | ✓✓✓                   | ✓✓                | ✓             | ✓                       |             |
| C Harvest                               |                       | ✓✓                | ✓             | ✓                       |             |
| D Exit/Divest                           |                       |                   | ✓             | ✓                       |             |
| Total                                   |                       |                   |               |                         | Total Capex |

## Key aspects

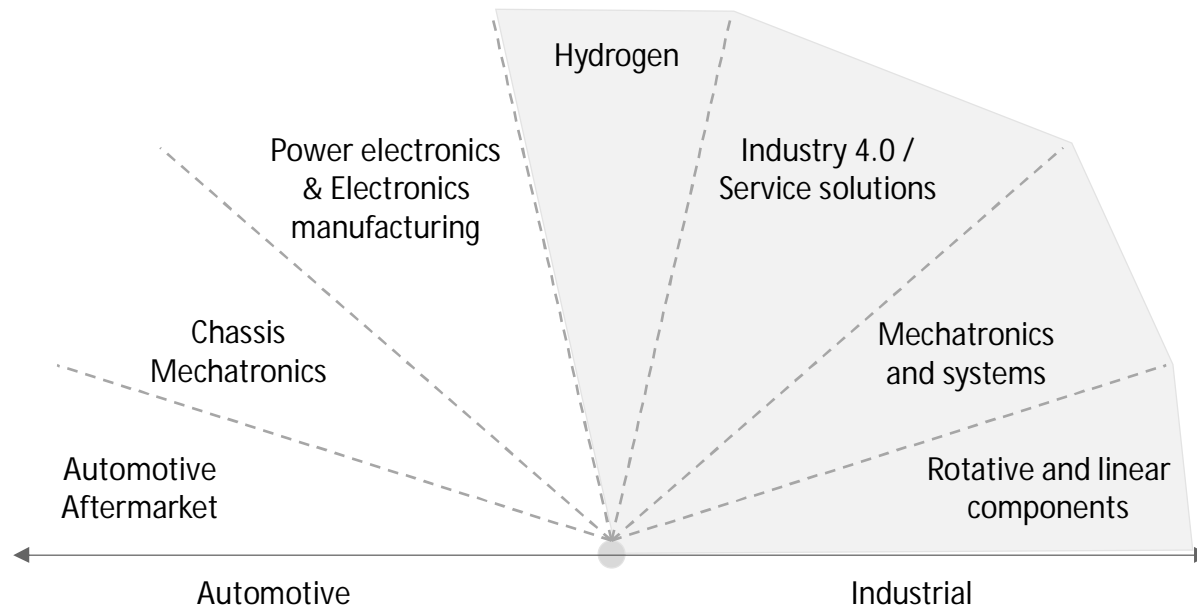
- Application of Reinvestment Rate<sup>1</sup> on Group level remains dominant logic
- Reinvestment Rate for “Build” and “Grow” significantly above 1 to fuel growth
- “Harvest” and “Exit” business only receive the required capital to sustain cash generation
- Combining Portfolio Management with Capital Allocation drives consistent Capital Deployment

Earning the right to grow is the credo of our Capital Allocation process

<sup>1</sup> Reinvestment Rate defined as Capex divided by D&A

We focus on compelling M&A – Further complementing and strengthening our business portfolio

## M&A radar

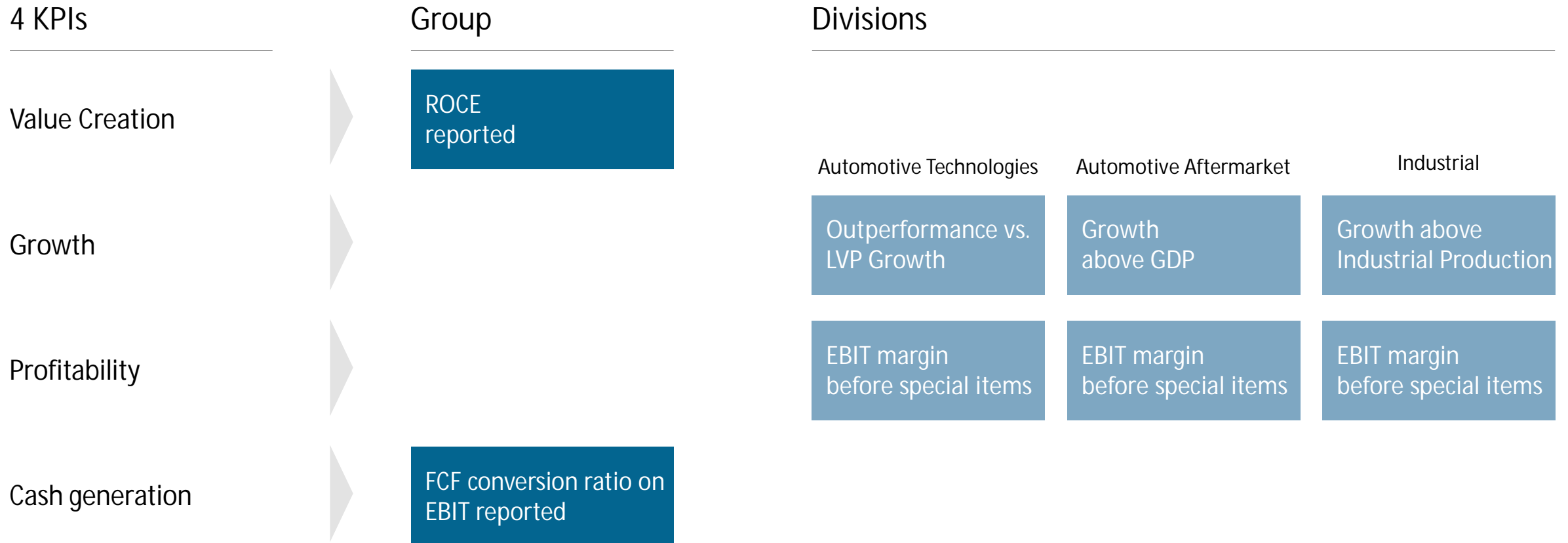


## Key aspects

- Clearly defined M&A Strategy with 7 search fields, focus on small and mid-sized bolt-on acquisitions
- Market likely to present increased number of opportunities within the next 24 months
- Acquisition opportunities are proactively screened in all 3 Divisions with focus on technology
- Disciplined execution process with clear guidelines

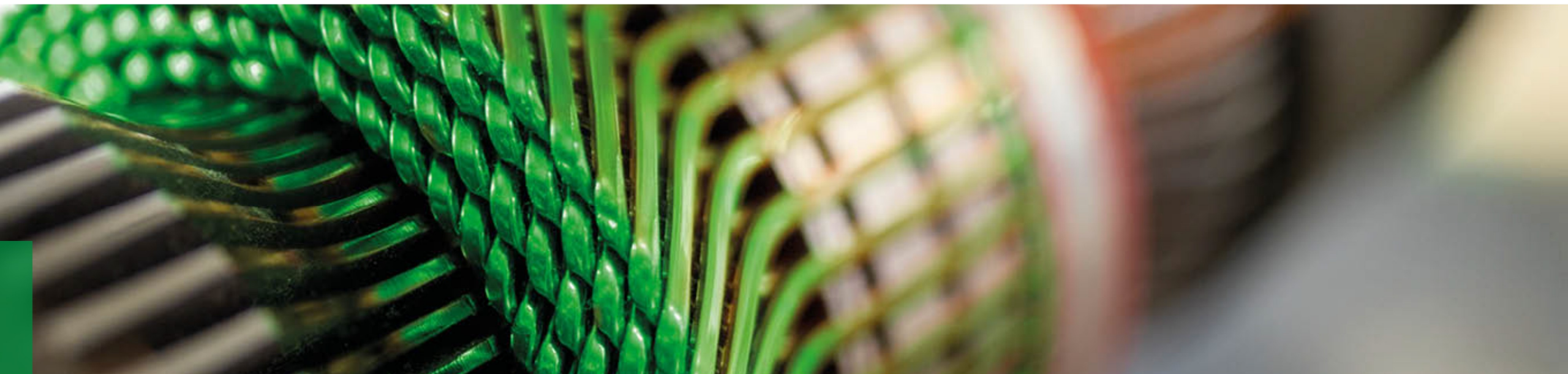
Schaeffler well positioned to capitalize on attractive external growth opportunities

## We create value – 2025 Mid-term Targets rationale



We drive divisional business performance, efficiently supported by Functions and Regions, and create value for the Group





# Automotive Technologies

Matthias Zink, CEO Automotive Technologies Division  
Dr. Jochen Schröder, Head of E-Mobility Business Division  
Herzogenaurach, November 18<sup>th</sup> 2020

# 1 Where we stand

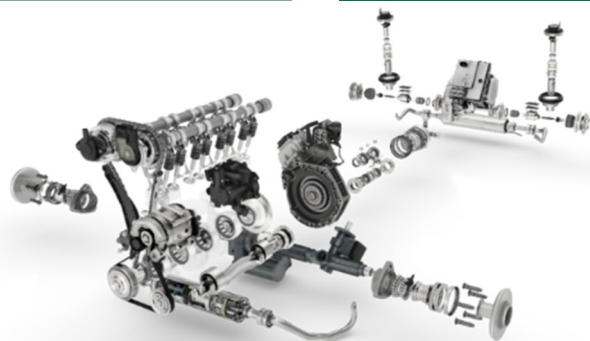
# Automotive Technologies – Driving the transition to innovative propulsion and chassis technologies

Electric and Hybrid Propulsion

8% of sales in 2019

Engine Components and Systems

31% of sales in 2019



Transmission Components and Systems

44% of sales in 2019

Chassis Applications

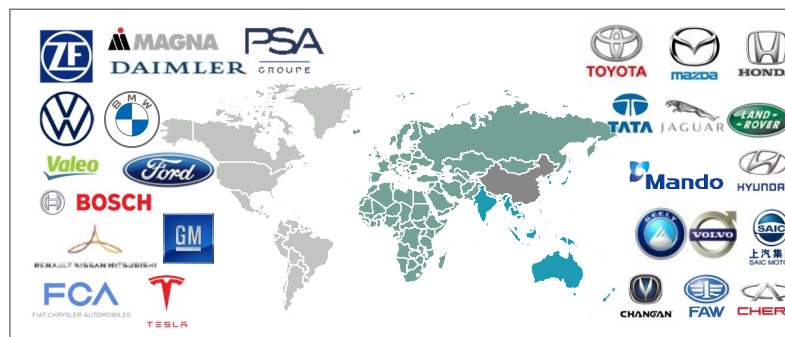
17% of sales in 2019

Europe

42% of sales in 2019

Greater China

22% of sales in 2019



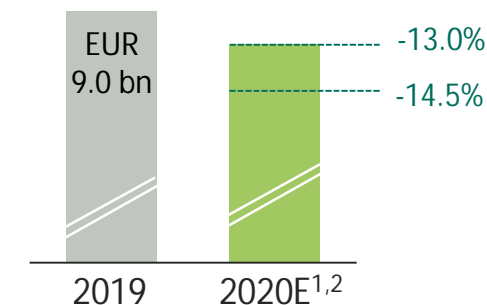
Americas

24% of sales in 2019

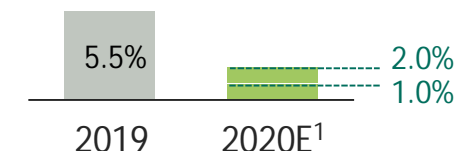
Asia / Pacific

12% of sales in 2019

Revenue



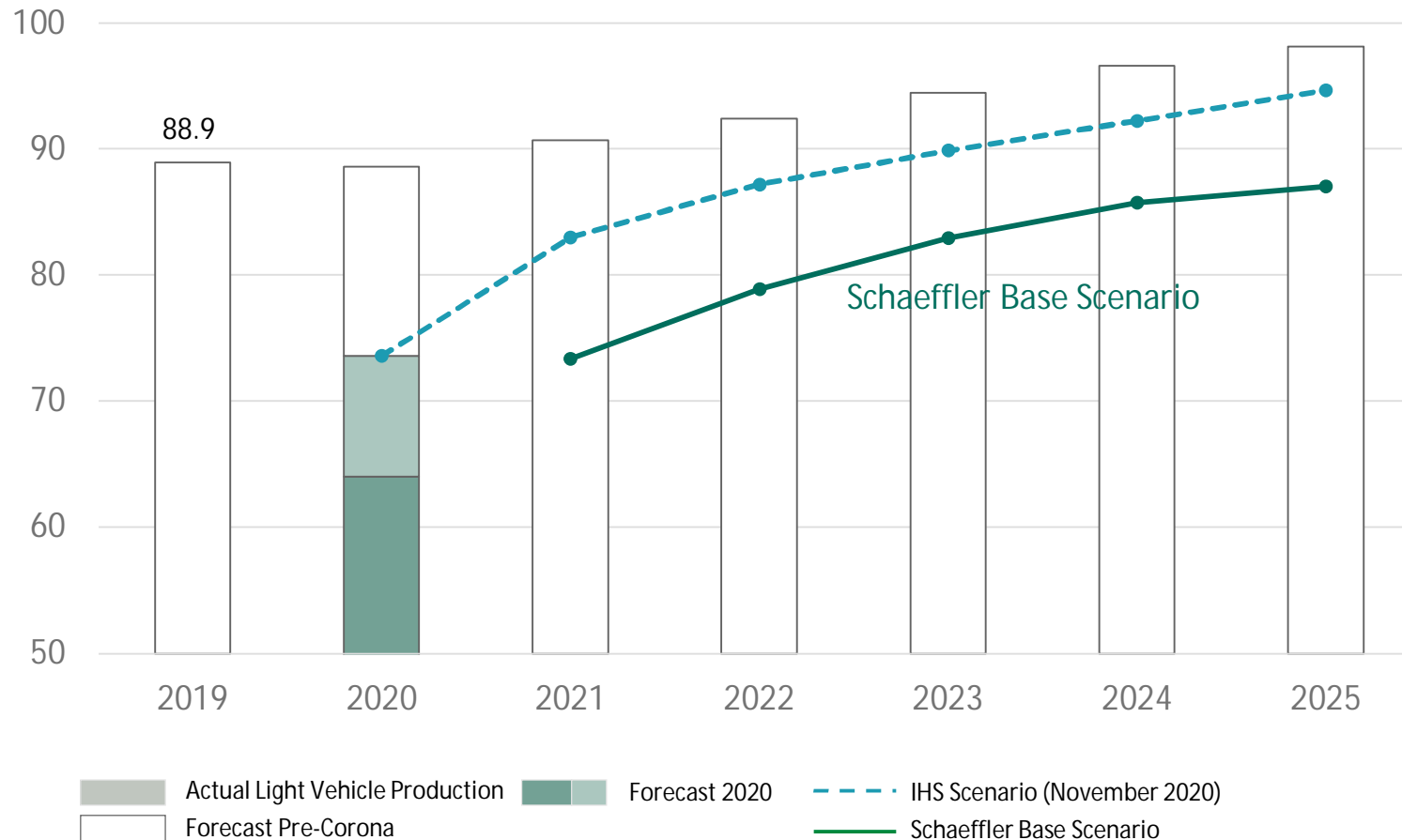
EBIT margin bsi



<sup>1</sup> FY 2020 Guidance | <sup>2</sup> FX-adj. growth

## Automotive Technologies – Conservative market scenario

Global Light Vehicle Production in million units

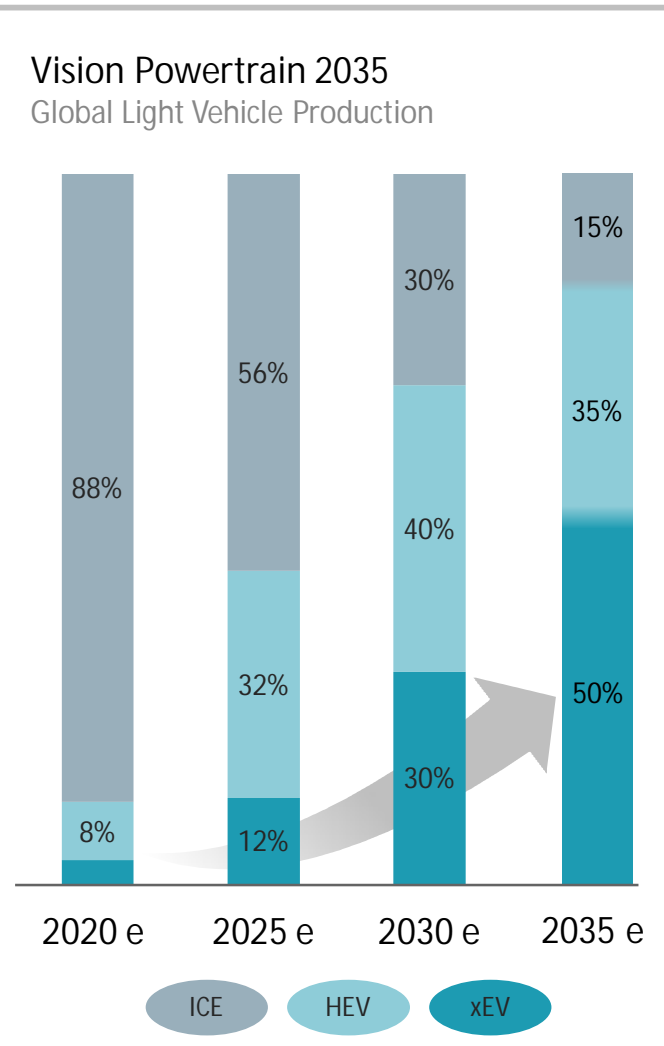


There is currently a high  
**market uncertainty**

We plan  
**conservatively**  
with a disciplined view on costs

We maintain  
**flexibility**

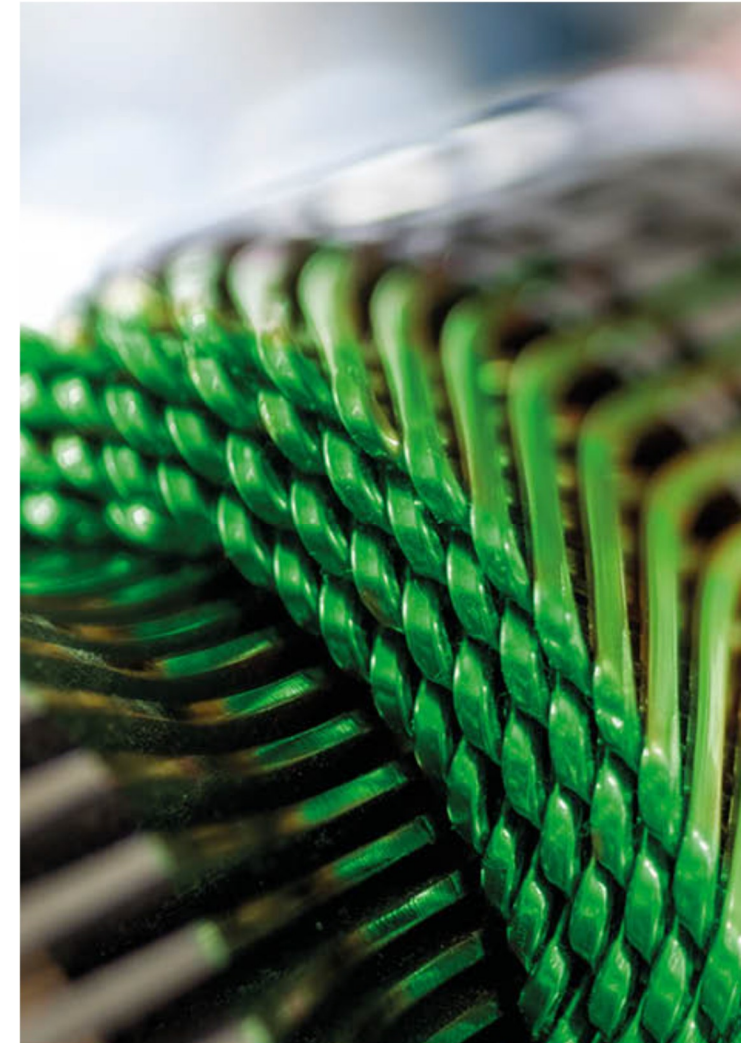
## Vision Powertrain 2035 – Electrification is further accelerating



We drive the transition to innovative propulsion systems

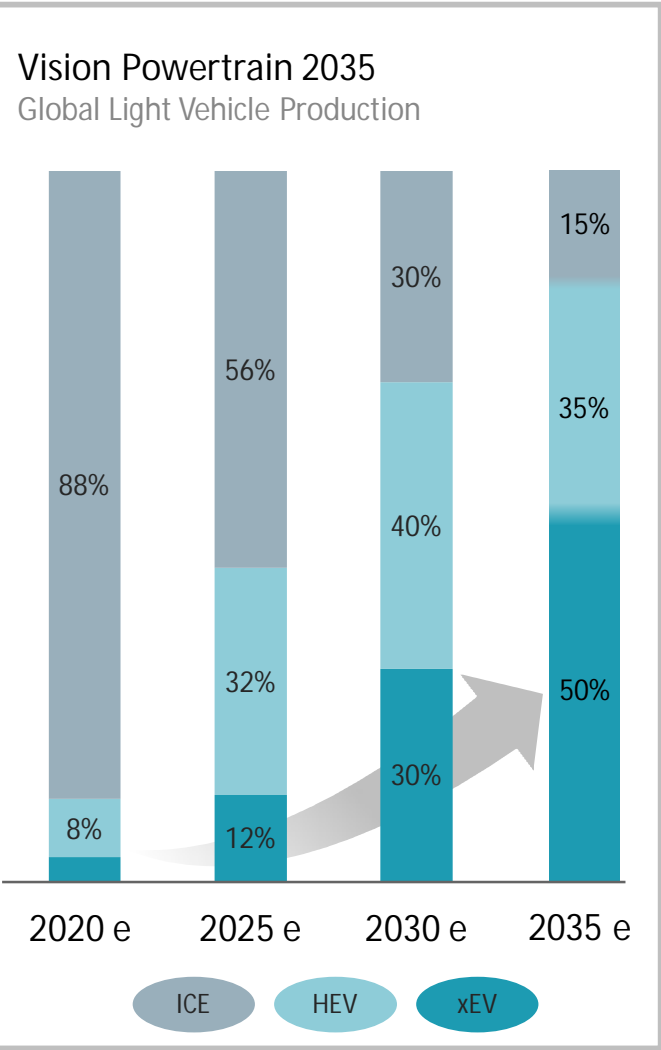
HEV as transition technology will reach tipping point in 2030

Electrification is further accelerating



## 2 Where we play

We actively manage our Product Portfolio



|         | Mature Business                   |   | New Business                              |                                      |
|---------|-----------------------------------|---|---|--------------------------------------|
|         | Products for ICE and HEV          | Powertrain agnostic <sup>1</sup> products | Powertrain agnostic <sup>1</sup> products | Products for Electrified Powertrains |
| ICE     |                                   |   |   |                                      |
| HEV     |                                   |   |   |                                      |
| xEV     |                                   |   |   |                                      |
| Example | <br>Ball Screw Drive for Steering |   | <br>Rear Wheel Steering                   | <br>3in1 e-Axle                      |

<sup>1</sup> Independent from powertrain type

Decreasing potential    Increasing potential    Strongly increasing potential

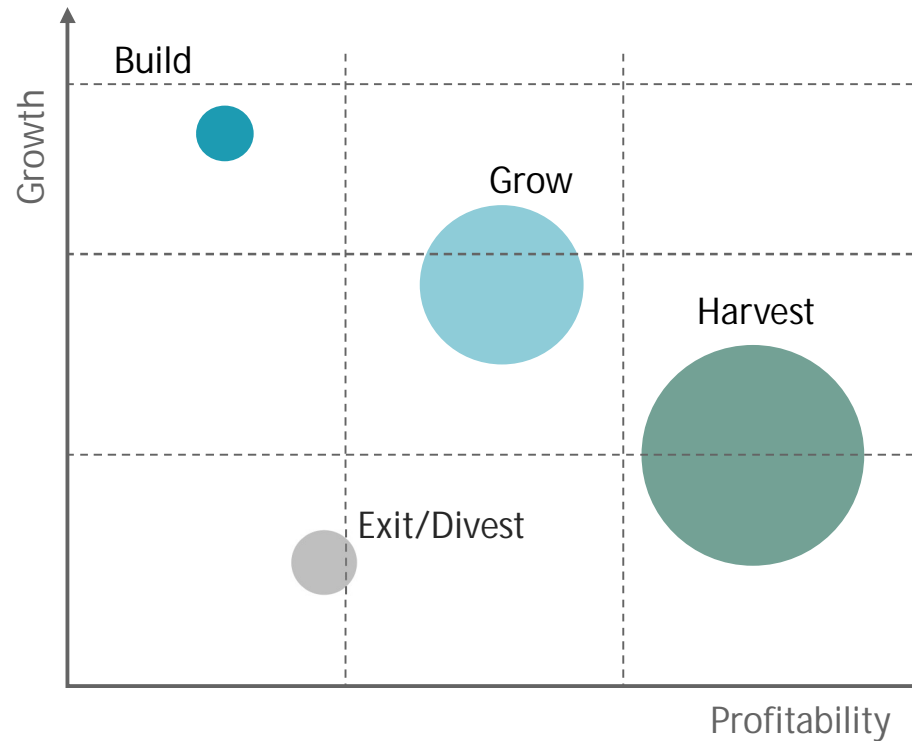
We actively manage the transition by ensuring profitability in Mature Business and a strong growth in New Business

## Mature Business

We  
**HARVEST**  
with our  
Enabler-Technologies

We  
**EXIT/DIVEST**  
expiring businesses &  
consolidate our footprint

Automotive Technologies –  
*Driving the transition to innovative propulsion and  
chassis technologies*



## New Business

We  
**BUILD**  
Competencies in  
Power Electronics & Hydrogen

We  
**GROW**  
in Electrified  
Powertrains



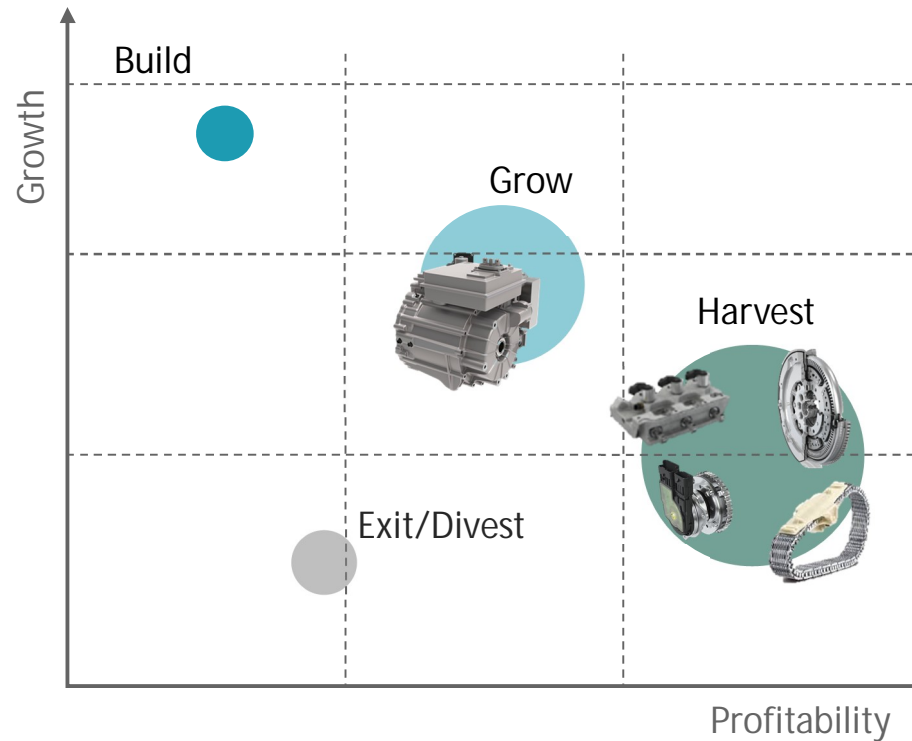
We actively manage the transition by ensuring profitability in Mature Business and a strong growth in New Business

## Mature Business

We  
**HARVEST**  
with our  
Enabler-Technologies

- Focus on profitable **Enabler-Technologies** for hybrid powertrains and optimized combustion engines
- **Safeguard margins** and **generate cash**

Automotive Technologies –  
*Driving the transition to innovative propulsion and chassis technologies*



## New Business

- Schaeffler becomes a **3in1 E-Axle** and **DHT** supplier
- **Strong Order Intake** with 4 bn EUR in 2019 > 1 bn EUR in H1 2020
- Order Intake<sup>1</sup> target of 1.5 - 2 bn EUR p.a. until 2021, thereafter 2 - 3 bn EUR on average

We  
**GROW**  
in Electrified  
Powertrains

<sup>1</sup> In HEV and xEV

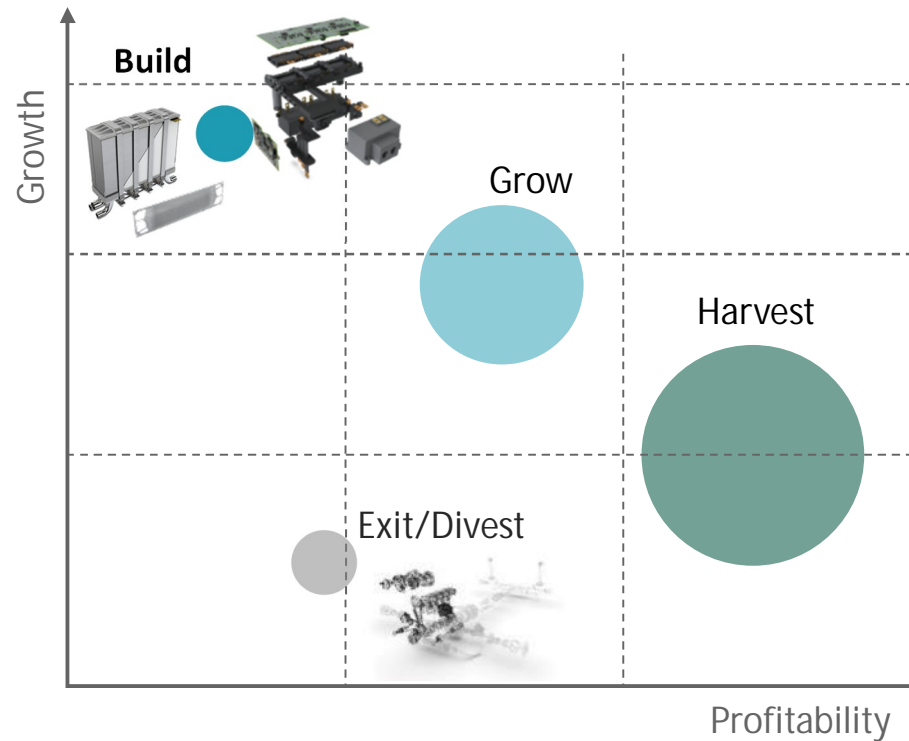
We actively manage the transition by ensuring profitability in Mature Business and a strong growth in New Business

## Mature Business

- Consolidation of plants in Europe with focus in Germany
- Reduce complexity
- Exit/Divest from expiring businesses

We  
**EXIT/DIVEST**  
expiring businesses &  
consolidate our footprint

## Automotive Technologies – *Driving the transition to innovative propulsion and chassis technologies*



## New Business

We  
**BUILD**  
Competencies in  
Power Electronics & Hydrogen

- Power Electronics as potential focus for partnerships
- Build own Power Electronics Capabilities
- Cross-divisional Capability Center for **Hydrogen Technology** in Herzogenaurach

We drive sustainability deep into the organization

## Mature Business

### Qualification Program Fit4Mechatronics

1,150 specialists<sup>1</sup> successfully internally qualified for E-Mobility jobs from other business divisions




<sup>1</sup>Since 2018

## New Business

### Sustainable Production Footprint

E-Mobility Footprint expansion started with focus on energy and resource efficient production systems



 New E-Mobility plant, Szombathely Hungary



 Ultra Efficiency Factory, Bühl Germany

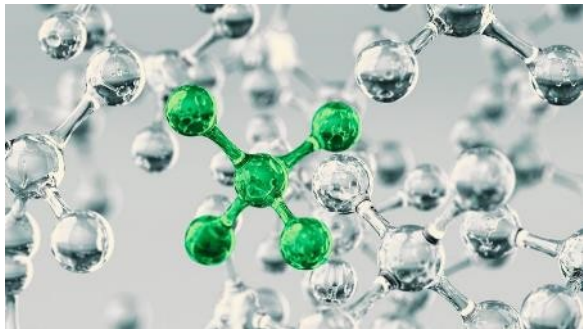


# 3

## How we win in our markets

We boost our USPs for driving the transition to innovative propulsion and chassis technologies

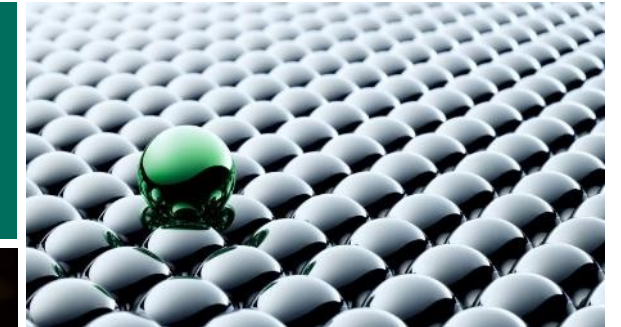
Innovation



System Understanding



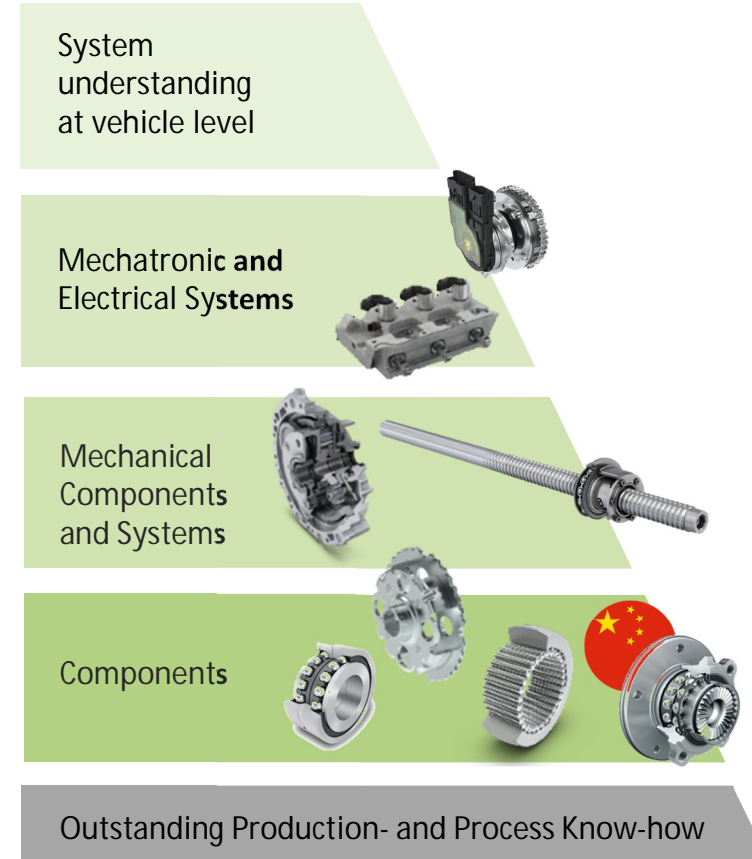
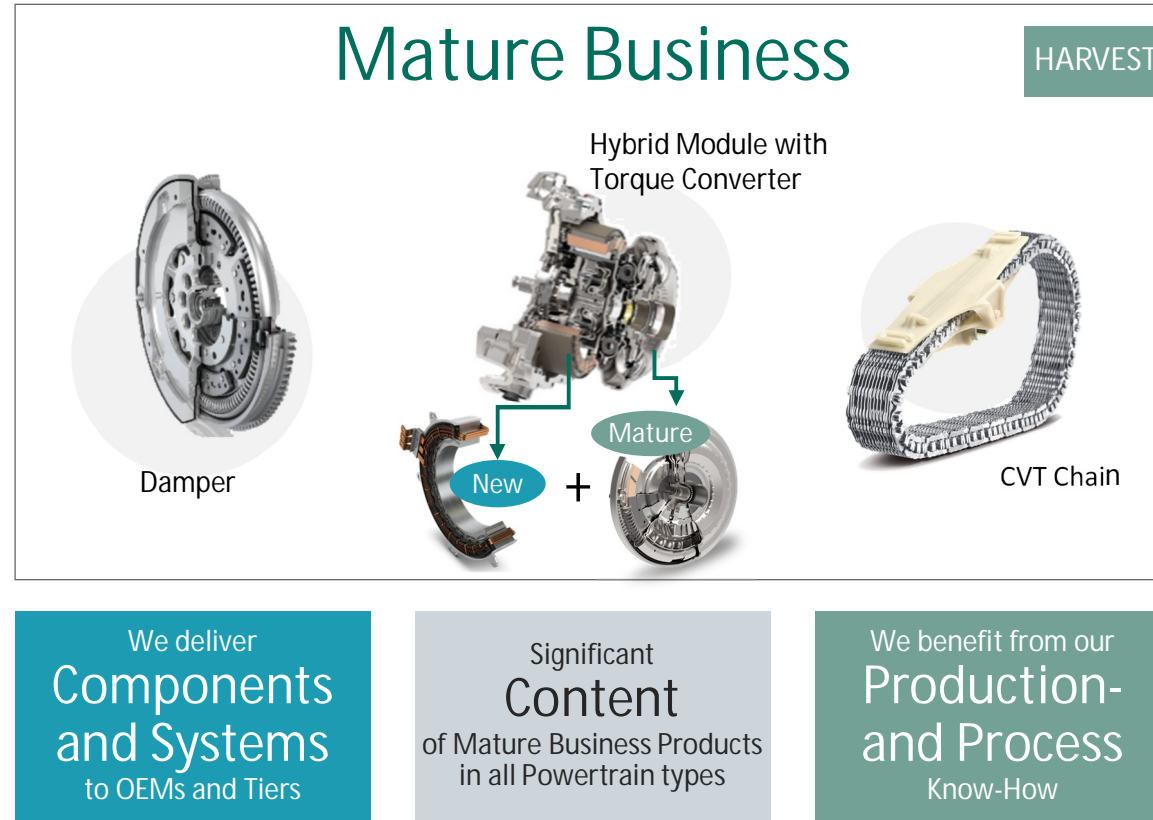
Quality



Manufacturing Excellence



We will capture further market potential with high quality components and systems



By complexity reduction and active portfolio management we will harvest our mature business

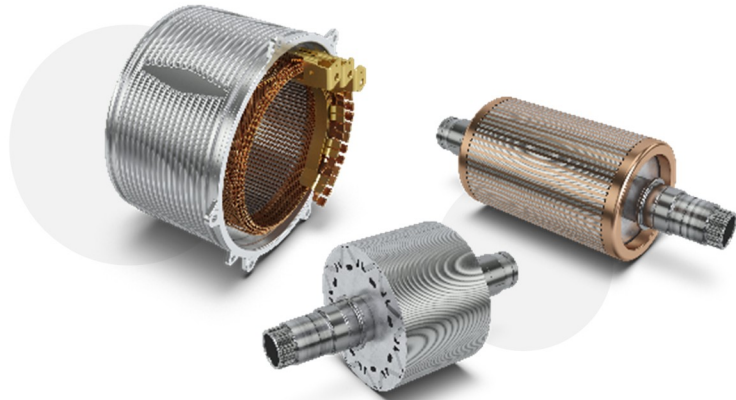


## We delivered on our promise – Schaeffler supplies Stators and Rotors for E-Motors



### New Business

GROW



**Nomination**  
received by Premium OEM

Stator and rotor for  
**E-Motors**  
(induction and synchronous)

Order Intake for e-Motor  
Components  
**>1 bn**  
EUR

### Key aspects



New E-Mobility plant,  
Szombathely Hungary



Outstanding Production- and Process Know-How

- Fast momentum with E-Motors since first nomination in 2019
- Outstanding Production- and Process Know-How (e.g. Stamping Technologies)
- Global Production Footprint

We will drive scalability via modularity

We delivered on our promise – Schaeffler achieved the target to become a 3in1 E-Mobility supplier



## New Business

GROW



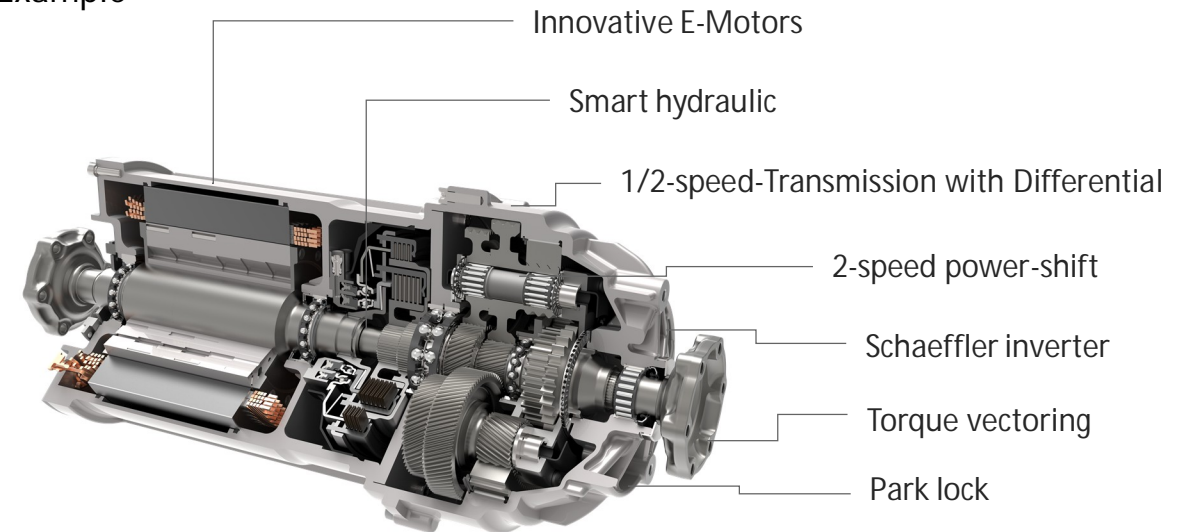
### Modularity & Scalability

of our products secure long term profitability

We  
**Delivered**  
on our promise

Order Intake with  
3in1-Systems  
**~3 bn**  
EUR

Example



- Development of a complete 3in1 powertrain portfolio
- Fully functional, integrated system
- Best in class efficiency and outstanding power density
- Innovative 800 V Inverter and E-Motor technology

With our new 3in1 E-Axle we will step forward technologically in performance application and set a new benchmark in the market



## We extend our portfolio – Innovative Wave-Winding Technology for Heavy Duty



E-Motor  
**Nomination**  
for Heavy Duty

Innovative  
**Wave  
Winding**  
Technology

Electrification for  
**Heavy Duty**  
in the US

### Key aspects

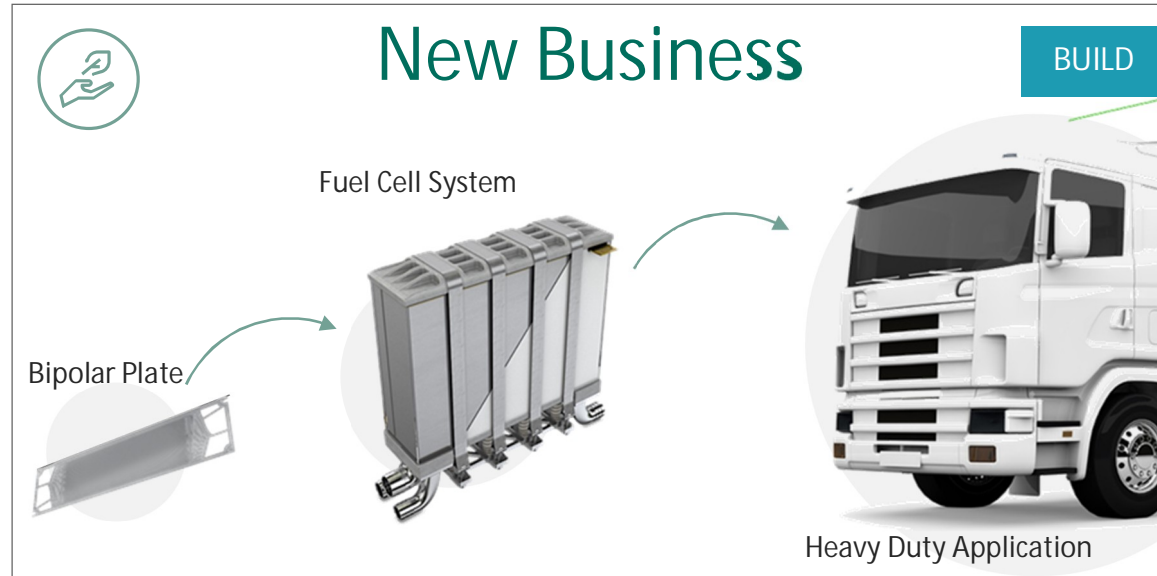


ELMOTEC **STATOMAT**

- Electrification for Heavy Duty
- E-Motors with innovative Wave-Winding Technology

We achieve synergies by rolling out our E-Motor technology to Heavy Duty

## We extend our portfolio – Fuel Cell Systems to pioneer a broad application

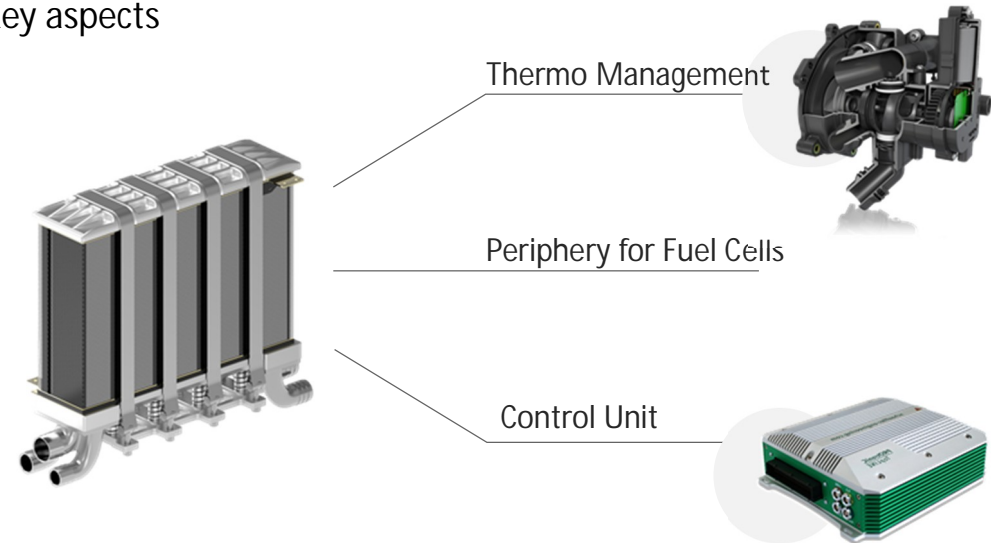


**~240,000**  
Fuel Cell Trucks and Buses  
in 2030 expected

High  
**Synergies**  
to Mature Business  
Portfolio

**Manufacturing  
Expertise**  
across all process steps

### Key aspects



- Overarching cross-divisional cooperation to realize Synergies
- Schaeffler can provide all processes out of one hand
- High Expertise in Manufacturing of metallic Bipolar Plates

We bundle competences from manufacturing processes to whole fuel cell systems on vehicle level in cooperation with our Industry division to ensure synergies

We leverage our portfolio – Focusing on innovative chassis solutions and automated driving functionalities

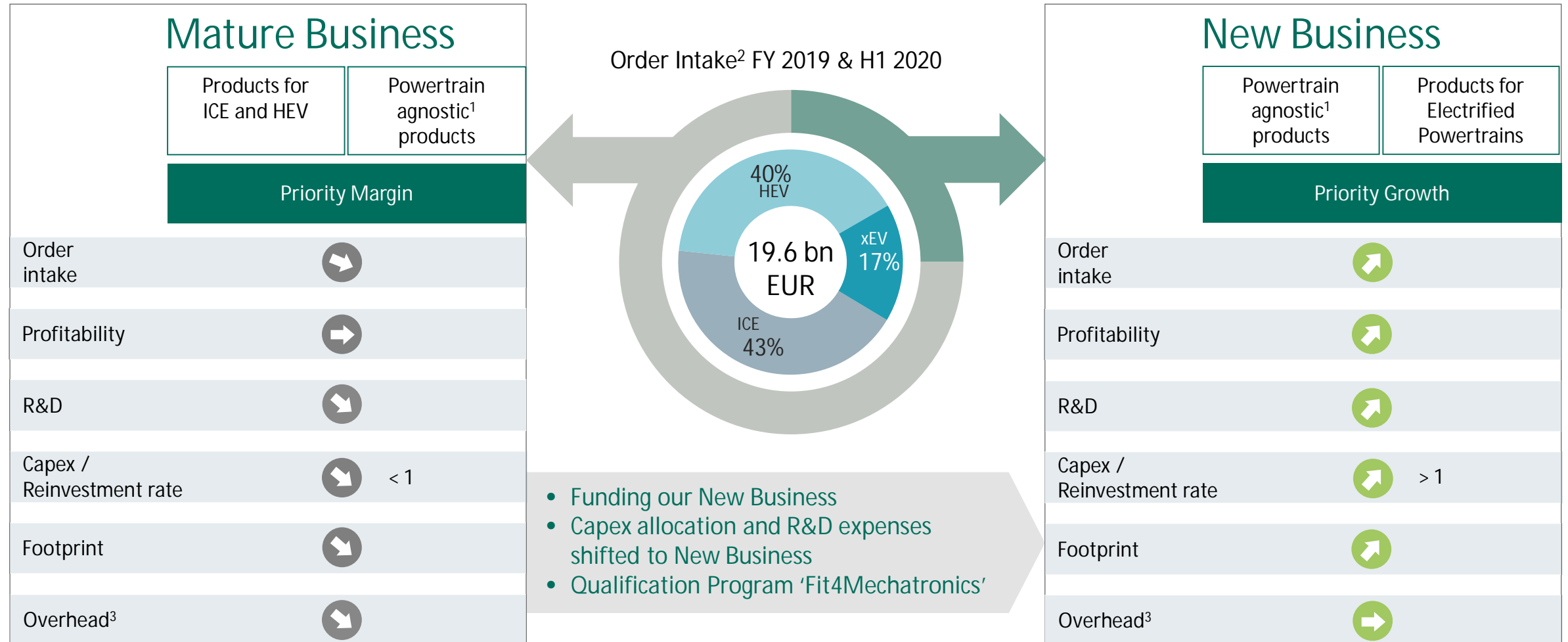


- New partnership with Bosch Automotive Steering to expand the development of intelligent Rear Wheel Steering (iRWS) portfolio
- X-by-Wire technology for automated driving functionalities

Seizing opportunities arising from New Mobility and automated driving functionalities

# 4 How we create value for our customers and the Group

## How we fund our own growth and create value



<sup>1</sup> Independent from powertrain type | <sup>2</sup> Powertrain split of Order Intake without Heavy Duty | <sup>3</sup> Selling & Admin expenses

## Automotive Technologies – Our Mid-term Targets

### Automotive Technologies

Top line

Outperformance<sup>1</sup>  
**200 to 500 bps**  
on average 2021 to 2025

Profitability

**4 to 6%**  
EBIT margin before special items  
latest in 2023

<sup>1</sup> FX-adj. sales growth above Light Vehicle Production (IHS)

# 5 Summary and conclusion

We drive the transition to innovative propulsion and chassis technologies, to conquer leadership positions in New Business

- 1 We plan conservatively with a disciplined view on costs in a highly uncertain market environment

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- 2 We aim to outperform the market thanks to our system understanding and our excellence in industrialization

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- 3 We actively manage the transition by ensuring profitability in Mature Business and fostering strong growth in New Business

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- 4 We implement our efficiency measures, reduce complexity and manage our portfolio to fund our own growth while securing a dependable margin range

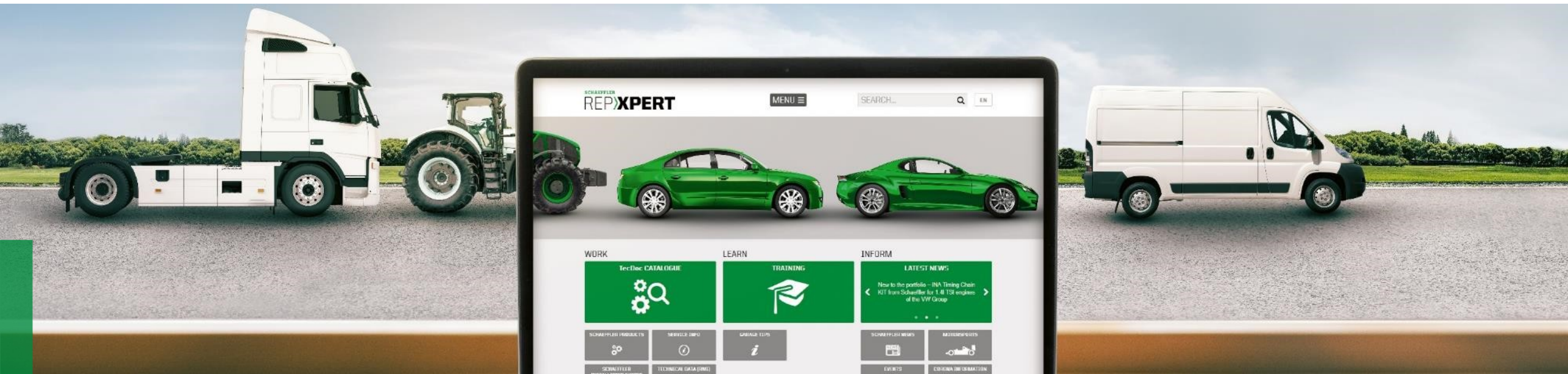
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- 5 We prioritize growth and aim for leadership positions in our New Business, leveraging both our organic capabilities and external growth



Conquer leadership  
positions in  
New Business  
for electrified  
Powertrains and  
Chassis applications



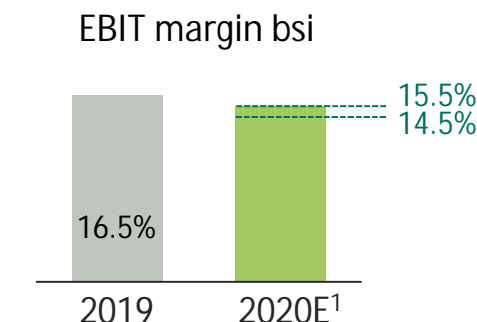
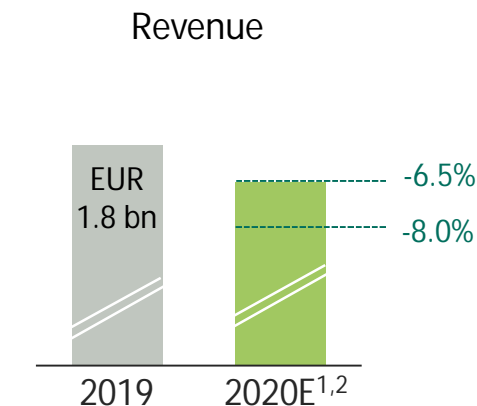
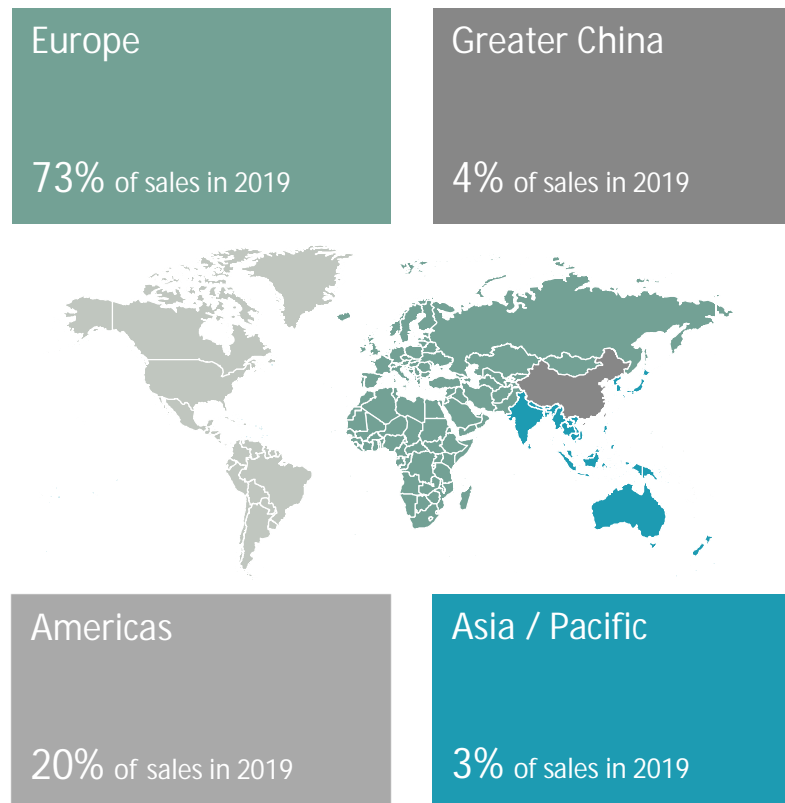
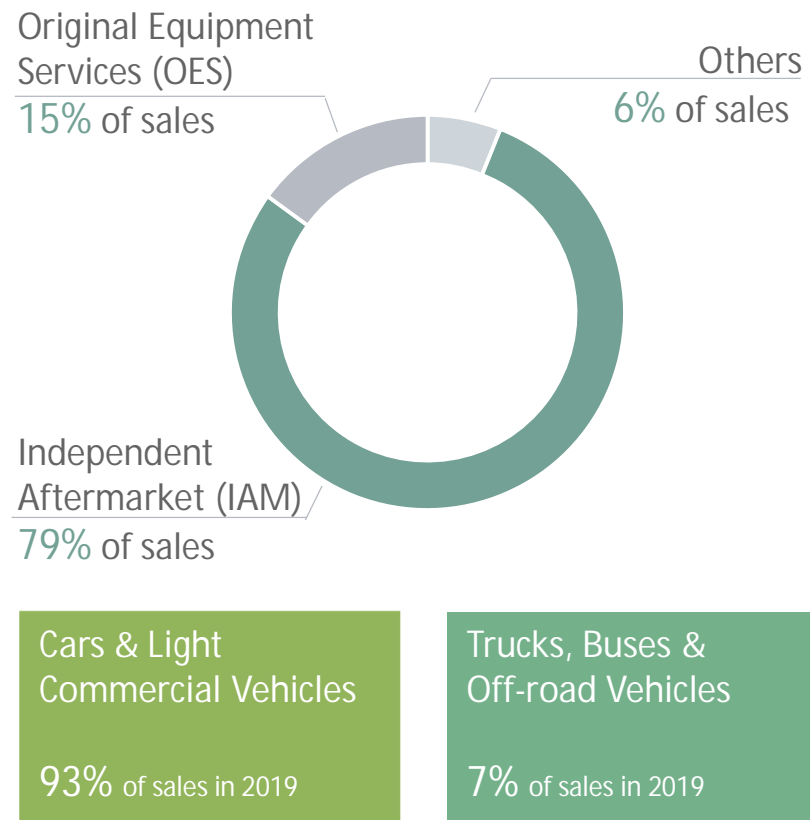


# Automotive Aftermarket

Michael Söding, CEO Automotive Aftermarket Division  
Herzogenaurach, November 18<sup>th</sup> 2020

# 1 Where we stand

# Automotive Aftermarket – Leading supplier of Aftermarket components and systems

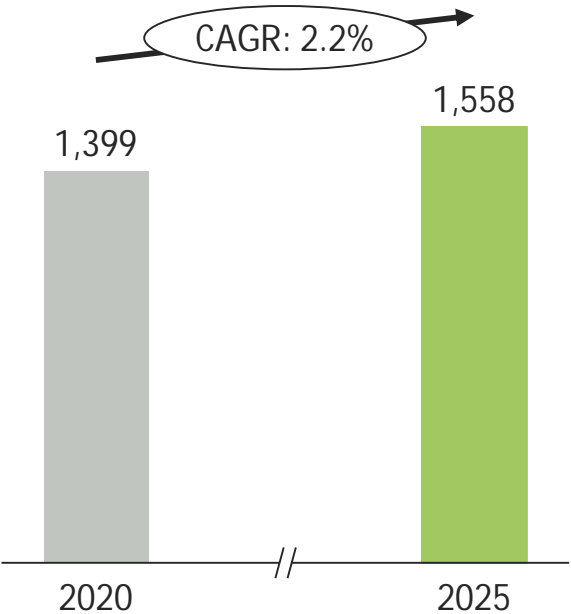


<sup>1</sup> FY 2020 Guidance | <sup>2</sup> FX-adj. growth

Business in 2025 is secured by today's car parc

Global Car Parc development

Passenger Cars and Light Commercial Vehicles  
in mn units



Source: IHS Forecast as of May 2020  
Car parc older than 4 years grows by nearly 150 mn units from 2020 to 2025 corresponding to CAGR +2.5%

Covid-19 accelerates market trends

|   | Impact on Independent Aftermarket | Acceleration due to COVID-19 |
|---|-----------------------------------|------------------------------|
| Car parc will keep on growing and aging but driven mainly by emerging regions (mainly China)              | +                                 |                              |
| Profit pool is (and will keep on) shrinking, consolidation and integration activities increasing          | -                                 | ✓                            |
| New players make Total Cost of Ownership, and thus life cycle management, an increasingly important topic | +                                 | ✓                            |
| Disrupting impact of new/emerging vehicle technologies not expected before 2029 – but to be prepared for  | +/-                               |                              |
| Digital platforms and e-Commerce are changing customer journey and will impact the go-to-market approach  | +                                 | ✓                            |

+ Tailwind   - Headwind   +/- Neutral

## 2 Where we play

We are a market leader supplying high-quality components and solutions

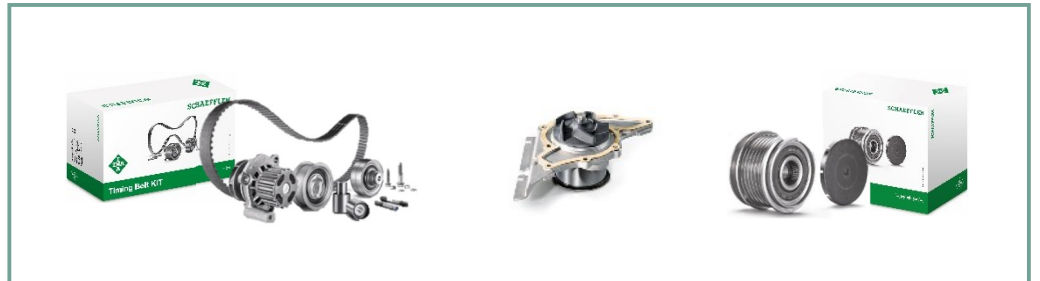
## Transmission

More than 50 years as leading transmission expert for power transmission and vibration damping



## Engine

Aftermarket's No. 1 full range provider: from single products to innovative repair solutions



## Chassis

Famous for its innovative strength, leading in bearing, sealing and coating technology



We will capture new and additional growth opportunities

### Growth drivers



### Growth enablers



We focus our growth on sustainable demand and innovative service solutions

## Growth drivers



- Future-relevant portfolio irrespective of drive technology
- High-performance parts



- Plug & Play solutions
- Also available for hybrid vehicles



- One-stop-shop for high-complexity products
- Consolidation of distribution levels

## Growth enablers



- Customized repair instructions
- Added garage services



- Fast and reliable delivery
- Efficient and scalable structures

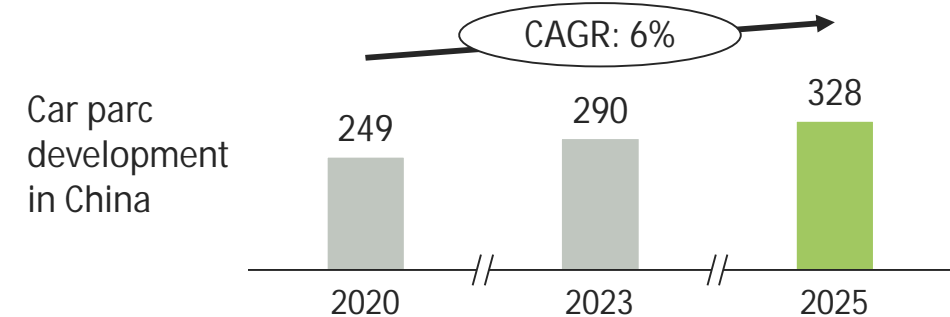
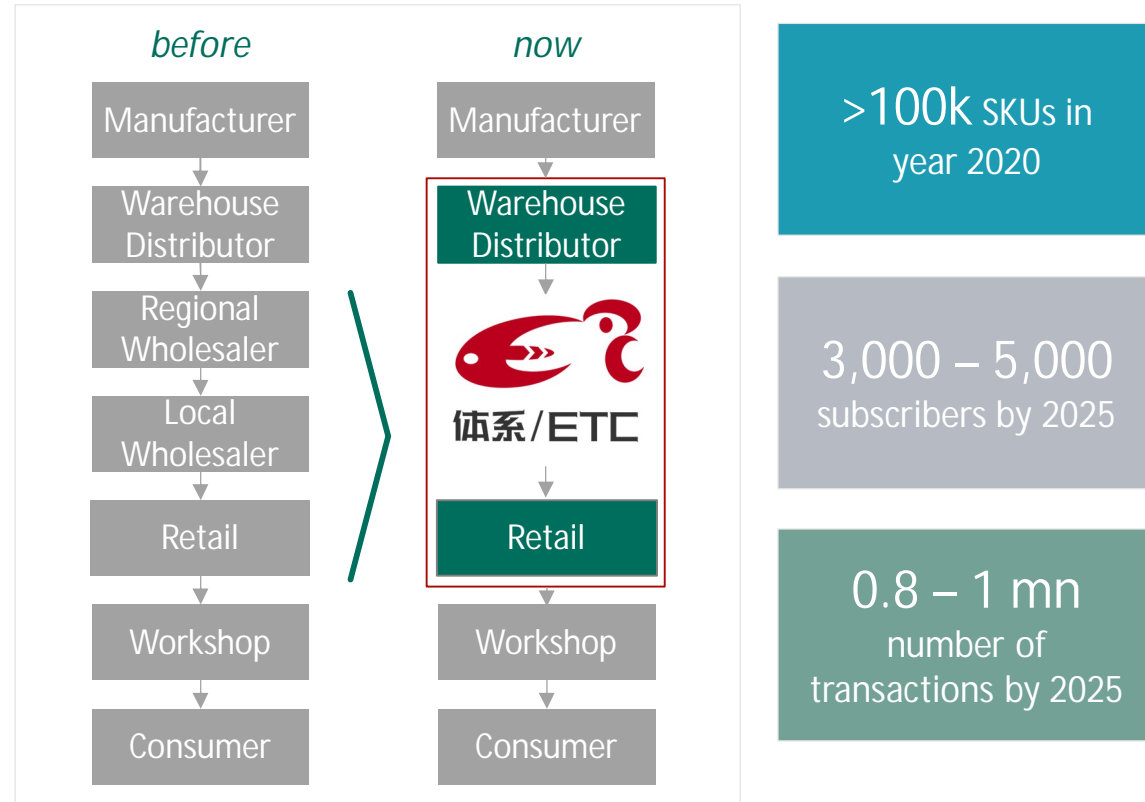


# 3

## How we win in our markets

## ETC China – Schaeffler’s new B2B2B online trading platform for the Chinese aftermarket

### Aftermarket structure in China



Source: IHS Forecast as of May 2020

- Realignment of the fragmented Chinese distribution landscape offers a one-stop-shop solution for retailers
- Unique catalogue based non-open platform, positioning itself in the 'high-complexity product' niche
- Enabling customers instead of bypassing them whereas the platform offers further potential to scale partnerships

Expected sales growth in China will exceed market growth

## AKO Europe – The industry benchmark in logistical solutions to boost delivery performance

### Aftermarket Kitting Operation (AKO) Europe



60% of worldwide  
inventory in AKO  
Europe by 2023

Consolidation of  
7 locations

30% reduction in  
kitting times



Sustainable  
distribution  
network

-3 % packaging materials

-20 % CO<sub>2</sub> emissions in transport

100 % reusable loading equipment<sup>1</sup>

<sup>1</sup> Internal loading equipment

- Logistically optimized location and integrated storage, kitting and distribution reduces fixed cost
- Agile processes and advanced technology increases flexibility to volatile demand and allows scaling
- One-Piece-Flow order processing & Kit-to-Order reduces lead times and increases inventory availability and customer needs

Following the transitional period of consolidating existing warehouse structures, AKO Europe will add efficiency from 2022 onwards

# 4 How we create value for our customers and the Group

## Automotive Aftermarket – Our Mid-term Targets

### Automotive Aftermarket

Top line

FX-adj. sales growth  
**> GDP growth**  
on average 2021 to 2025

Profitability

**13 to 15%**  
EBIT margin before special items  
latest in 2023

# 5 Summary and conclusion

## We capture growth opportunities in new markets and maintain a high margin level

- 1 The global aftermarket will keep growing while the distribution of the profit pool is changing; Covid-19 is accelerating the market transformation

---

- 2 Our growth is fueled by growing share of wallet, our solution and service offer and a new way to market, e.g. our ETC platform in China

---

- 3 Our growth is enabled by digital capabilities, as well as the leading Aftermarket Kitting Operations in the Industry

---

- 4 Automotive Aftermarket will continue to be a strong EBIT contributor to the Schaeffler Group

---

- 5 Our mid-term sales growth<sup>1</sup> will be higher than GDP growth, while the EBIT margin<sup>2</sup> will stabilize between 13 and 15% latest 2023



Maintain a high margin level, expand our share of wallet and reach

<sup>1</sup> FX-adj. growth | <sup>2</sup> Adjusted EBIT margin



# Industrial

Dr. Stefan Spindler, CEO Industrial Division  
Herzogenaurach, November 18<sup>th</sup> 2020



# 1 Where we stand

## Industrial Division at Schaeffler – Leading global component and system supplier

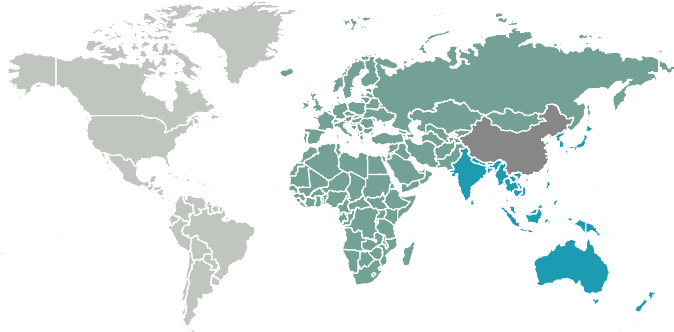
**SCHAEFFLER**

Europe

46% of sales in 2019

Greater China

20% of sales in 2019



Americas

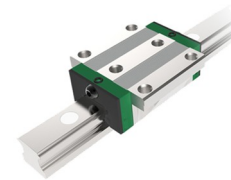
18% of sales in 2019

Asia / Pacific

16% of sales in 2019



Bearings



Linear Technology



Mechanical Systems

Broad range of products

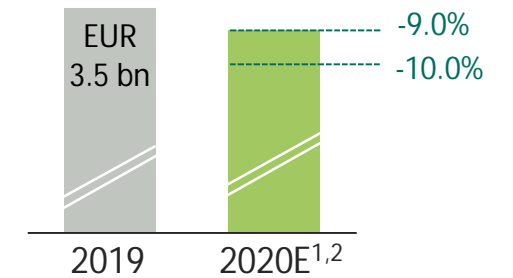


Mechatronic Systems

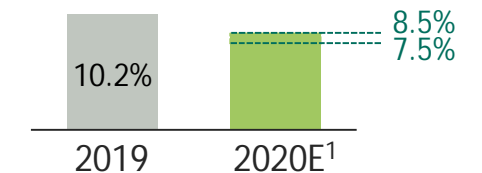


Service Solutions

Revenue



EBIT margin bsi

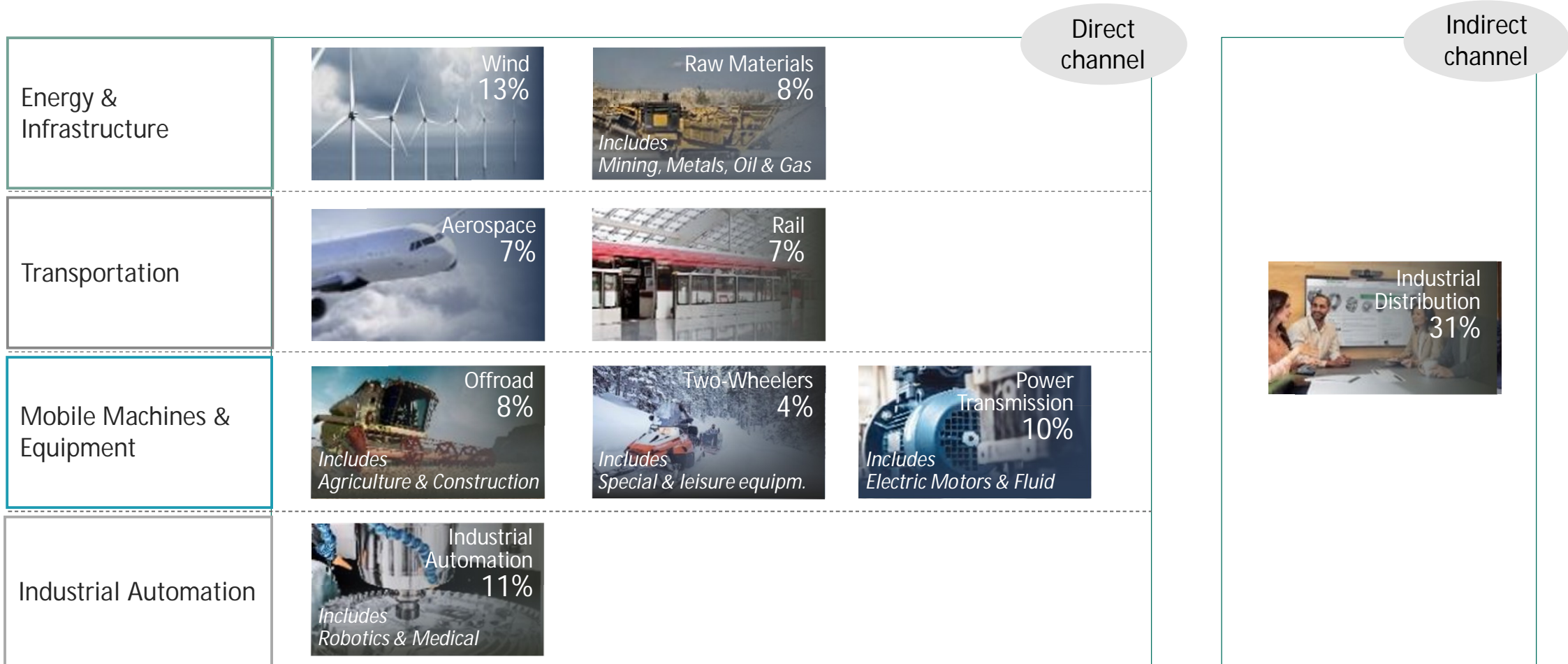


<sup>1</sup> FY 2020 Guidance | <sup>2</sup> FX-adj. growth

## Industrial Division at Schaeffler – Well diversified sector and channel portfolio

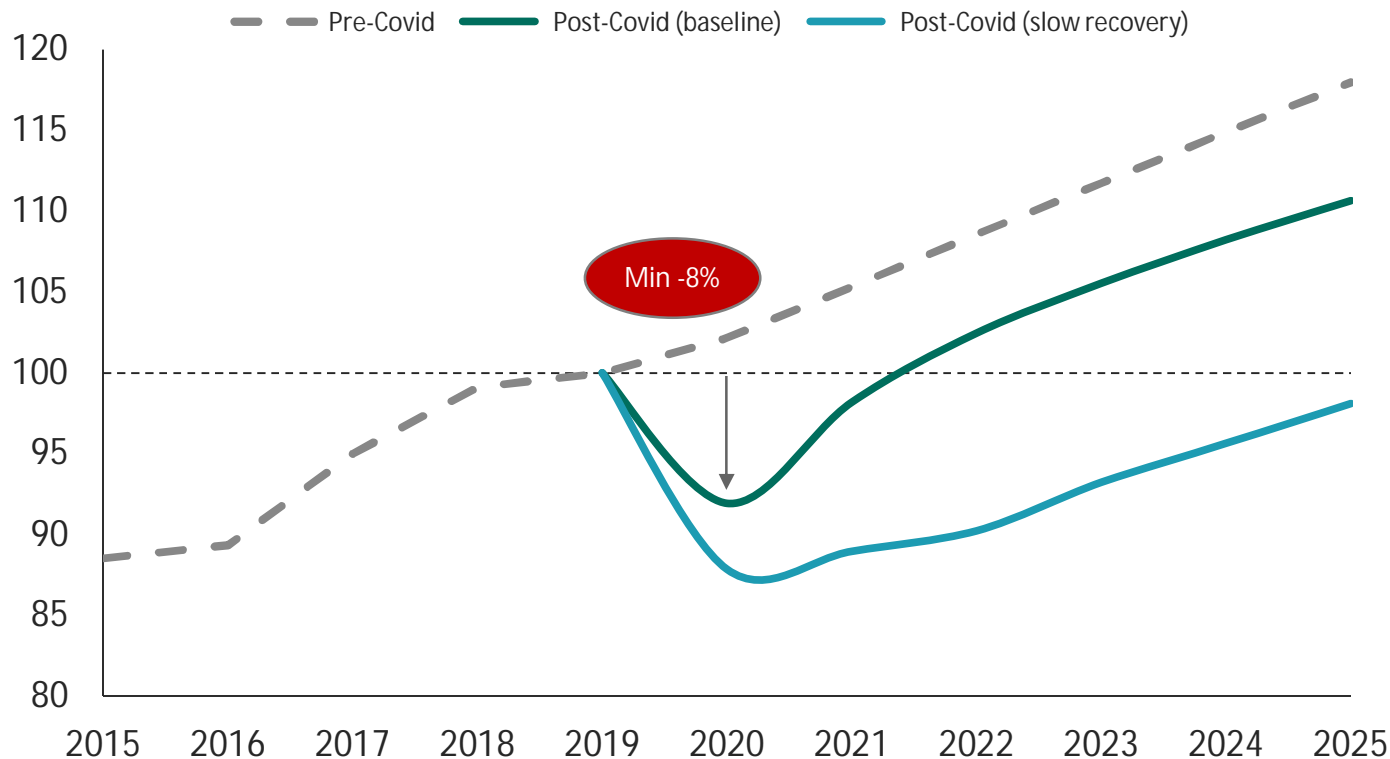
...with 8 Sector Clusters + Distribution

Sales share 2019



## Market falls by at least 8% in 2020 – Rebound to 2019 output level not before 2022

Development of Industrial production (sector basket based on Oxford Economics) until 2025<sup>1</sup>  
Index, 2019 = 100



<sup>1</sup> Source: Oxford Economics, sector basket: Mechanical engineering, transport equipment, electrical equipment  
Pre-Covid (Dec 2019), Post-Covid – slow recovery (May 2020), Post-Covid – baseline (Sep 2020)

### Key aspects for market growth from 2020 onwards

- Global industrial production will fall by at least 8% in 2020. Greater China is the only growing region in 2020 (based on Schaeffler regional structure)
- Speed of market recovery remains uncertain. Global market will be back to 2019 level earliest in 2022
- Greater China and Asia/Pacific are the only Schaeffler regions to show above average long-term growth (CAGR '19-'25)

## Majority of sector clusters with positive long-term market outlook despite Covid headwinds

Market outlook 2019-2025<sup>1</sup>

Wind



Raw Materials



Aerospace



Rail



Offroad



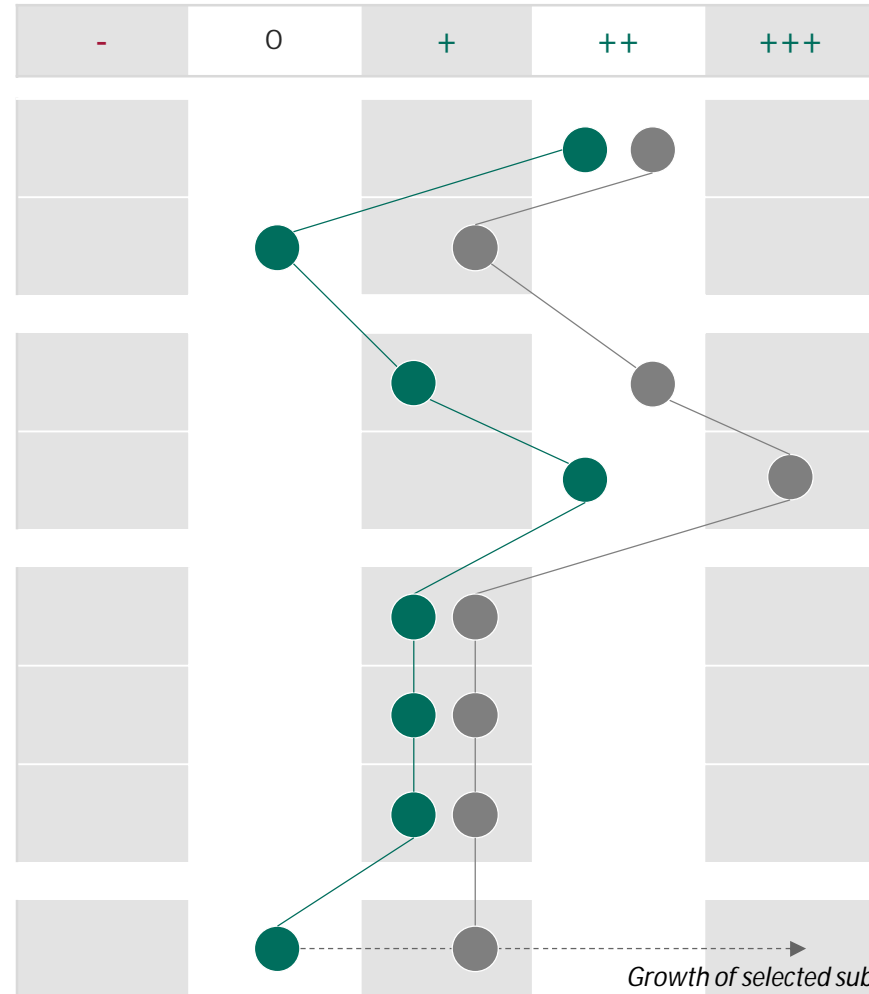
Two-Wheelers



Power Transmission



Industrial Automation



## Key market drivers

- Wind is growing on the global trend towards sustainability and climate-friendly energy sources
- The ongoing rise of mobility and growing environmental awareness leads to high investments into sustainable transportation
- Stable mid-term development in other sectors after a recovery phase in the short-term

Growth of selected sub sectors: Robotics, Medical

● Post-Covid ● Pre-Covid

<sup>1</sup> Internal estimate based on sector-specific external market forecasts (Jan 2020 & Sep 2020)

Schaeffler Industrial is delivering comprehensive solutions for a sustainable planet

Green energy production



Every 2<sup>nd</sup> to 3<sup>rd</sup> wind turbine supplied with Schaeffler products

Broad bearing portfolio and Industry 4.0 solutions to secure smooth wind turbine operation and reliable power generation

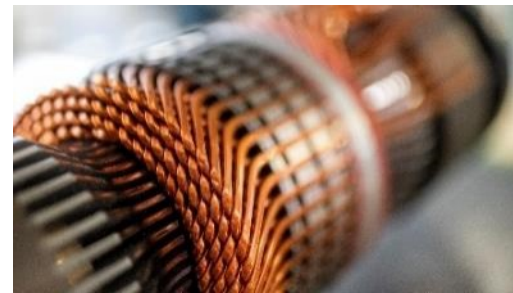
Green transportation



Key components for Rail industry enabling environmentally friendly freight & passenger transportation

Climate-friendly maintenance helps to save around 95% of CO<sub>2</sub> emissions by reconditioning of wheelset bearings compared to new production

Energy efficiency



Low friction bearing portfolio for standard and highly customized electric motors guaranteeing maximum efficiency and energy-saving driveline technologies

Resource optimization



Condition monitoring for maximum machine efficiency and avoidance of unnecessary component replacements as a result of machine breakdowns

Refillable smart lubricators to reduce waste, automated re-greasing to ensure reliable bearing operation

## 2 Where we play



## Balanced sector mix with strong product portfolio

### Creating VALUE

#### Energy & Infrastructure



Wind



Raw Materials

#### Transportation



Aerospace



Rail

#### Mobile Machines & Equipment



Offroad



Two-Wheelers



Power  
Transmission

#### Indust. Automation



Industrial  
Automation



Distribution

1

Wind large size bearings



2

Rail bearings



3

Agricultural technologies



4

Robotics solutions



5

OPTIME



6

Hydrogen



*Pushing growth  
in our core business*

*Driving innovation  
with systems & services*



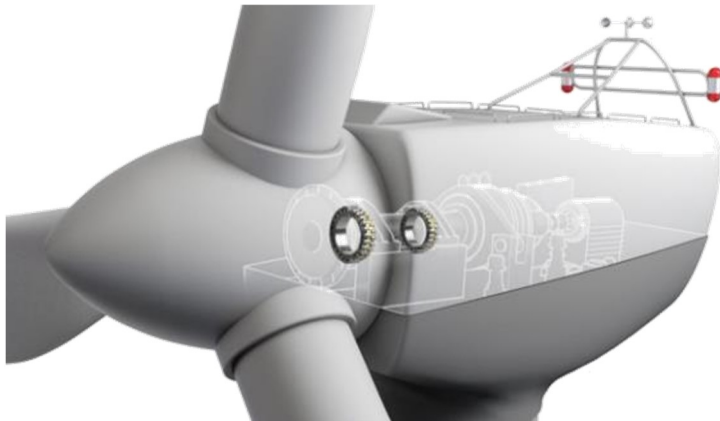
# 3

## How we win in our markets

## 1 Wind large size bearings: Ensuring sustainable energy supply with highest reliability



Sustainable energy  
production

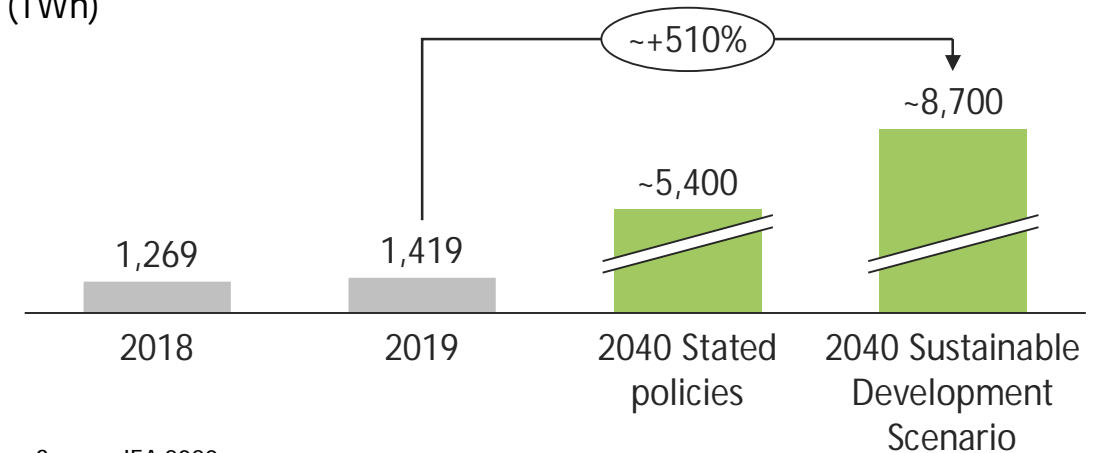


Bearing size of more than  
**3 meter**  
outer diameter

Offshore turbine  
**> 10 MW**  
power rating

Operating lifetime  
**> 20 years**  
under highly dynamic  
operating conditions

Wind power generation  
(TWh)



Source: IEA 2020

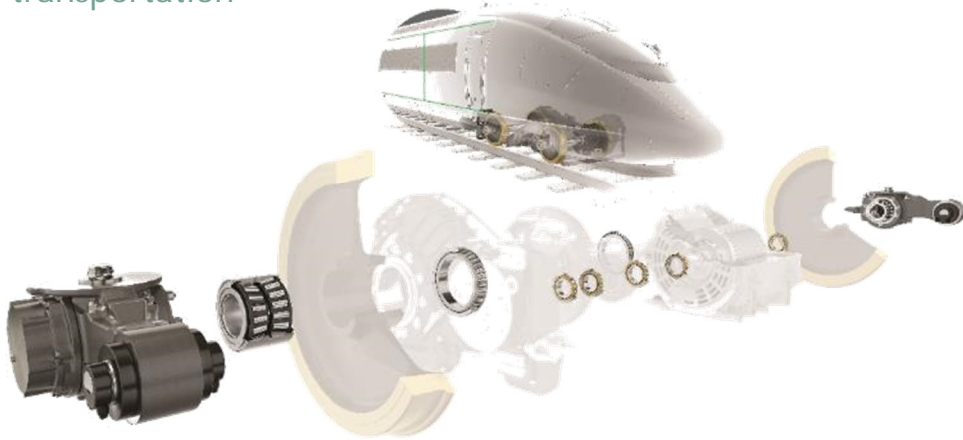
- Schaeffler is the global market leader for large size Wind bearings with very positive long-term prospects as wind power is one of the backbones for CO<sub>2</sub> reduction and sustainable energy generation
- Two-digit EUR mn investments into large size bearing production capacities in China to extend localization in a key growth market

Highly durable bearings best suited for the Wind power industry by meeting highest process and product quality requirements and a dedicated engineering

## 2 Rail bearings: Supporting both freight and all types of passenger transport



Sustainable  
transportation

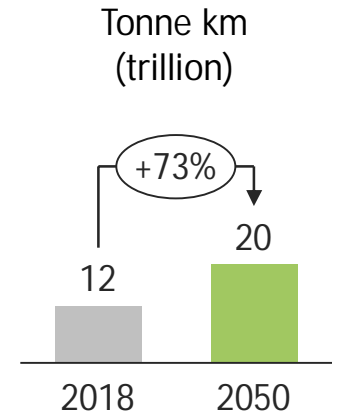
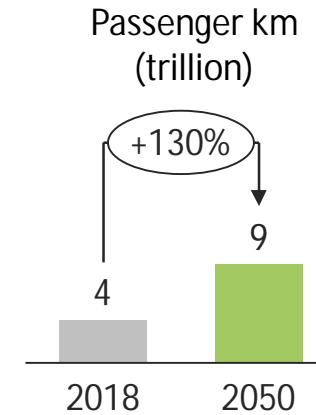


One new bearing leads to  
**8 bearings**  
for recycling or repair  
(high speed)

Bearings used in trains  
**> 300 km/h**

Bearings operate in  
extreme conditions up to  
**-45°C**

### Rail transport performance



Source: SCI Rail 2020, IEA 2019

- Contribution to a safer and smarter mobility while supporting Schaeffler's sustainability agenda
- Very strong long-term market outlook supported by megatrends of urbanization and population growth leading to increasing transport volumes

Holistic product portfolio fulfilling highest product quality expectations for precision and reliability in extremely demanding environments

### 3 Agricultural technologies: Secure a sustainable food supply for the growing world population



Sustainable  
food production



Integrated supplier:  
Industrial & Automotive



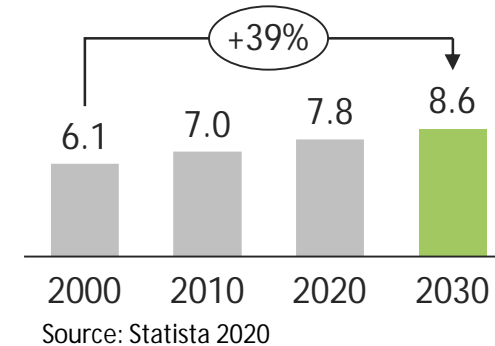
24/7

reliability in extreme  
environmental conditions  
like dust, heat and dirt

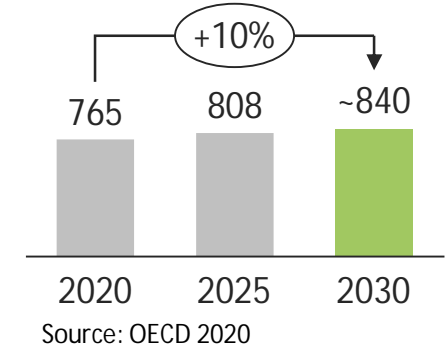
-20 to +100°C  
operating temperatures

Multiple & permanent  
**shock loads**  
to be supported during  
machine operation

Population growth  
(bn people)



World wheat production  
(million metric tons)



- Macroeconomic tailwinds of population growth and growing living standards
- Schaeffler supports the agricultural industry in its path to increase efficiency and output of food production (incl. electrification, automation)

Close relationships with global OEMs, ability to deliver wide product portfolio comprising bearings and mechatronic solutions

## 4 Robotics solutions: Integrated linear and rotative solution portfolio for a key future growth market

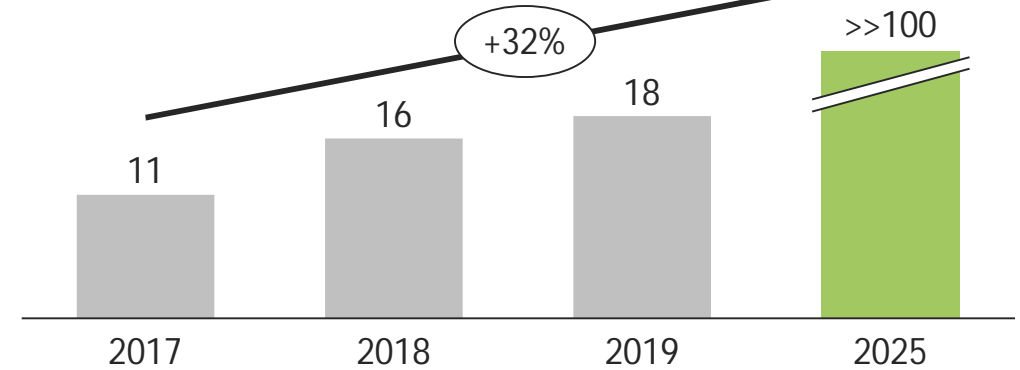


Speed reducer with up to  
**30,000 h**  
service life

**-20%**  
inner friction reduction in  
cobot bearing solution

**+30%**  
tilting rigidity for bearing  
aligned to cobot  
requirements

Cobot sales  
thousand units



Source: IFR for 2017-2019, Schaeffler expectation based on Markets & Markets for 2025

- Continuing trend towards industrial automation
- Enormous future potential with long-term growth due to cost advantages in comparison to manual work
- Innovative solution combining major cost advantages with higher reliability and precision

Holistic robotics portfolio excelling through high reliability and precision

5 OPTIME: Cost-effective wireless condition monitoring for up to 94% of machines

Efficient usage of resources

Smart manufacturing

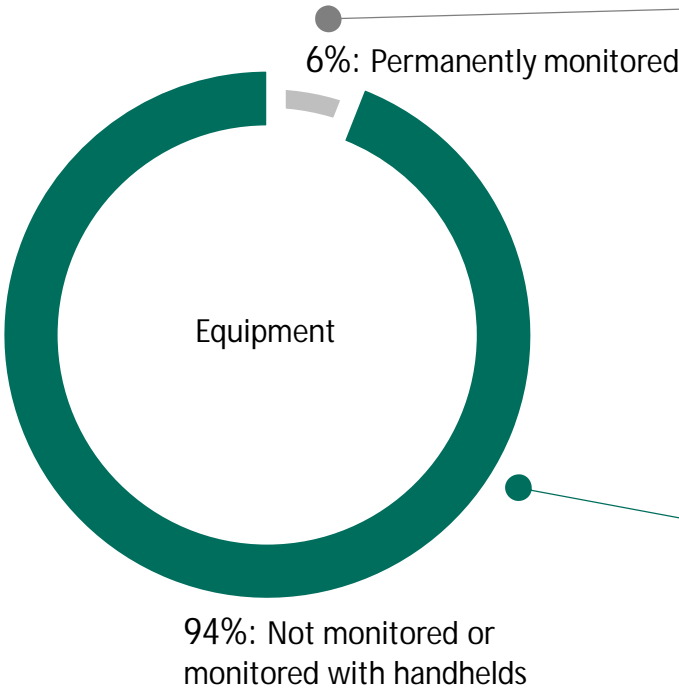


No training required for OPTIME

Only minutes installation time with a plug & play solution

Up to 50% cost savings compared to handheld measurement

Condition Monitoring in a typical pulp and paper production



Existing condition monitoring solutions (24/7 measurement)



OPTIME:

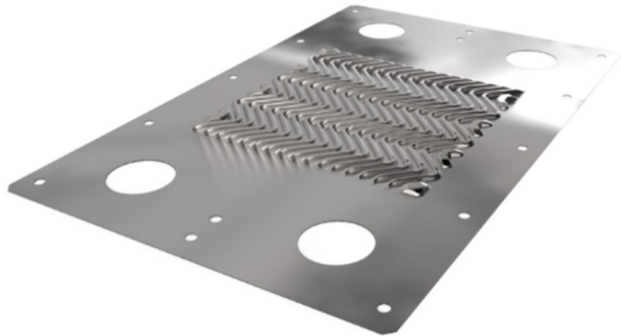
- Affordable
- Easy data handling

Highly scalable and cost-efficient monitoring and service solution for machine “health” management

## 6 Hydrogen: Carbon-neutral production of green hydrogen via electrolysis supplied by renewable energies



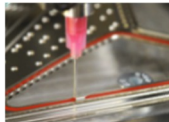
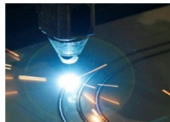
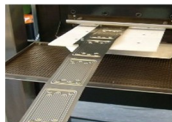
Sustainable energy  
production



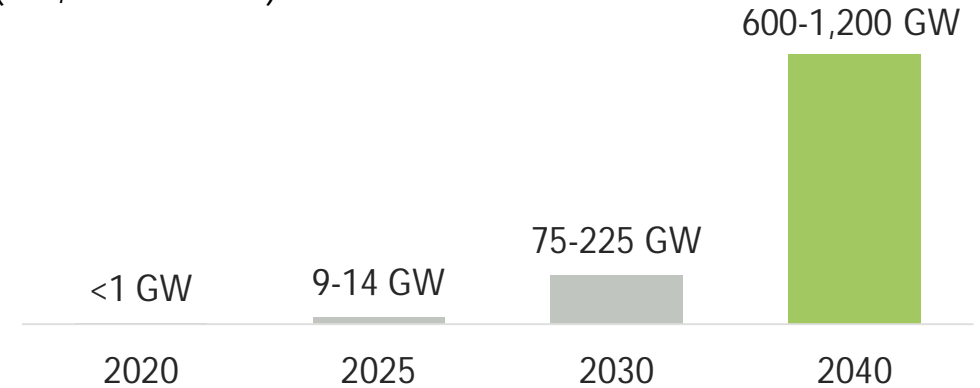
**\$ 30 – 40 bn**  
market volume for  
electrolyzers in 2030

**~20%**  
of global energy demand  
expected to be satisfied by  
H<sub>2</sub> in 2050

**> 50% green**  
H<sub>2</sub> expected in 2050



Globally installed electrolysis power  
(GW, accumulated)



Source: McKinsey

- Additional demand and existing feedstock will be gradually substituted by blue or green hydrogen, green hydrogen expected to dominate the market
- Schaeffler in best position for industrializing H<sub>2</sub> technologies and leveraging governmental programs
- Significant market potential

Green hydrogen demand is increasing rapidly – Efficient, cost-effective electrolyzer equipment is not available at required scale:  
Best fit to Schaeffler core competences in engineering and industrialization

# 4 How we create value for our customers and the Group



## Strong customer and technology focus supported by operational excellence & leaner structures



### Strengthen technology leadership for bearings and new technologies

- Maintaining and expanding leading position for motion technologies in all major industries
- Ramp-up of new Industry 4.0 mechatronics and service solutions



### FIT – Drive operational excellence program

- Holistic program across all 4 regions
- Improvement of operational performance along the entire value chain and further extension of performance culture



### Reinforce customer excellence

- Launch of our next generation digital customer platform **medias**
- Engage more closely with our sales partners using digital solutions



### Consolidate footprint & reduce overhead

- Implementation of leaner organizational structures for increased efficiency and reduced costs adapted to new market situation
- Optimization of plant landscape according to market development and customer needs

## Industrial – Our Mid-term Targets

### Industrial

Top line

FX-adj. sales growth  
> Industrial Production growth  
on average 2021 to 2025<sup>1</sup>

Profitability

12 to 14%  
EBIT margin before special items  
latest in 2023

<sup>1</sup> Oxford Economics

# 5 Summary and conclusion

We further build on our profitability track record, while entering in promising new technologies

- 1 Market to decline by ~8% in 2020 due to the Covid-19 pandemic, expected to recover and grow by 3% p.a. between 2021 and 2025

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- 2 Industrial Division sales<sup>1</sup> to grow above industrial production mid-term. Hydrogen as an opportunity beyond 2025

---

- 3 Creating value by pushing growth in our core business and driving innovation with systems and services

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- 4 Structural measures to improve operational cost performance and increase EBIT margin<sup>2</sup> to 12-14% latest by 2023

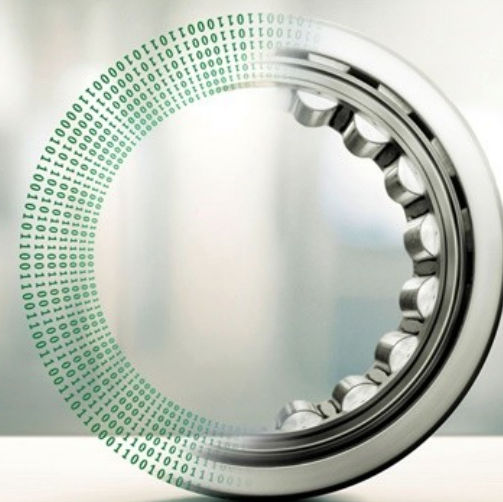
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- 5 M&A and partnering strategy for dedicated areas providing further opportunities



Enter attractive  
growth fields,  
further enhance  
profitability

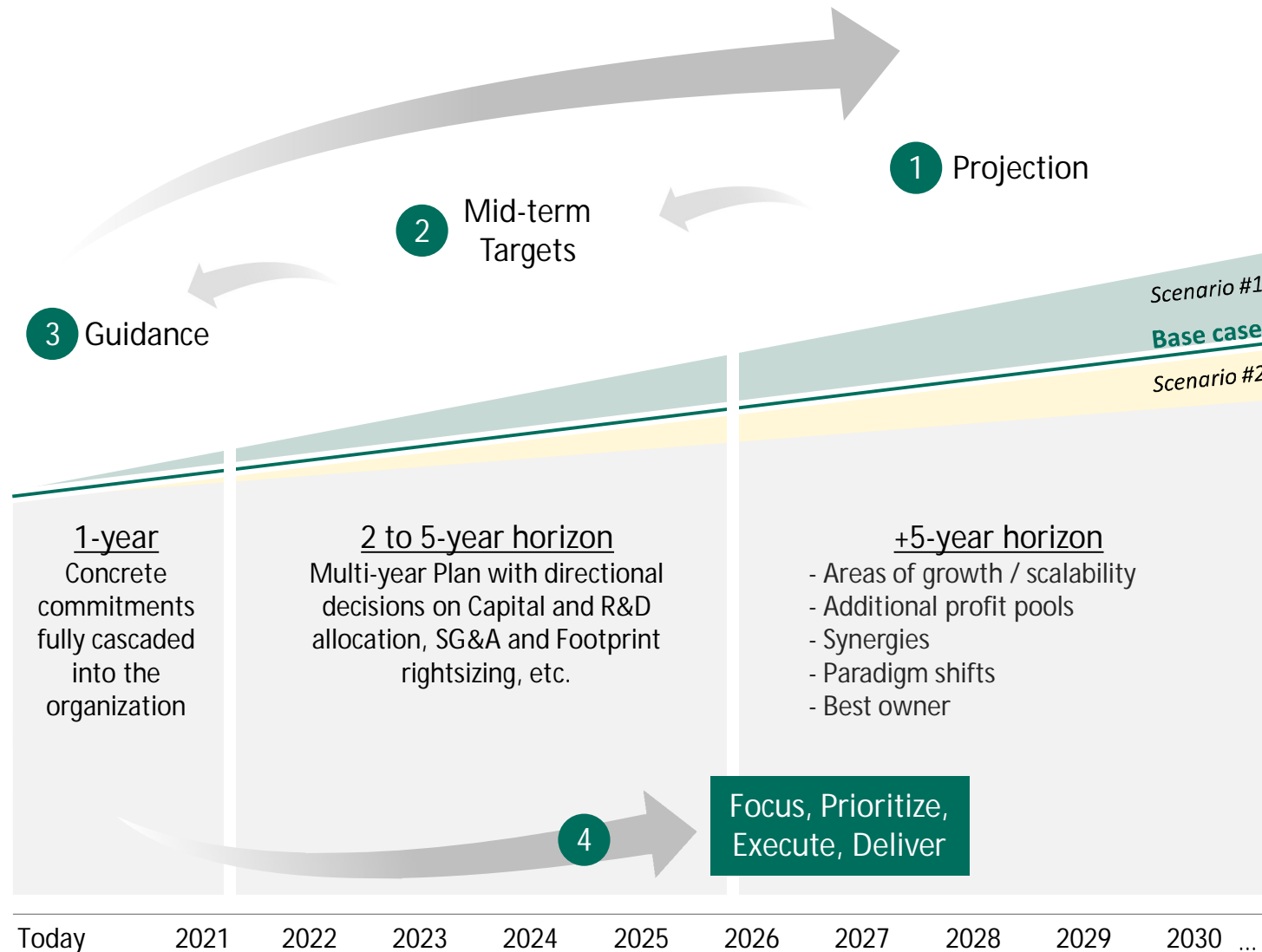
<sup>1</sup> FX-adj. growth | <sup>2</sup> Before special items



# Financial Framework

Dr. Klaus Patzak, Group CFO  
Herzogenaurach, November 18<sup>th</sup> 2020

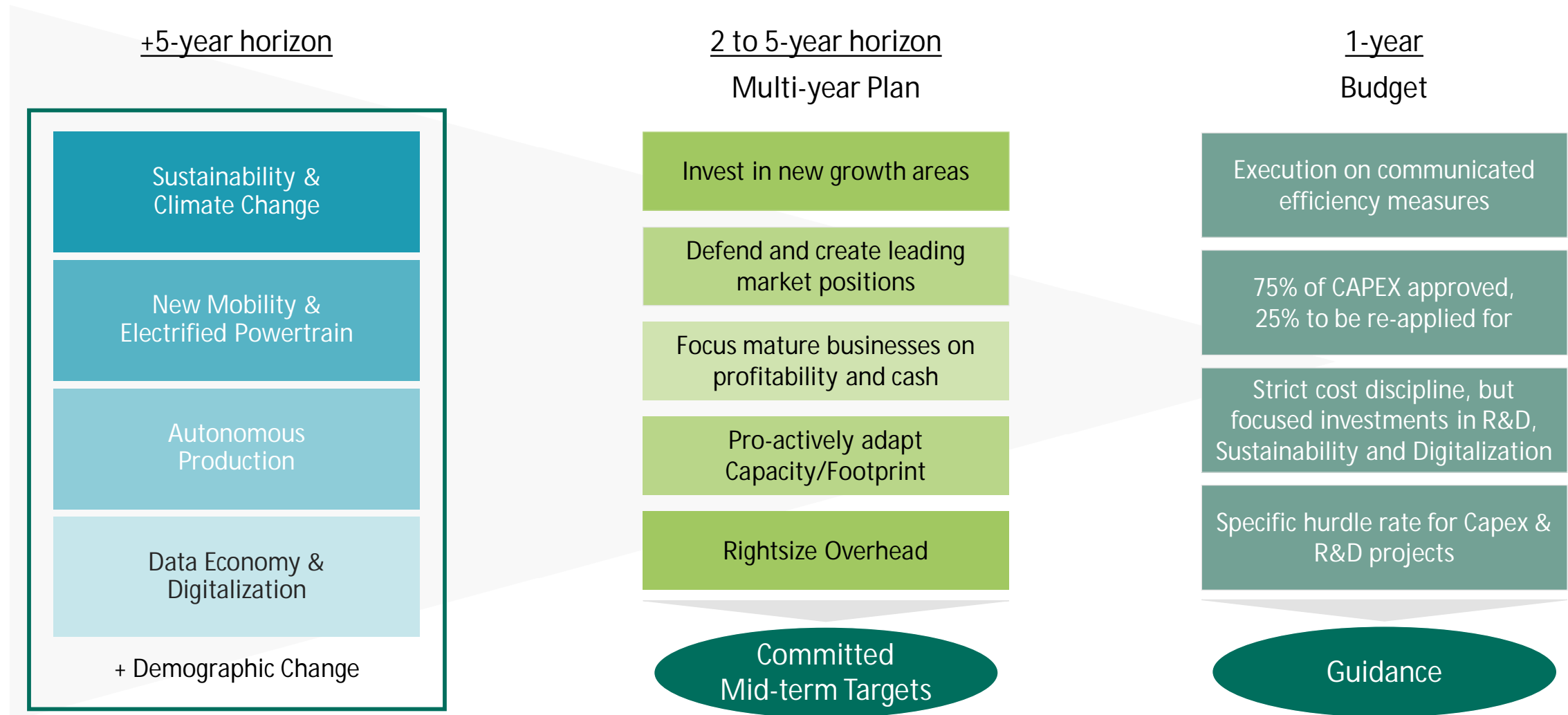
## How we steer Schaeffler during the transformation



### Key aspects

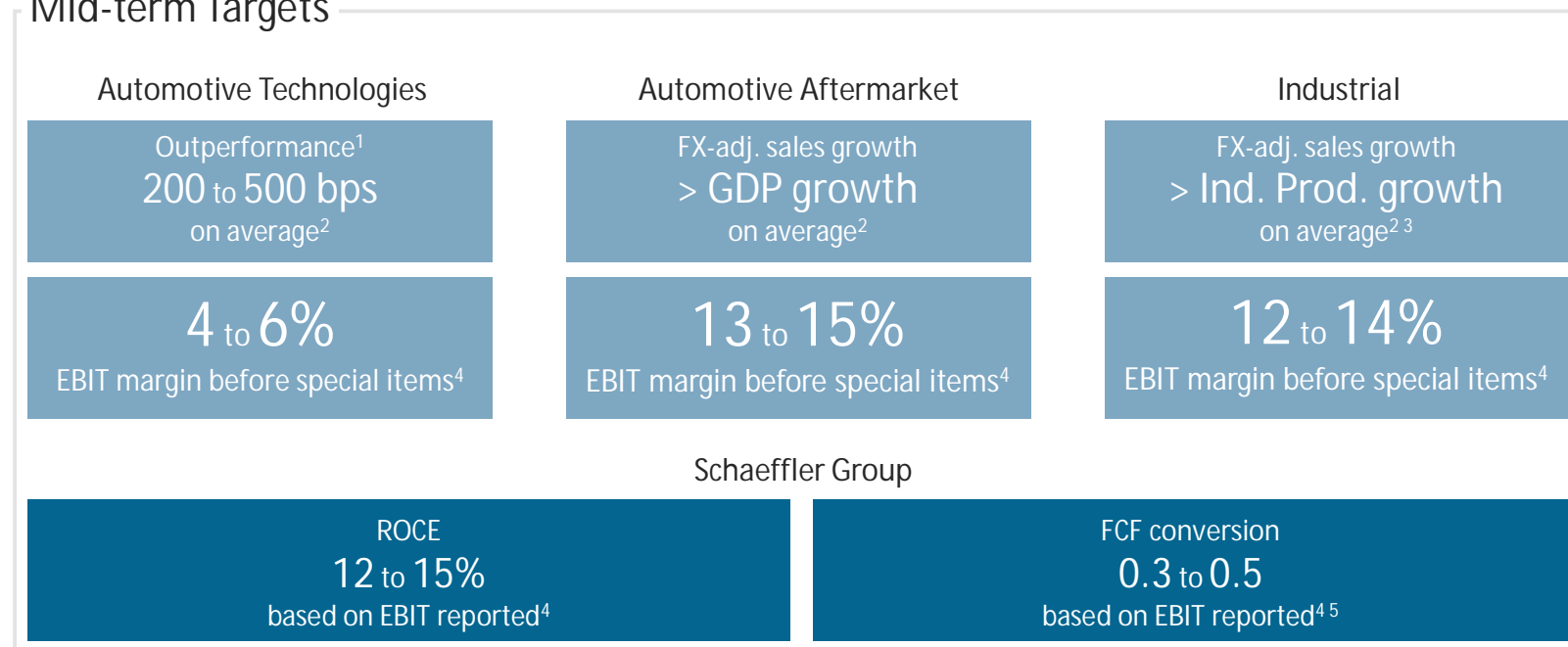
- 1 Scenario-based anticipation of long-term market and technology trends
- 2 Mid-term Targets derived from Multi-year Plan
- 3 Concrete committed measures reflected in Guidance
- 4 Stringent execution and periodical review of trigger-points relevant for scenarios

Value creation levers are comprehensively addressed and actively steered by monthly performance reviews



## Mid-term Targets are reflected in Schaeffler's comprehensive Financial Framework

### Mid-term Targets



### Key aspects

- Consistent with incentive system
- Clearly defined path to target
- Focus on ROCE and Free Cashflow Conversion on Group-level
- Divisionalized Targets reflect internal commitments

### Group parameters

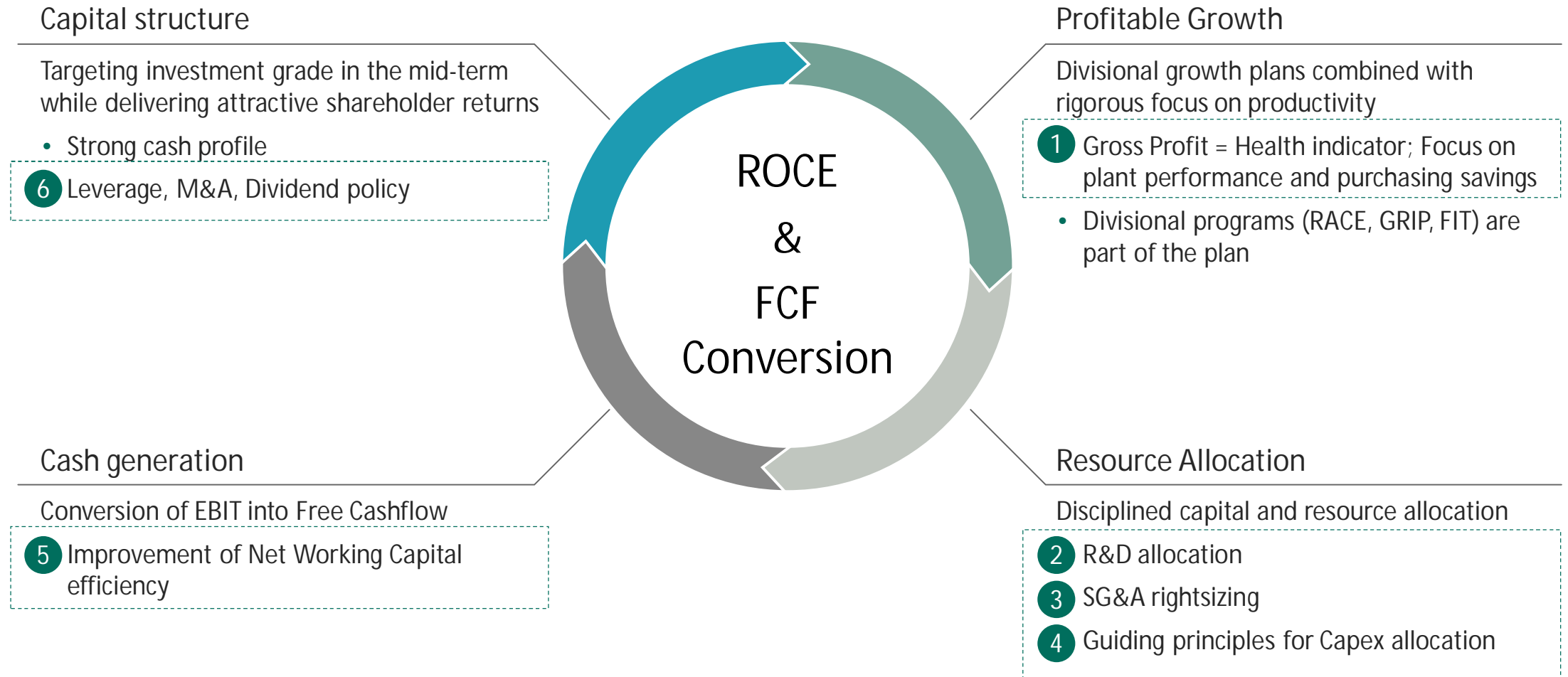


Concrete commitments fully cascaded into the organization

<sup>1</sup> FX-adj. sales growth above Light Vehicle Production (IHS) | <sup>2</sup> from 2021 to 2025 | <sup>3</sup> Industrial Production (Oxford Economics) | <sup>4</sup> latest in 2023 | <sup>5</sup> before cash in- and outflows for M&A



## Group Targets for ROCE and FCF Conversion are built on detailed commitments

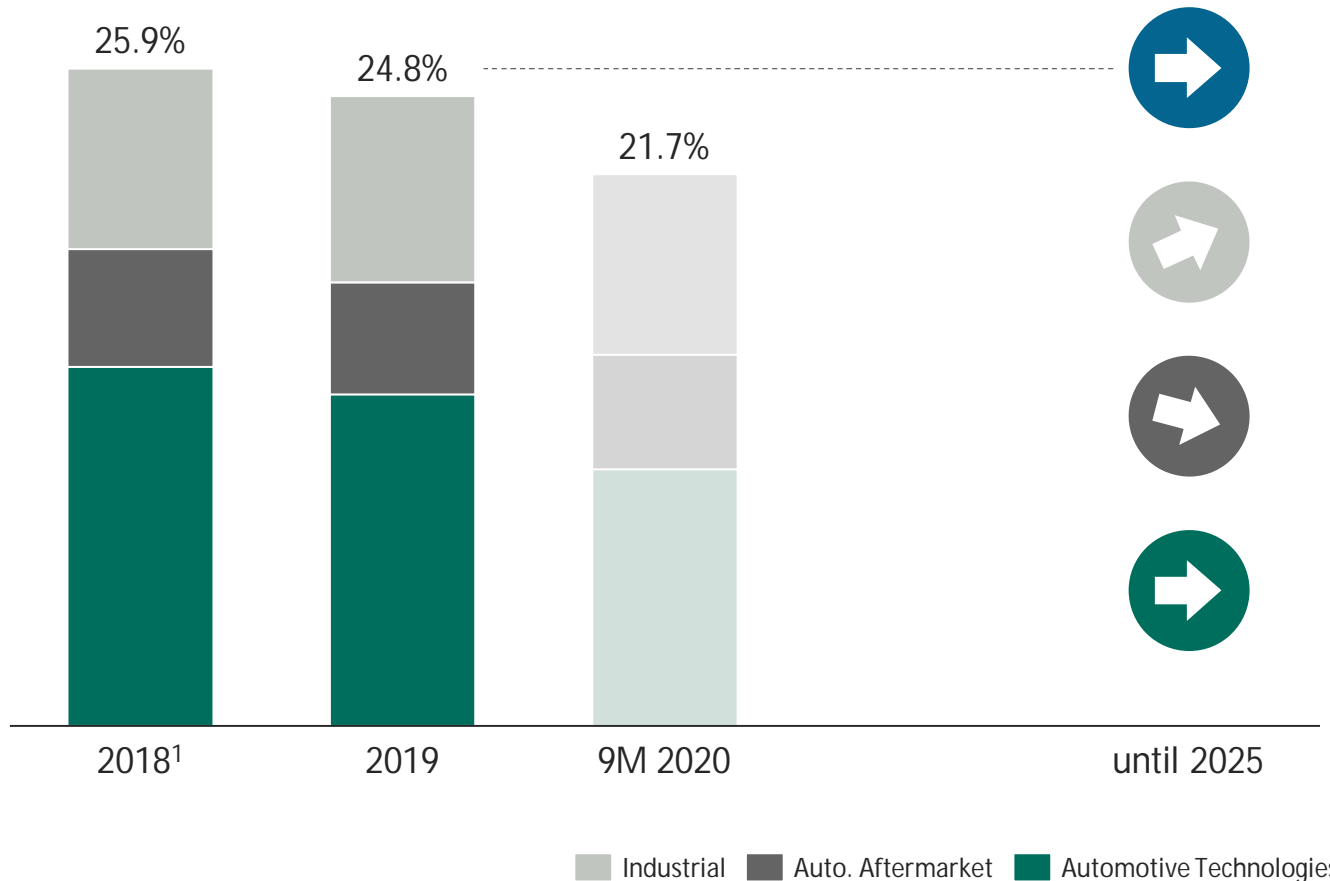


# 1 Profitable Growth – Gross Margin to return to 2019 levels despite transformation

Gross Profit in % of sales

Trend vs.  
2019

Roadmap to 2025



- Strong focus on productivity including purchasing savings
- Consolidation of European footprint and plant overhead reduction
- Mature business trimmed for profitability; new business focused on modularization and scalability
- Transition staff and equipment from mature business to growth areas
- Further adaptation of structures to market conditions

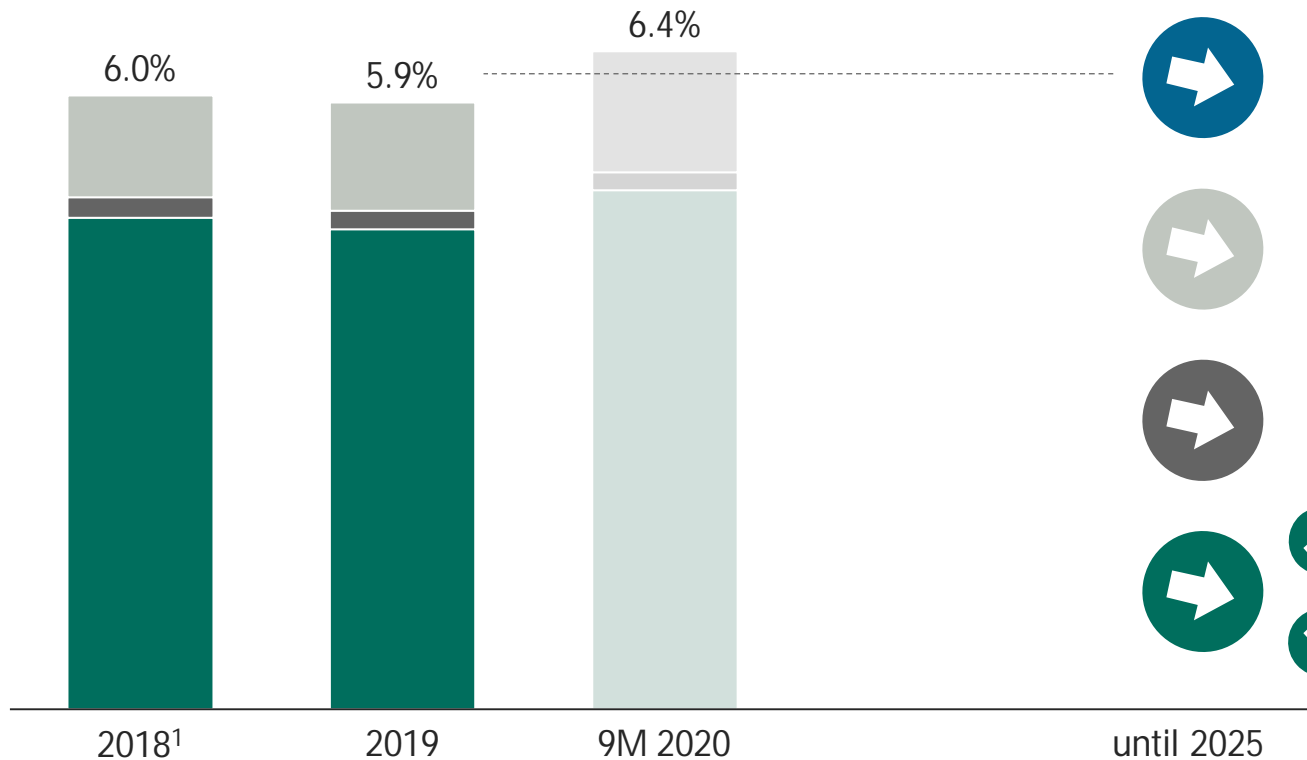
<sup>1</sup> Structure comparable to 2019

## 2 Resource Allocation – Shift of R&D spending to new technologies and future growth areas

R&D expenses in % of sales

Trend vs.  
2019

Roadmap to 2025



New business



Mature business

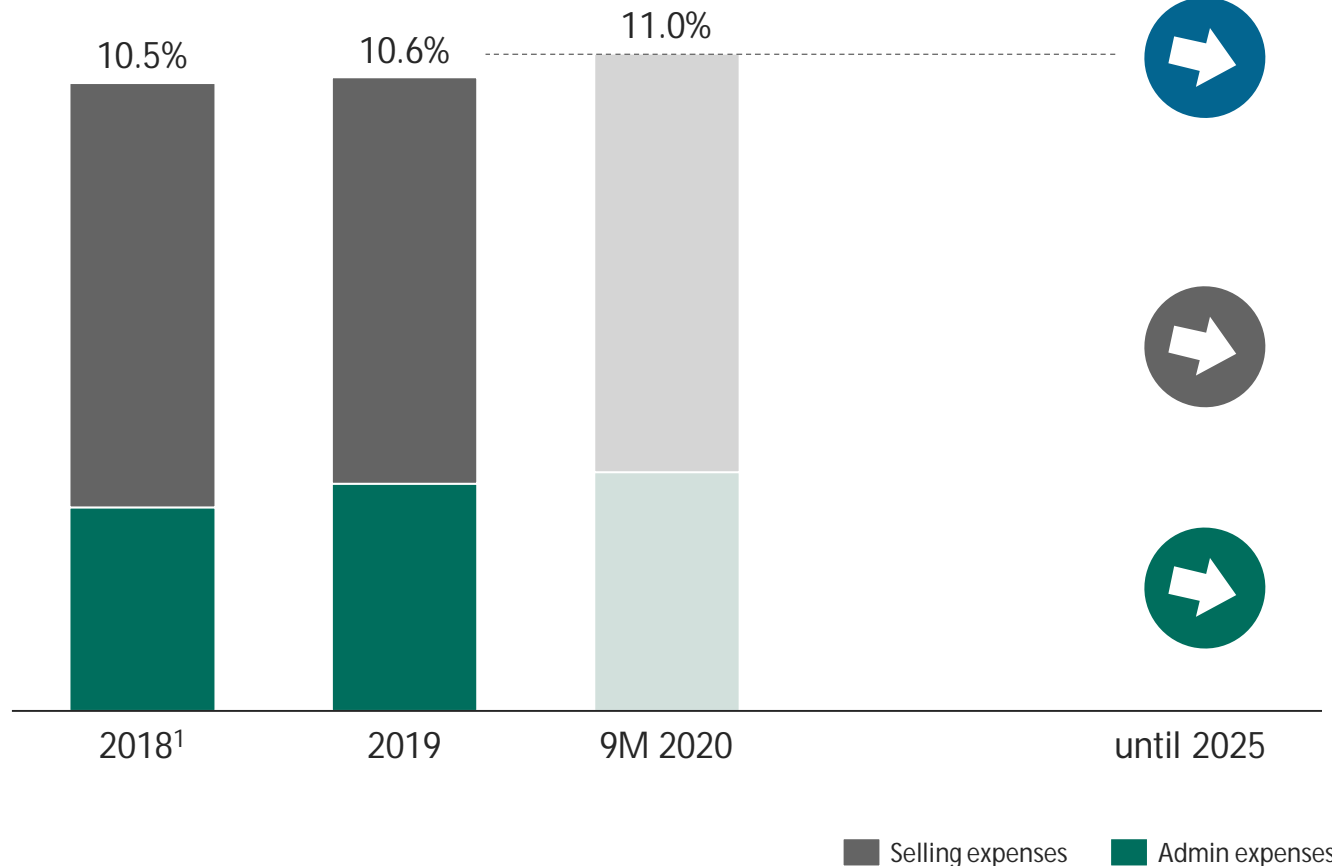
- R&D roughly flat over the years
- Shift to new technologies such as E-Mobility, mechatronic Chassis applications, hydrogen, robotics and IoT
- Push for R&D localization
- More project-specific, less general R&D spending
- R&D ratio slightly lower

Industrial Auto. Aftermarket Automotive Technologies

<sup>1</sup> Structure comparable to 2019

### 3 Resource Allocation – Rightsizing of SG&A

SG&A expenses in % of sales

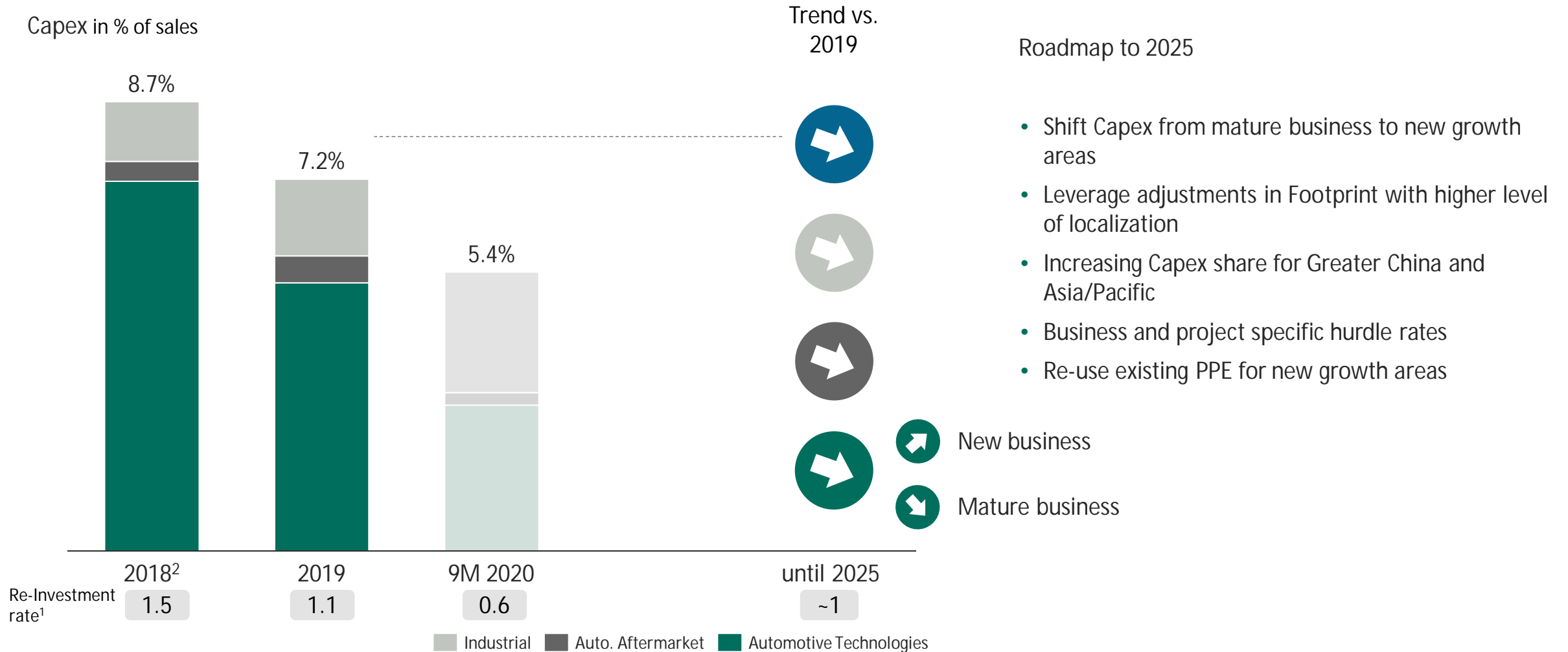


<sup>1</sup> Structure comparable to 2019

Roadmap to 2025

- Adaption of overhead functions are part of communicated structural measures
- Investments in Digitalization and IT (e.g. SAP S/4 HANA, Robotic Process Automation)
- Extending Shared Services to Americas and Asia/Pacific
- Complexity reduction and delayering the organization
- Leaner HQ, further divisionalization

## 4 Capital Allocation – Capex spending in prior years support focused investments into the future



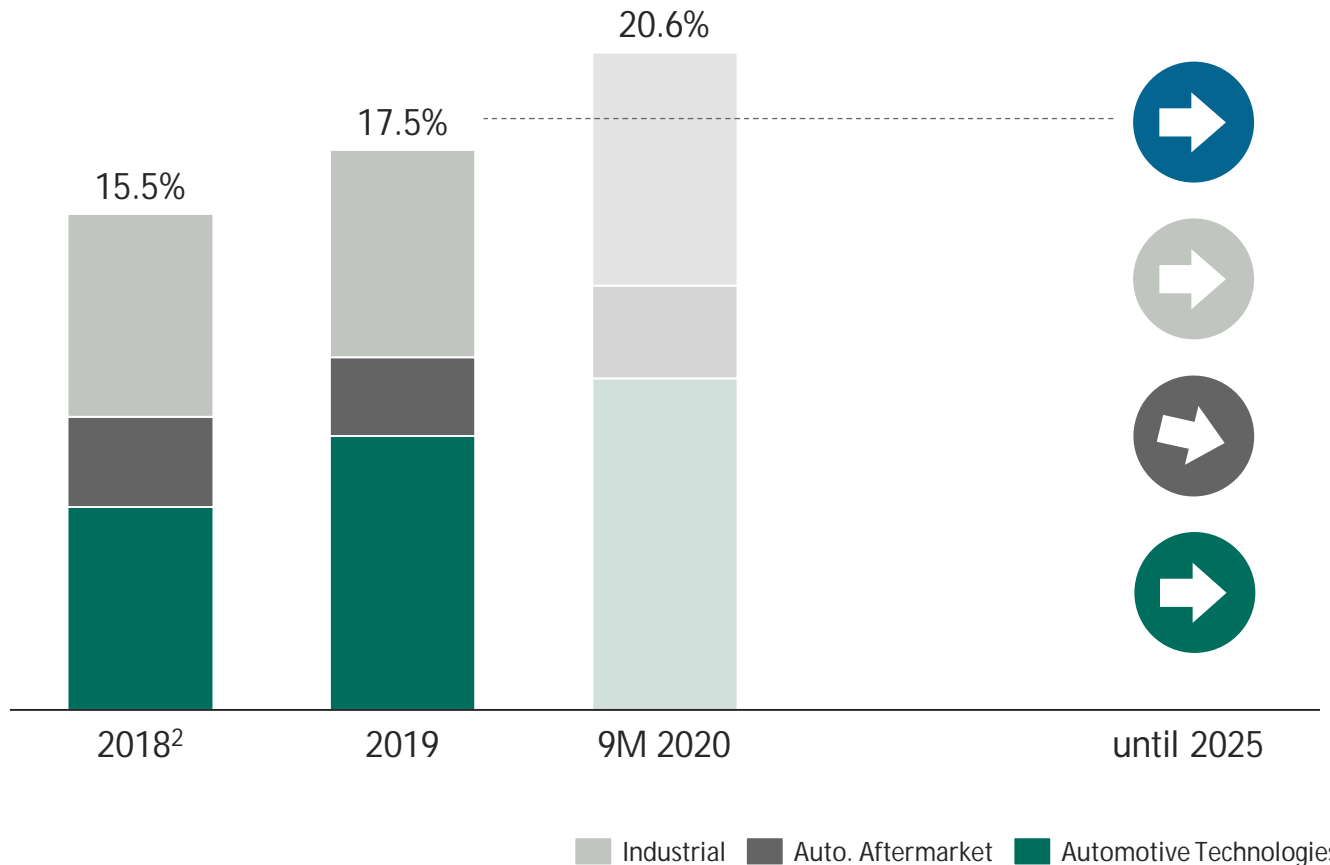
<sup>1</sup> Capex divided by D&A | <sup>2</sup> Structure comparable to 2019

## 5 Cash generation – Managing Working Capital to enable further cash generation

Net Working Capital in % of LTM sales<sup>1</sup>

Trend vs.  
2019

Roadmap to 2025



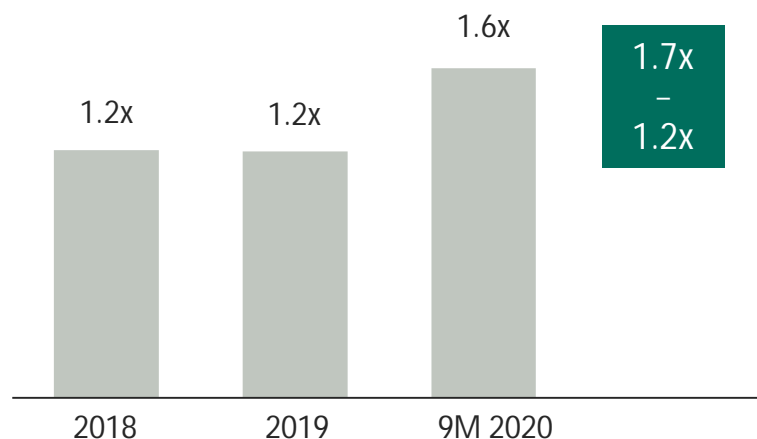
- Industrial keeps level of 2018 and 2019 constant, better than market practice
- AKO and ETC drive improvement in Automotive Aftermarket
- Shift to E-Mobility with lower vertical integration combined with continuous working capital management in mature business in Automotive Technologies
- Ensure robustness in supply chain (delivery performance and quality)

<sup>1</sup> Net Working Capital as of end of period | <sup>2</sup> Structure comparable to 2019

## 6 Leverage and dividend policy allow for inorganic growth

### Leverage ratio

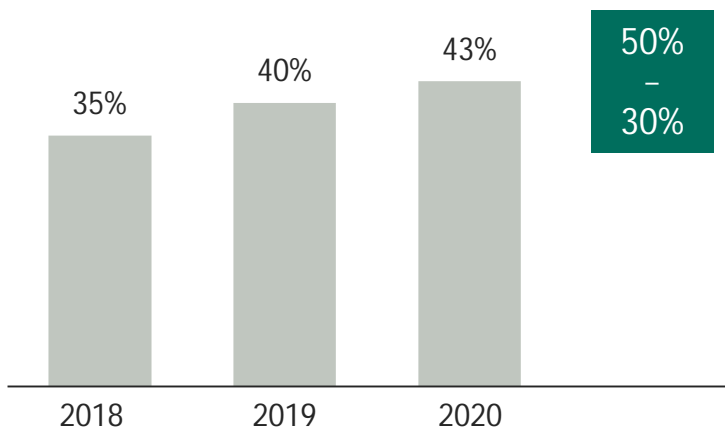
Net financial debt to EBITDA ratio before special items



- Free Cash Flow in 2021 and 2022 burdened by restructuring
- Restricted cash to be reduced (e.g. cross-border cash pooling in China)
- Debt already materially re-financed until end of 2023

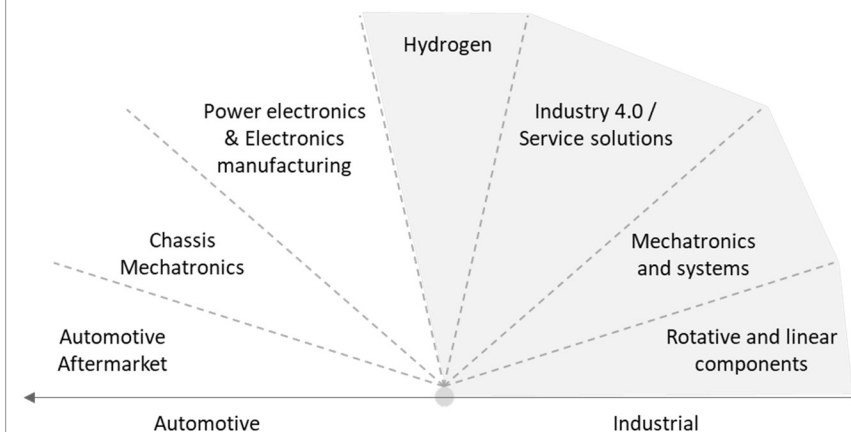
### Dividend payout policy

Dividend pay-out on prior year's Net income<sup>1</sup> before special items



- Dividend payout range of 30 - 50% of Net income<sup>1</sup> before special items

### M&A



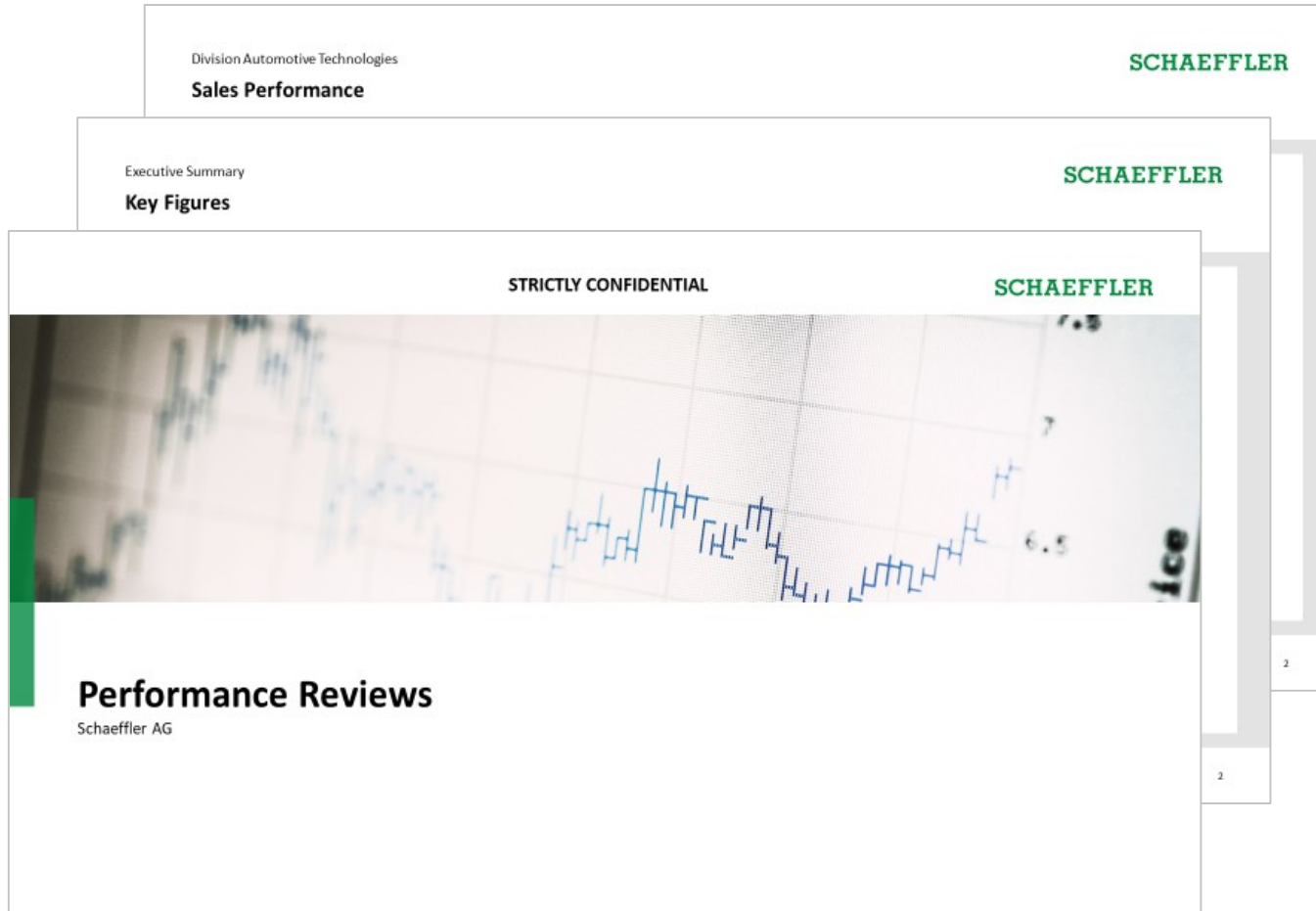
- Acquisitions and Divestments are in scope
- Clear gate process for evaluation of acquisitions and/or partnerships
- Earnings accretive one year after integration
- ROCE > WACC two years after integration

<sup>1</sup> Attributable to shareholders of the parent company

How we create value

Progress is tracked internally by monthly performance reviews

**SCHAEFFLER**

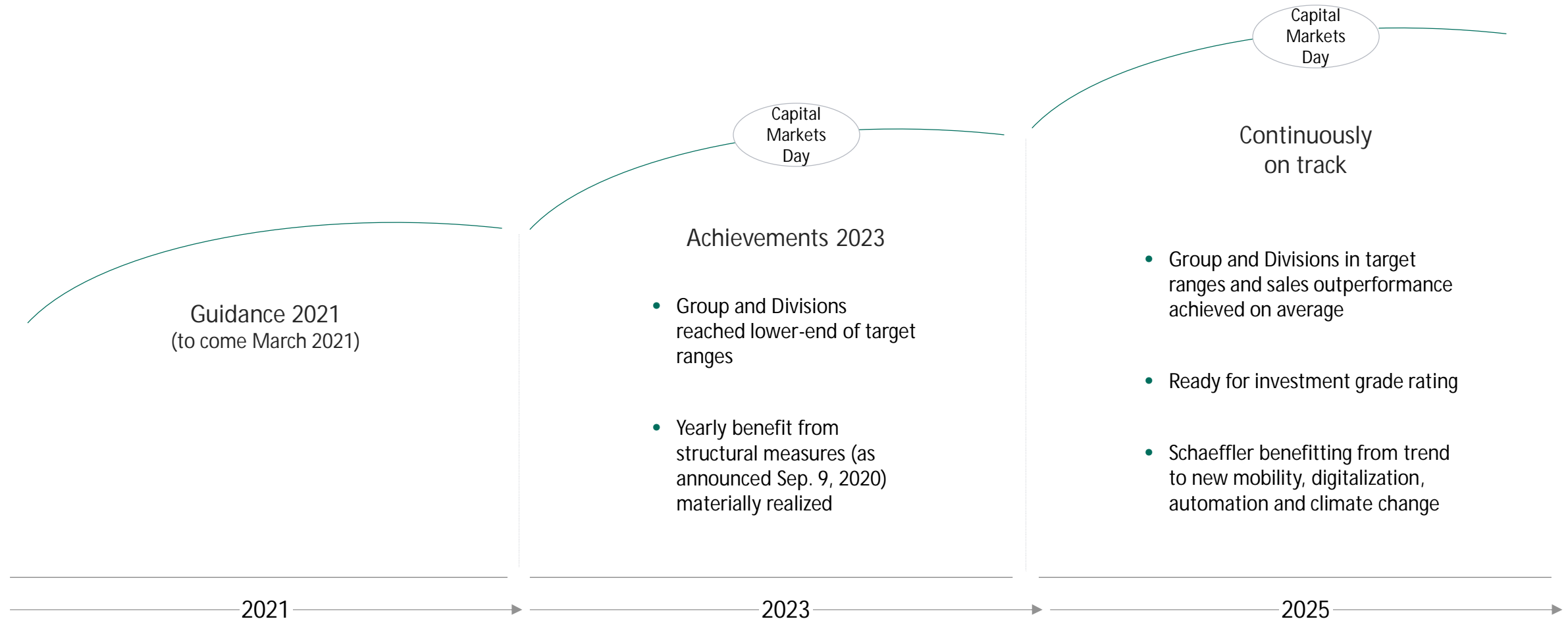


Key aspects

- Monthly reviews division by division, function by function
- Forward looking to counter-act potential downsides and foster potential upsides
- Focus is on Gross Profit, Overhead, Productivity, Purchasing savings, Capex and Working Capital management, plant performance and Forecast quality



## Progress is tracked externally with annual Guidance and with 2023 and 2025 Capital Markets Day



## We steer our business according to our Financial Framework

- 1 Scenario-based anticipation of long-term market and technology trends

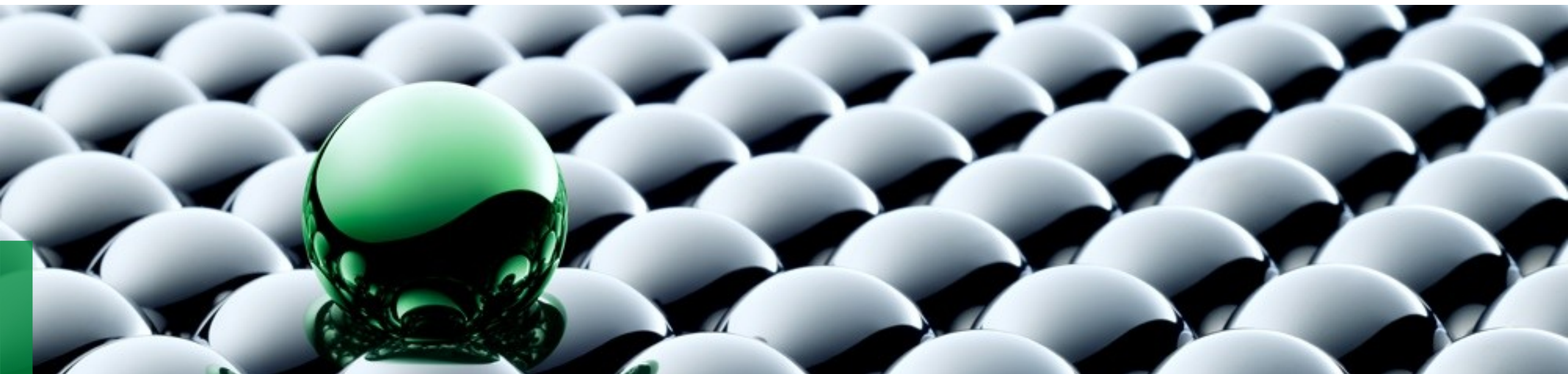
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- 2 Robust Mid-term Targets derived from Multi-year Plan and fully cascaded into the organization

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- 3 Group Targets for ROCE and FCF Conversion are built on divisional commitments; execution is monitored by monthly performance reviews

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- 4 Stringent Capital allocation governs organic and compelling inorganic investments

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- 5 We will continue to adapt our structures to market conditions

Rigorous resource  
allocation to generate  
cash and improve  
return on capital



# Schaeffler Group Roadmap 2025

Klaus Rosenfeld, Group CEO  
Herzogenaurach, November 18<sup>th</sup> 2020

# Conclusion

## Equity Story – Positioning Schaeffler for long-term value creation

- 1 Roadmap 2025 initiated – Focus on capital allocation, portfolio management and FCF generation

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- 2 Automotive Technologies – Conquer leadership positions in New Business for electrified Powertrains and Chassis applications

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- 3 Automotive Aftermarket – Maintain a high margin level, expand our share of wallet and reach

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- 4 Industrial – Enter attractive growth fields, further enhance profitability

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- 5 Financial Framework – Strict performance orientation based on Mid-term Targets

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- 6 Sustainability – Fully committed to activate all impact levers to achieve sustainability goals

Creating long-term  
value and generating  
Free Cash Flow

## Q&A