Update Strategy "Mobility for tomorrow" and Financial Ambitions 2020

Klaus Rosenfeld
Conference Call
November 9, 2016
Agenda

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

Chronology 2009-2016 – Foundation for further profitable growth

Key milestones

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

Long-term profitable growth is the overriding objective
1 Introduction

Strategy “Mobility for tomorrow” agreed – External communication on November 9, 2016

Chronology and way forward

Strategy Dialogue

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

Automotive – Market growth driven by new technologies

Development of the Automotive Market
Global production volume 2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>74</td>
<td>98%</td>
</tr>
<tr>
<td>2015</td>
<td>89</td>
<td>97%</td>
</tr>
<tr>
<td>2020</td>
<td>102</td>
<td>85%</td>
</tr>
<tr>
<td>2025</td>
<td>111</td>
<td>72%</td>
</tr>
<tr>
<td>2030</td>
<td>120</td>
<td>53%</td>
</tr>
</tbody>
</table>

Source: IHS, LMC Automotive, Schaeffler assumptions

1) Base case, according to announcement of OEMs accelerated adoption of E-Mobility possible as well (accelerated case)
2) Expected annual global production volume, passenger cars/light vehicles in mn units
3) Global no. of vehicles in mn units

Growth Drivers

Electrification
- Stricter global regulation of CO₂ emissions
- Gradual shift toward (purely) electric propulsion with hybrids serving as transitional technology

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

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

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

**Industrial – Flat market growth**

#### Global market volume

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015</th>
<th>2020e</th>
<th>Growth Rate 2015/2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td>28</td>
<td>31</td>
<td>3.2% 3)</td>
</tr>
<tr>
<td>Two-Wheeler</td>
<td></td>
<td></td>
<td>1.6% 3)</td>
</tr>
<tr>
<td>Wind</td>
<td></td>
<td></td>
<td>3.3% 3)</td>
</tr>
<tr>
<td>Railway</td>
<td></td>
<td></td>
<td>2.1% 3)</td>
</tr>
<tr>
<td>Off-Highway</td>
<td></td>
<td></td>
<td>2.6% 3)</td>
</tr>
<tr>
<td>Raw Materials</td>
<td></td>
<td></td>
<td>1.9% 3)</td>
</tr>
<tr>
<td>Power Transmission</td>
<td></td>
<td></td>
<td>2.2% 3)</td>
</tr>
<tr>
<td>Industrial Automation</td>
<td></td>
<td></td>
<td>1.8% 3)</td>
</tr>
</tbody>
</table>

- Base scenario

**Growth drivers**

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

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

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

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

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

A Vision/Mission

"Mobility for tomorrow"

B Strategic pillars

- Preferred technology partner
- Automotive and industrial supplier
- A global player with local presence
- Components and systems
- E-Mobility, Industry 4.0, and digitalization
- Quality, efficiency, and delivery performance
- Attractive employer
- Global family business

C Excellence program “Agenda 4 plus One”

<table>
<thead>
<tr>
<th>Customer focus</th>
<th>Operational excellence</th>
<th>Financial flexibility</th>
<th>Leadership and talent management</th>
</tr>
</thead>
</table>

plus One

- Long-term competitiveness and value creation

D Financial Ambitions 2020

<table>
<thead>
<tr>
<th>Sales growth</th>
<th>EBIT margin</th>
<th>Free cashflow</th>
<th>Earnings per share</th>
<th>Gearing ratio</th>
<th>Dividend</th>
</tr>
</thead>
</table>
Mission

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

Vision

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

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

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

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

4. **We produce components and systems.**

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

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

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

8. **We live by the values of a global family business.**
2 Strategy "Mobility for tomorrow"

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

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Customer focus</td>
<td>Prof. Pleus / Dr. Spindler</td>
</tr>
<tr>
<td>2 E-Mobility</td>
<td>Prof. Gutzmer</td>
</tr>
<tr>
<td>3 Industry 4.0</td>
<td>Dr. Spindler</td>
</tr>
<tr>
<td>4 Quality for Tomorrow</td>
<td>Rosenfeld</td>
</tr>
<tr>
<td>5 Global Footprint</td>
<td>Rosenfeld</td>
</tr>
<tr>
<td>6 Factory for Tomorrow</td>
<td>Jung</td>
</tr>
<tr>
<td>7 Shared Services</td>
<td>Dr. Hauck</td>
</tr>
<tr>
<td>8 Process Excellence</td>
<td>Rosenfeld</td>
</tr>
<tr>
<td>9 Working Capital</td>
<td>Dr. Hauck</td>
</tr>
<tr>
<td>10 Leadership &amp; Corporate Values</td>
<td>Schittenhelm</td>
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<tr>
<td>11 Qualification for Tomorrow</td>
<td>Schittenhelm</td>
</tr>
<tr>
<td>12 New Work</td>
<td>Schittenhelm</td>
</tr>
<tr>
<td>13 Program CORE</td>
<td>Dr. Spindler</td>
</tr>
<tr>
<td>14 Digital Agenda</td>
<td>Prof. Gutzmer</td>
</tr>
<tr>
<td>15 IT 2020</td>
<td>Prof. Gutzmer</td>
</tr>
<tr>
<td>16 Global Branding</td>
<td>Rosenfeld</td>
</tr>
</tbody>
</table>
Key aspects

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

Program CORE – Revitalizing the Industrial division

4 key drivers

1. Customer focus and growth
   - Strengthen sales organizations in the regions
   - Strengthen regional engineering / customer support centers
   - Establish dedicated global key account management

2. Cost reduction & efficiency improvement
   - Reduce overhead cost
   - Re-dimension central departments
   - Drive cost saving program including material cost, efficiency gains and overhead reduction

3. High delivery performance
   - Establish European distribution centers (EDC)
   - to ensure immediate product availability
   - Increase level of standardization
   - Implement high runner program with 24/48h delivery time

4. Optimized product and service offering
   - Strengthen standard product business
   - Balance customized product business / engineering solutions
   - Enforce market penetration of service / digitalization
Key aspects

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

Indicative Financial Impact

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT Improvement</th>
<th>One-off effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014A</td>
<td>-36</td>
<td>-36</td>
</tr>
<tr>
<td>2015A</td>
<td>15(^1)</td>
<td>36(^2)</td>
</tr>
<tr>
<td>2016F</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017P</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>2018P</td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>

1 Financial impact in specific year
2 thereof 9 mn Euro YTD September 2016

HCO reduction Overhead

- Overhead Headcount 06/2015
- Left payroll
- Signed termination contracts
- In progress
- Target Overhead Headcount 12/2017

Completion Ratio 83 % \(^3\)

\(^1\) as of November 3, 2016
\(^2\) as of November 3, 2016
\(^3\) as of November 3, 2016

Financial impact in specific year

Indicative Financial Impact

\(\Delta \text{EBIT in EUR mn}\)
2 Strategy "Mobility for tomorrow"

Cost reduction and efficiency improvements – Second wave initiated

Key aspects

- Second wave announced in November 2016

- Cost savings through consolidation of plants in Europe and Americas and HCO reduction in overhead functions also outside the Industrial division

- Reduction of 500 HCO in Germany\(^1\), Europe and other regions targeted

- Approximately 60 EUR mn improvement from Gross Profit optimization and Overhead cost reduction until 2019 planned

- Around 75 EUR mn one-off-cost until 2019 of which approximately 50 EUR mn shall be booked as restructuring provisions as of year end 2016

\(^1\) Subject to negotiation with working council

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Indicative Financial Impact

\(\Delta\) EBIT in EUR mn

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT Improvement</th>
<th>One-off costs</th>
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<tbody>
<tr>
<td>2015A</td>
<td>-50(^1)</td>
<td>-14</td>
</tr>
<tr>
<td>2016F</td>
<td>37</td>
<td>-9</td>
</tr>
<tr>
<td>2017P</td>
<td>50</td>
<td>-2</td>
</tr>
<tr>
<td>2018P</td>
<td>58</td>
<td></td>
</tr>
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<td>2019P</td>
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\(^1\) 2016-2019 in total 75 mn Euro, thereof 50 mn Euro booked as restructuring provision

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HCO reduction Plants/Overhead

- Total HCO reduction target: 500 EUR mn
- Germany: ~400 EUR mn
- Europe: ~100 EUR mn
- Americas: ~100 EUR mn
- Others: ~100 EUR mn

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Indicative figures
Program CORE – Overall target remains in place

Successful implementation

Indicative Timing

Cost reduction 1st wave
24 months

Cost reduction 2nd wave
500 HCO
24 months

Continuous improvement through further optional measures

Financial ambitions

Stable market environment

EBIT margin
Industrial Division
10-11% in 2018

Successful implementation of CORE program

2015 2016 2017 2018 2019
### Revised Financial Ambitions for 2020 – Sustainable value creation

**Capital Markets Day July 20, 2016**

<table>
<thead>
<tr>
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<th>Old</th>
<th>New</th>
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<tr>
<td><strong>Sales Growth</strong></td>
<td>Ø 4-6% p.a. w/o external growth, FX-adjusted</td>
<td>Ø 4-6% p.a. w/o external growth, FX-adjusted</td>
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<tr>
<td><strong>EBIT Margin</strong></td>
<td>12-13% p.a. Before one-off effects, w/o external growth</td>
<td>12-13% p.a. Before one-off effects, w/o external growth</td>
</tr>
<tr>
<td><strong>Free Cash flow</strong></td>
<td>~€ 900M in 2020 w/o external growth</td>
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<tr>
<td><strong>Leverage Ratio</strong></td>
<td>&lt;1.0x EBITDA in 2020 w/o external growth</td>
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</tr>
<tr>
<td><strong>Dividend ²)一款</strong></td>
<td>25-35% of Net income</td>
<td>30-40% of Net income</td>
</tr>
<tr>
<td><strong>Rating ³)一款</strong></td>
<td>Investment Grade Rating</td>
<td>Investment Grade Rating</td>
</tr>
</tbody>
</table>

### Market assumptions

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

###strategy Communication Nov. 9, 2016

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</tr>
<tr>
<td><strong>Free Cash flow</strong></td>
<td>~€ 900M in 2020 w/o external growth</td>
<td>~€ 2.00 per share in 2020 w/o external growth</td>
</tr>
<tr>
<td><strong>Earnings per Share</strong></td>
<td>~€ 900M in 2020 w/o external growth</td>
<td>~€ 2.00 per share in 2020 w/o external growth</td>
</tr>
<tr>
<td><strong>Gearing ratio ¹)一款</strong></td>
<td>&lt;75% in 2020 w/o external growth</td>
<td>&lt;75% in 2020 w/o external growth</td>
</tr>
<tr>
<td><strong>Dividend ²)一款</strong></td>
<td>30-40% of Net income</td>
<td>30-40% of Net income</td>
</tr>
</tbody>
</table>

### Market assumptions

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

1) Net-debt to equity ratio (excluding pensions), see Backup  
2) Payout ratio based on Net income  
3) Investment Grade Rating shall be maintained
Use of cash – M&A strategy based on selected add-on acquisitions

**M&A strategy**

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

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

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

**Use of cash**

- **External growth**
  - Add-on acquisitions

- **Deleveraging**
  - Further optimization of balance sheet

- **Dividends**
  - 30-40% of net income
4 Summary

Key messages

1. Restructuring and transformation phase finalized, foundation laid for further profitable growth

2. Long-term growth strategy "Mobility for tomorrow" based on eight strategic pillars agreed

3. Excellence Program "Agenda 4 plus ONE" with 16 key initiatives to secure long-term competitiveness and value creation

4. Continued optimization of combustion engine and move into E-Mobility offer significant upside potential in Automotive

5. Program CORE to revitalize the Industrial division extended, second wave of efficiency measures initiated

6. Enhanced financial flexibility and strong cash flow generation allow for selected technological add-on acquisitions

7. Revised Financial Ambitions 2020 with focus on EPS, gearing ratio and increased dividend payout ratio
Backup
Four megatrends – Four focus areas

**Eco-friendly drives**
- Optimized combustion engine
- Electric vehicles
- Industrial drives

**Urban mobility**
- Two-wheelers
- Metro rail traffic
- Micro mobiles

**Interurban mobility**
- Railway vehicles
- Airplanes
- Off-highway

**Renewable energy**
- Wind energy
- Solar energy
- Conventional power generation
<table>
<thead>
<tr>
<th></th>
<th>Agenda 4 plus One – 16 strategic initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Customer Excellence</td>
</tr>
<tr>
<td>2</td>
<td>E-Mobility</td>
</tr>
<tr>
<td>3</td>
<td>Industry 4.0</td>
</tr>
<tr>
<td>4</td>
<td>Quality for Tomorrow</td>
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<td>5</td>
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<td>IT 2020</td>
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<tr>
<td>16</td>
<td>Global Branding</td>
</tr>
</tbody>
</table>
Gearing Ratio – 185% as of September 30, 2016

Net financial debt

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>6,190</td>
<td>6,245</td>
<td>5,950</td>
<td>4,889</td>
</tr>
<tr>
<td>2016</td>
<td>4,909</td>
<td>4,874</td>
<td>2,876</td>
<td></td>
</tr>
</tbody>
</table>

Development Gearing Ratio

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

1) Including non-controlling interests