



# Schaeffler AG Results H1 2016

Conference Call  
August 11, 2016  
Herzogenaurach

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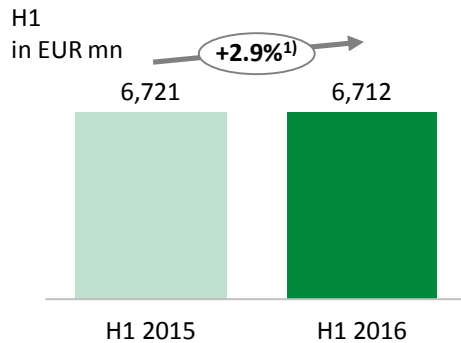
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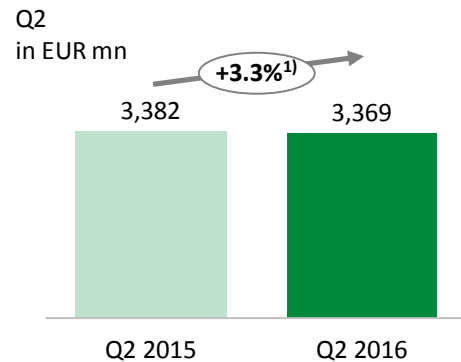
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- 1 Overview
- 2 Operational Highlights
- 3 Financial Results
- 4 Outlook

## Group sales and EBIT margin



EBIT margin<sup>2)</sup> 12.3%      12.8%



EBIT margin 11.4%<sup>2)</sup>      13.0%

1) FX-adjusted    2) Before one-off effects

Group sales +2.9% FX-adjusted – H1 EBIT margin at 12.8% (H1'15: 12.3%<sup>2)</sup>), no one-off effects in H1 2016

Automotive division with continued market outperformance – Sales +5.4% FX-adjusted; EBIT margin<sup>2)</sup> at 14.3% (H1'15: 13.0%)

Industrial division sales -4.9% (FX-adjusted) – Program CORE on track; EBIT margin 9.3% in Q2 (Q1: 6.4%), leading to an EBIT margin of 7.8% in H1 (H1'15: 10.1%)

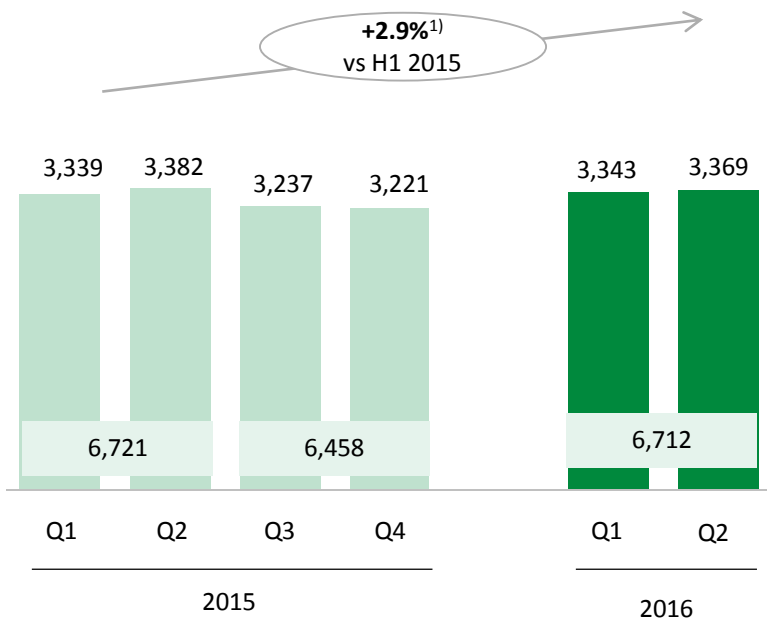
Operating Cash Flow improved to EUR 777 mn in H1 (H1'15: EUR 422 mn) – Strong Free Cash Flow of EUR 216 mn in H1 (H1'15: EUR minus 72 mn)

2016 Guidance confirmed – Revenue to grow by 3-5% (FX-adjusted), EBIT margin<sup>2)</sup> 12-13%, FCF around EUR 600 mn

# Schaeffler Group – Sales growth 2.9%; EBIT margin improved to 12.8%

## Sales

in EUR mn



FX-adjusted sales growth in %

2015	5.3	4.5	2.9	1.3
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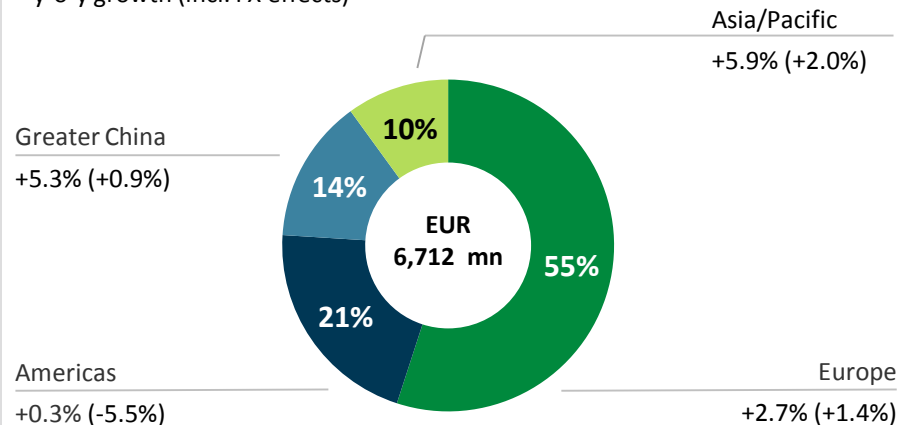
EBIT margin<sup>2)</sup> in %

2015	13.2	11.4	13.4	13.0	12.3
2016	12.6	13.0			12.8

1) FX-adjusted  
2) Before one-off effects

## Sales by region H1

y-o-y growth (incl. FX effects)



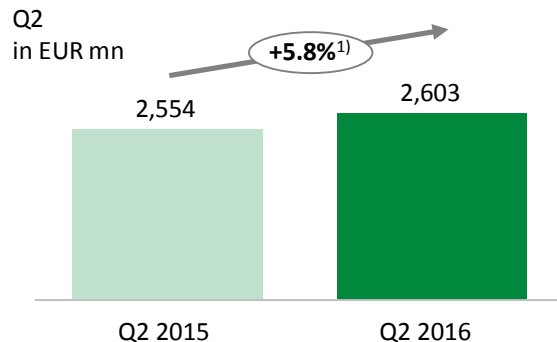
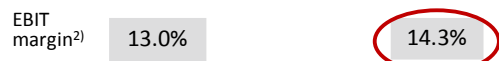
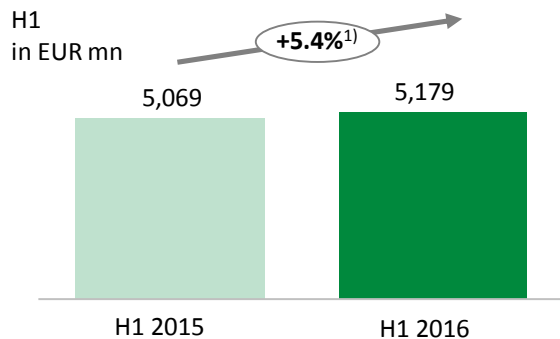
## EBIT margin

Before one-off effects

	Q1 2015	Q2 2015	H1 2015	Q1 2016	Q2 2016	H1 2016
Auto-motive	13.9%	12.1%	13.0%	14.4%	14.1%	14.3%
Industrial	11.0%	9.2%	10.1%	6.4%	9.3%	7.8%
<b>Total</b>	<b>13.2%</b>	<b>11.4%</b>	<b>12.3%</b>	<b>12.6%</b>	<b>13.0%</b>	<b>12.8%</b>

# Automotive Division – Sales +5.4% (FX-adjusted)

## Automotive sales and EBIT margin



1) FX-adjusted 2) Before one-off effects

## Key aspects Automotive

**1**

Strong growth in all business divisions –  
High growth rates in Automotive Aftermarket and Chassis Systems

**2**

Market outperformance in all regions –  
3.2%-pts outperformance of global Light Vehicle Production;  
acceleration of European growth rate in Q2

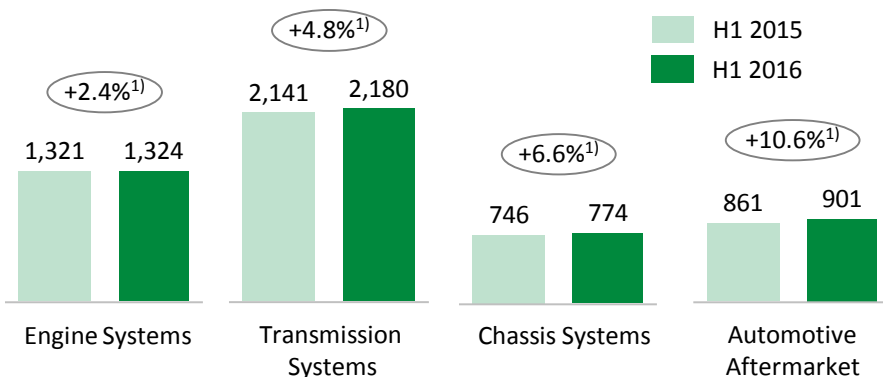
**3**

Product portfolio e-mobility extended –  
First contract for E-Clutch; new plug-in hybrid concept based  
on CVT

# Automotive Division – 1 Strong growth in all business divisions

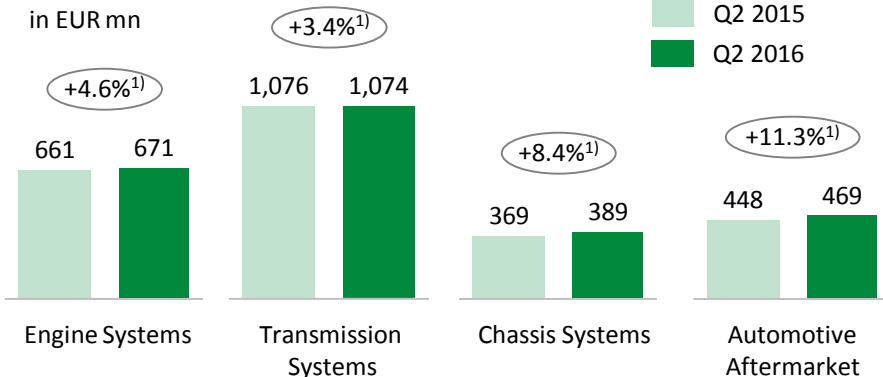
## Automotive sales by division H1

in EUR mn



## Automotive sales by division Q2

in EUR mn

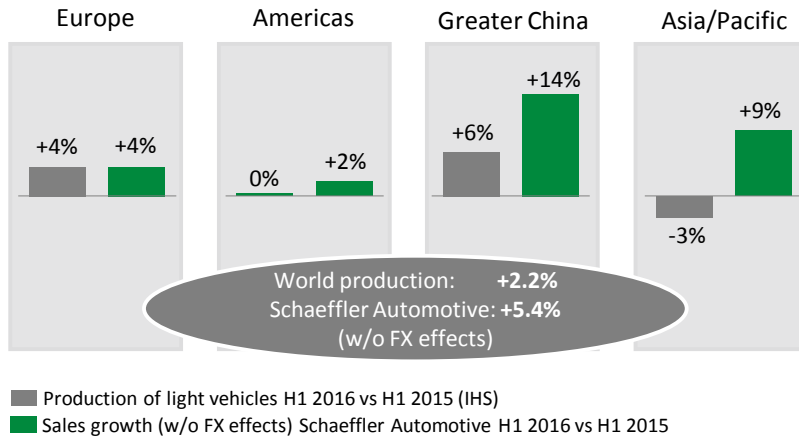


1) Growth rates FX-adjusted

## Key aspects

- ▶ **Engine Systems:**  
Ramp-up of electro-mechanical phasing system and thermal management module in Europe compensates decline of UniAir sales in Americas
- ▶ **Transmission Systems:**  
High demand for torque converters in the US, reallocation of some business from OEM to Aftermarket
- ▶ **Chassis Systems:**  
High demand for wheel bearings and chassis actuators
- ▶ **Automotive Aftermarket:**  
Strong demand for RepSets in Europe and in the Americas

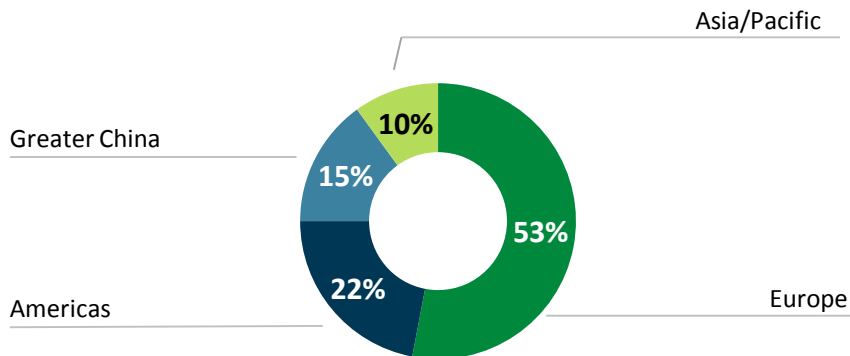
**Automotive sales and market development H1**



**Key aspects**

- ▶ 3.2%-pts. outperformance of global Light Vehicle production in H1
- ▶ Europe: High demand from French OEMs, phase-out of transmission project
- ▶ Americas: Negative mix effect from sedans versus pick-up trucks
- ▶ Greater China: Solid growth rates with local carmakers as well as Western OEMs; Local OEM sales split at 35% of total sales
- ▶ Asia/Pacific: High demand for wheel bearings and ball screw drives

**Automotive sales by region H1**

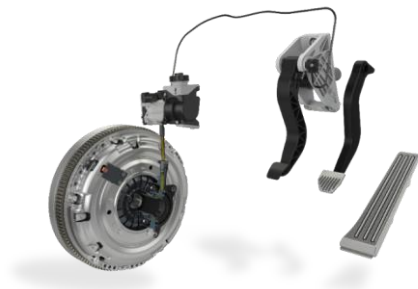


**Sales H1'16: EUR 5,179 mn**



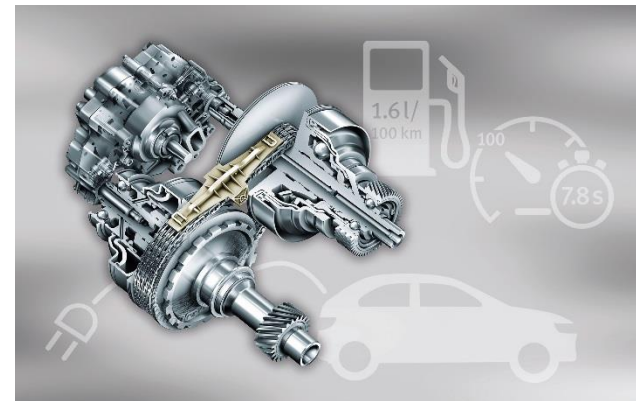
### First contract for E-Clutch

- ▶ In July 2016, Schaeffler was nominated as series supplier for the "electronic clutch management" (ECM) with a Top 3 automotive JV in China
- ▶ SOP in Q1/2018
- ▶ Schaeffler will deliver the clutch actuator, the actuator control unit and the control strategy
- ▶ E-Clutch as an affordable hybridization of manual transmission; provides benefits with regard to driving comfort, clutch misuse protection and fuel consumption (by sailing functionality)
- ▶ Schaeffler provides e-clutch solutions for all kinds of automated manual transmissions



### New plug-in hybrid concept based on CVT

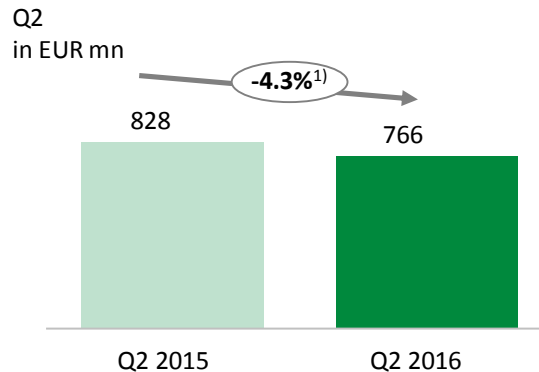
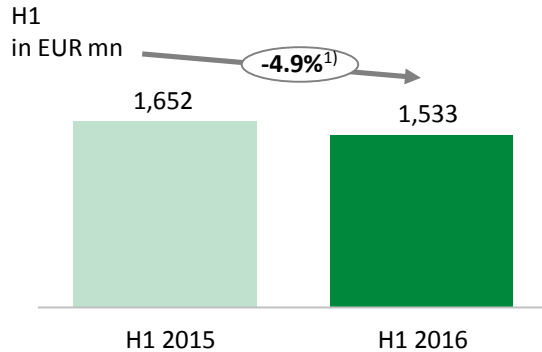
- ▶ Schaeffler presents new e-mobility solution for CVT<sup>1)</sup> transmission, demonstrating the leading know-how and product offering in transmission systems
- ▶ Combination of a hybrid drive with a CVT transmission in a compact design and with high efficiency
- ▶ Suited for A, B and C-segment vehicles
- ▶ Concept presented at VDI Transmission Conference in Friedrichshafen, Germany



1) Continuously Variable Transmission

# Industrial Division – EBIT margin stabilized at 7.8%

## Industrial sales and EBIT margin



1) FX-adjusted    2) Before one-off effects

## Key aspects Industrial

1

Still challenging market environment –  
Industrial sectors and distribution with mixed development

2

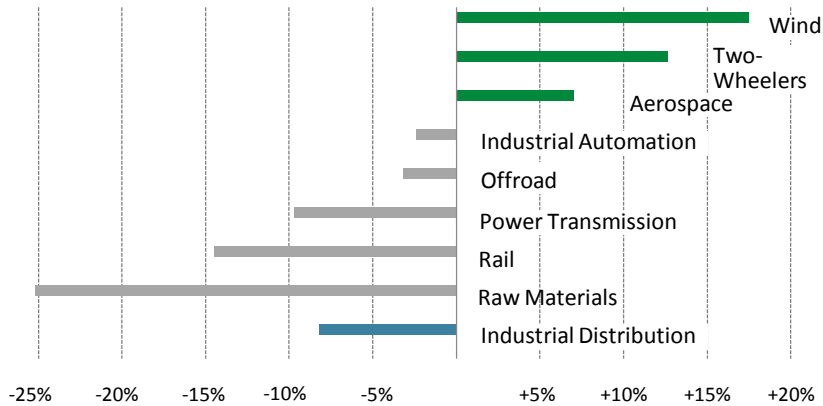
Europe returning to sales growth<sup>1)</sup> in Q2 –  
All other regions still declining

3

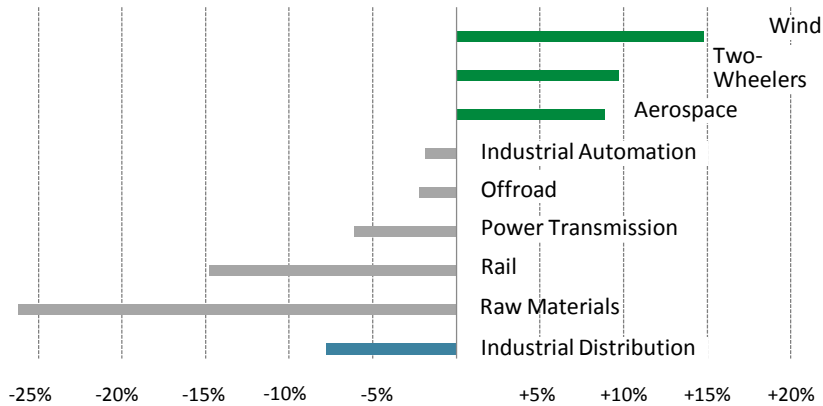
Program CORE starting to pay off –  
Q2 EBIT margin at 9.3% (Q1: 6.4%)

# Industrial Division – 1 Still challenging market environment

Industrial sales by sector cluster H1<sup>1)</sup>



Industrial sales by sector cluster Q2<sup>1)</sup>

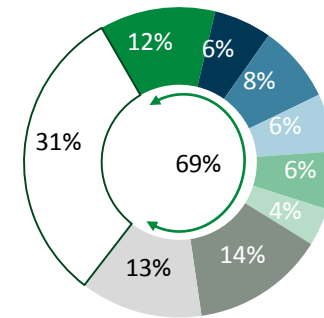
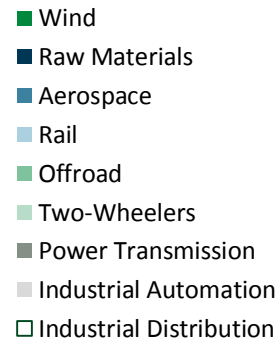


1) FX-adjusted

## Key aspects

- ▶ Wind and Two-Wheelers sectors with sustainable growth
- ▶ Aerospace benefits from strong demand in Europe
- ▶ Industrial Automation order intake indicating stabilization in H2
- ▶ Power Transmission, Rail and Raw Materials with weak performance in H1
- ▶ Industrial Distribution with signs of stabilization after strong de-stocking in H1

Industrial sales by sector cluster H1

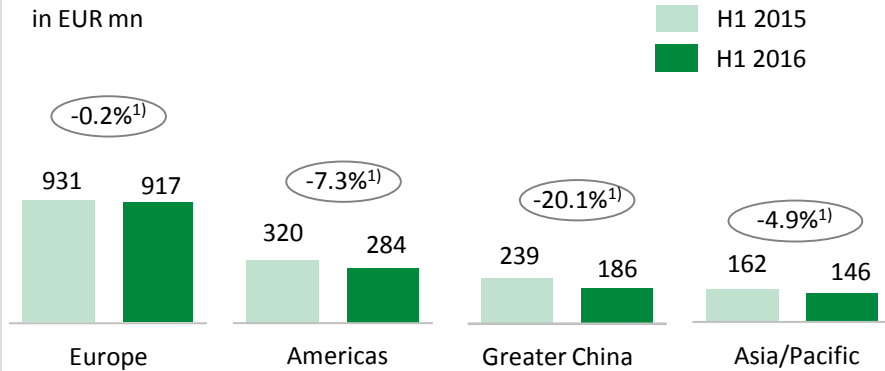


Sales H1'16: EUR 1,533 mn

# Industrial Division – 2 Europe returning to sales growth

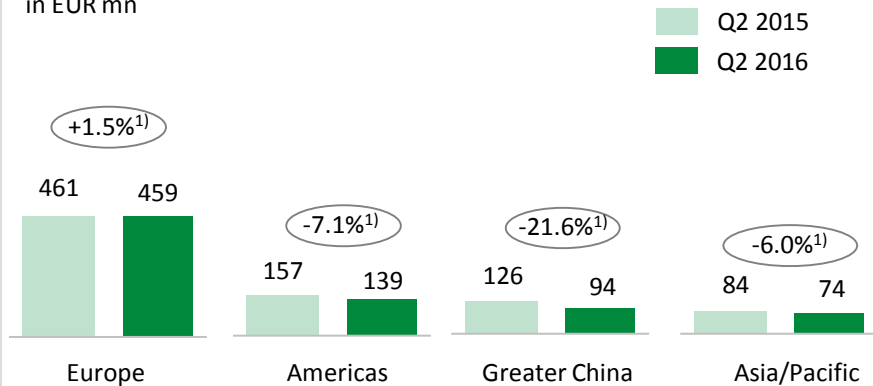
## Industrial sales by region H1

in EUR mn



## Industrial sales by region Q2

in EUR mn

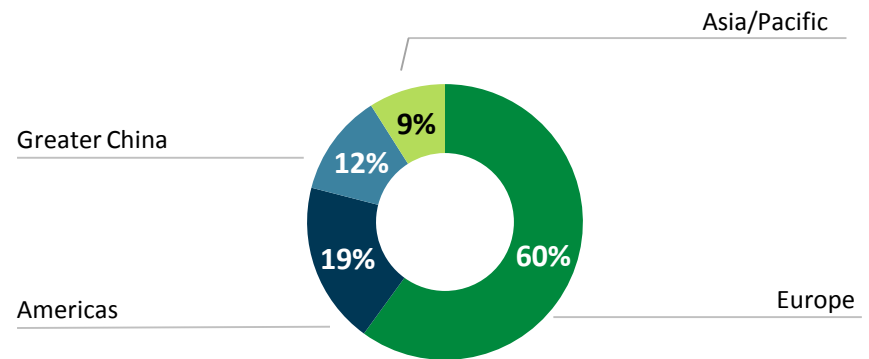


1) Growth rates FX-adjusted

## Key aspects

- ▶ Europe: Strong Wind and Aerospace business compensates weakness in Raw Materials, Power Transmission and Industrial Distribution
- ▶ Americas: Positive Wind and Aerospace business but weak demand in other sector clusters and distribution
- ▶ Greater China: All sector clusters down versus previous year, stabilization in Q3 expected
- ▶ Asia/Pacific: Weakness mainly from Industrial Distribution, stabilization expected for Q4

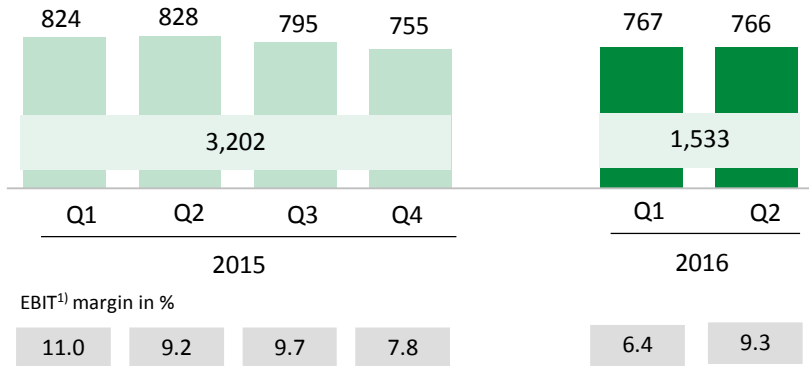
## Industrial sales by region H1



Sales H1'16: EUR 1,533 mn

Sales and EBIT margin

in EUR mn

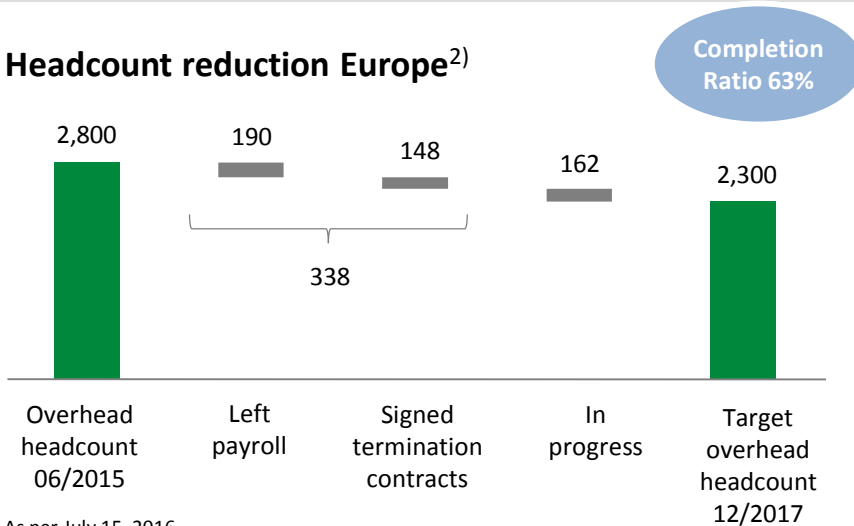


1) Before one-off effects

Key aspects

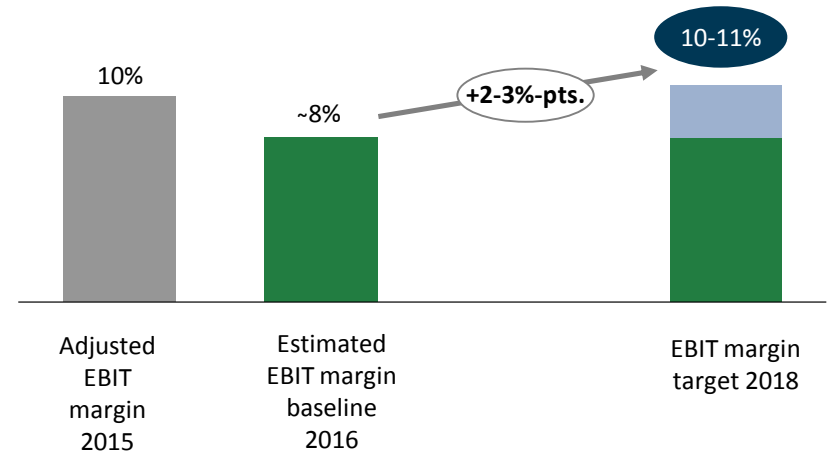
- ▶ Sales stabilized on Q1 level
- ▶ Strong EBIT margin 9.3% in Q2, leading to an EBIT margin of 7.8% in H1
- ▶ 338 HCOs left payroll or signed termination contracts; target reduction approx. 18% of Industrial white collar workers in Europe

Headcount reduction Europe<sup>2)</sup>



2) As per July 15, 2016

EBIT margin target by 2018



# Strong Free Cash Flow – Schaeffler Value Added increased

## Free Cash flow

in EUR mn

	H1 2015	H1 2016	Q2 2015	Q2 2016
<b>EBITDA</b>	<b>1,161</b>	<b>1,217</b>	<b>557</b>	<b>619</b>
Interest paid	(379)	(107)	(304)	(72)
Interest received	40	73 <sup>1)</sup>	38	70 <sup>1)</sup>
Income taxes paid	(158)	(161)	(73)	(62)
Working capital change	(233)	(287)	13	(37)
Others	(9)	42	7	53
<b>CF from Operations</b>	<b>422</b>	<b>777</b>	<b>238</b>	<b>571</b>
Capex	(501)	(561)	(257)	(243)
<i>in % of Sales</i>	7.5%	8.4%	7.6%	7.2%
Others	7	0	7	0
<b>CF from Investments</b>	<b>(494)</b>	<b>(561)</b>	<b>(250)</b>	<b>(243)</b>
<b>Free Cash Flow</b>	<b>(72)</b>	<b>216</b>	<b>(12)</b>	<b>328</b>
Cash & cash equivalents	420	572	420	572

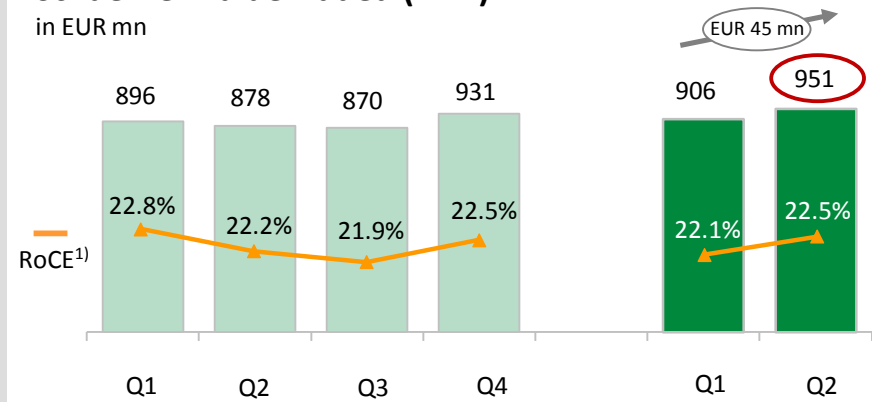
1) Includes annual cash interest on loan note receivable

## Key aspects

- ▶ Free Cash Flow increased by EUR 328 mn in Q2 to EUR 216 mn in H1 2016
- ▶ Net interest paid dropped by EUR 305 mn compared to previous year, totalling EUR 34 mn in H1 2016
- ▶ EUR 561 mn capex in H1 2016
- ▶ Schaeffler Value Added increased to EUR 951 mn

## Schaeffler Value Added (LTM)<sup>2)</sup>

in EUR mn



2) Before one-off effects

# Overview key financials

in EUR mn	H1 2015	H1 2016	y-o-y	Q2 2015	Q2 2016	y-o-y
<b>Sales</b>	6,721	6,712	-0.1% +2.9% <sup>1)</sup>	3,382	3,369	-0.4% +3.3% <sup>1)</sup>
<b>EBIT</b>	818 825 <sup>2)</sup>	859	+5.0% +4.1% <sup>2)</sup>	384	438	+14.1%
<b>EBIT margin</b>	12.2 12.3 <sup>2)</sup>	12.8	+0.6%-pts. +0.5%-pts.	11.4	13.0	+1.6%-pts.
<b>Net income</b> <span style="background-color: green; color: white; border-radius: 50%; padding: 2px 6px;">1</span>	309	494	+185 mn	142	241	+99 mn
<b>Capex</b> <span style="background-color: green; color: white; border-radius: 50%; padding: 2px 6px;">2</span>	501 (7.5% of sales)	561 (8.4% of sales)	+60 mn	257 (7.6% of sales)	243 (7.2% of sales)	-14 mn
<b>Working Capital</b> <span style="background-color: green; color: white; border-radius: 50%; padding: 2px 6px;">2</span>	2,738 (21.3% of sales)	2,796 (21.2% of sales)	+58 mn	2,738 (21.3% of sales)	2,796 (21.2% of sales)	+58 mn
<b>Free cash flow</b>	-72	216	+288 mn	-12	328	+340 mn
<b>Net debt</b> <sup>3)</sup> <span style="background-color: green; color: white; border-radius: 50%; padding: 2px 6px;">3</span>	4,889	4,874	-0.3%	4,889	4,874	-0.3%
<b>Leverage ratio</b> <sup>2) 3) 4)</sup>	2.1	2.0	-	2.1	2.0	-
<b>Schaeffler Value Added (LTM)</b> <sup>2)</sup>	878	951	+8.3%	878	951	+8.3%
<b>ROCE</b> <sup>2)</sup>	22.2	22.5	+0.3%-pts.	22.2	22.5	+0.3%-pts.
<b>EPS</b> <sup>5)</sup>	0.78	0.75	-3.8%	0.36	0.37	+2.8%

1) FX-adjusted

2) Before one-off effects

3) Prior year figure as per December 31, 2015

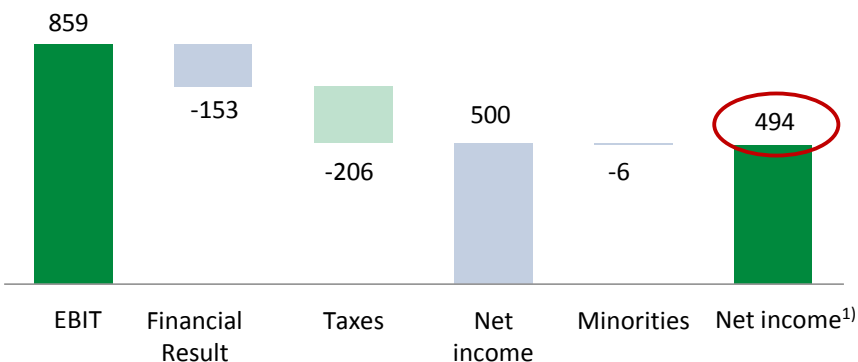
4) Net financial debt to LTM EBITDA ratio

5) Earnings per share were calculated in accordance with IAS 33. As the common non-voting shares newly issued in October 2015 (66 million shares) participated in profits for the entire year 2015, earnings per common non-voting share for the first six months of 2015 were calculated using proportionate net income based on 166 million common non-voting shares.

# 1 Net income 494 million EUR

## Net income reconciliation

in EUR mn



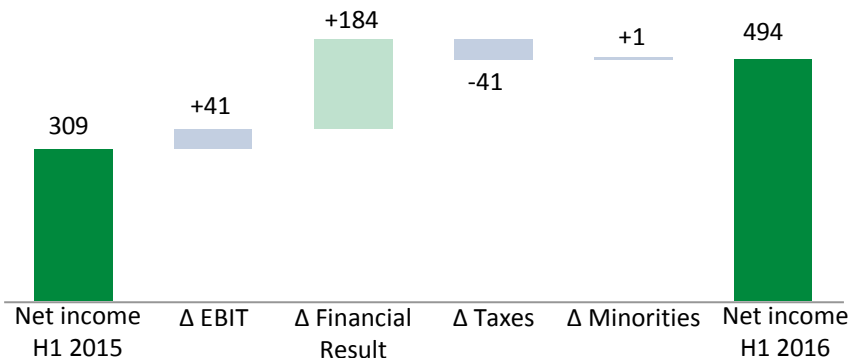
## Key aspects

- ▶ Net income<sup>1)</sup> increased by 60% to EUR 494 mn (H1'15: EUR 309 mn)
- ▶ Financial result improved significantly by EUR 184 mn to EUR -153 mn due to lower interest expenses and one-off effect in previous year
- ▶ Tax ratio H1: 29.2% (H1'15: 34.3%)

1) Attributable to the shareholders of the parent company

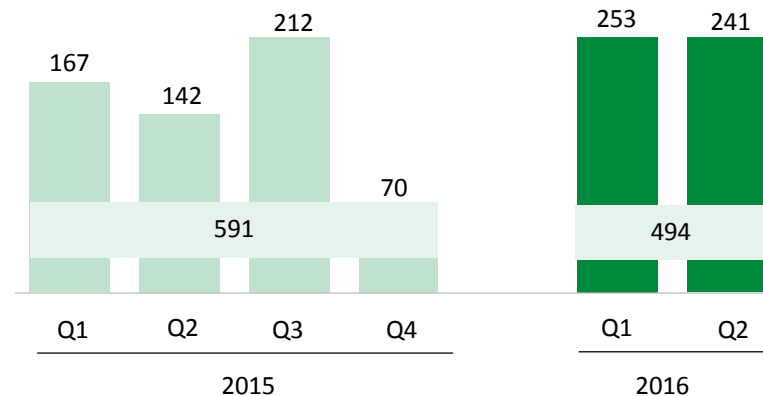
## Net income<sup>1)</sup> H1 2016 vs. H1 2015

in EUR mn



## Net income<sup>1)</sup>

in EUR mn

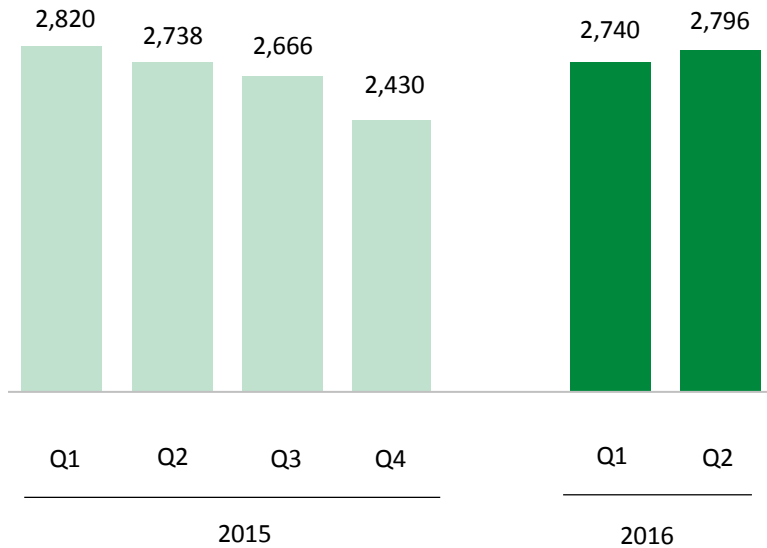




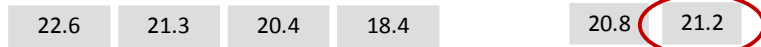
## 2 Working capital efficiency improved – Capex ratio 8.4%

### Working capital<sup>1)</sup>

in EUR mn



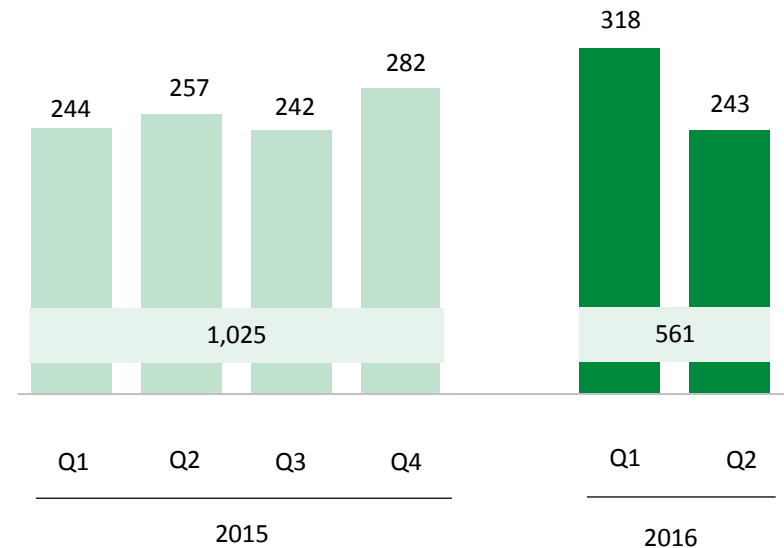
In % of sales



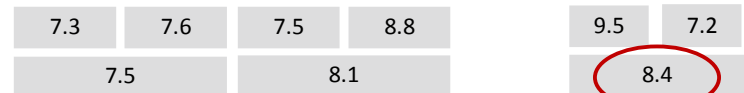
1) According to balance sheet; figures as per the end of period

### Capex<sup>2)</sup>

in EUR mn



In % of sales

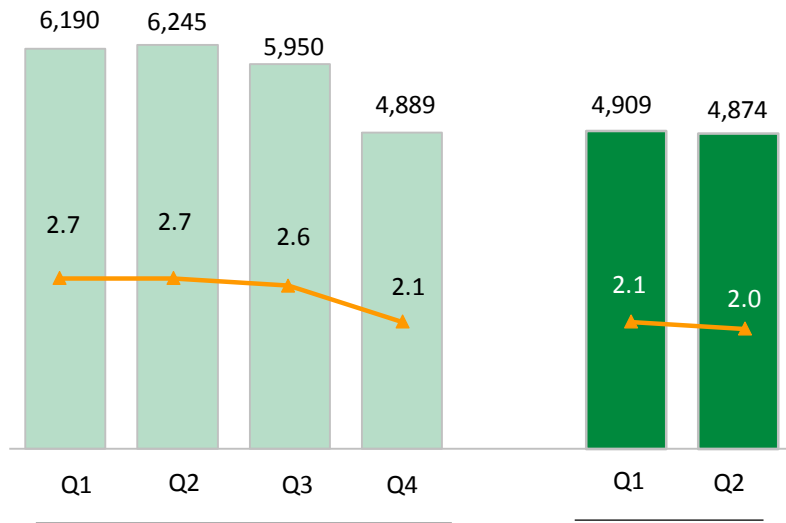


2) Cash view

### 3 Leverage ratio at 2.0x

#### Net financial debt

in EUR mn



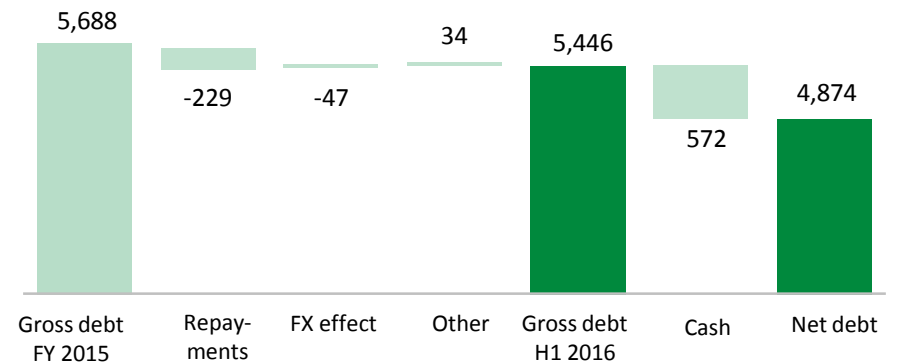
	2015				2016	
<b>Leverage ratio</b> (Net financial debt / LTM EBITDA before one-off effects)						
<b>Gross debt</b>	6,799	6,665	6,674	5,688	5,602	5,446
<b>Cash &amp; cash equivalents</b>	609	420	724	799	693	572

#### Key aspects

- ▶ Leverage Ratio improved to 2.0x
- ▶ Successful EUR 2.3 billion refinancing in July 2016
- ▶ Significantly improved credit terms ensuring enhanced flexibility

#### Change in net financial debt

in EUR mn



# Guidance 2016 confirmed – On track to achieve 2016 targets

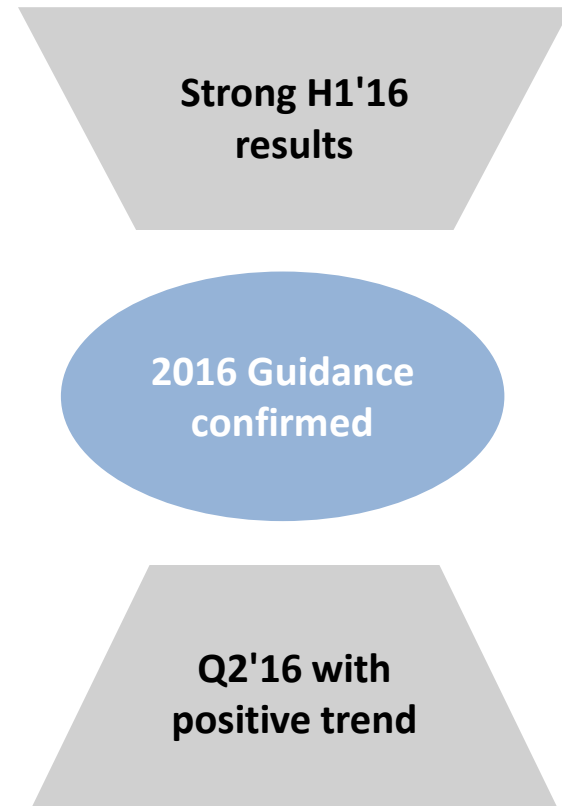
**SCHAEFFLER**

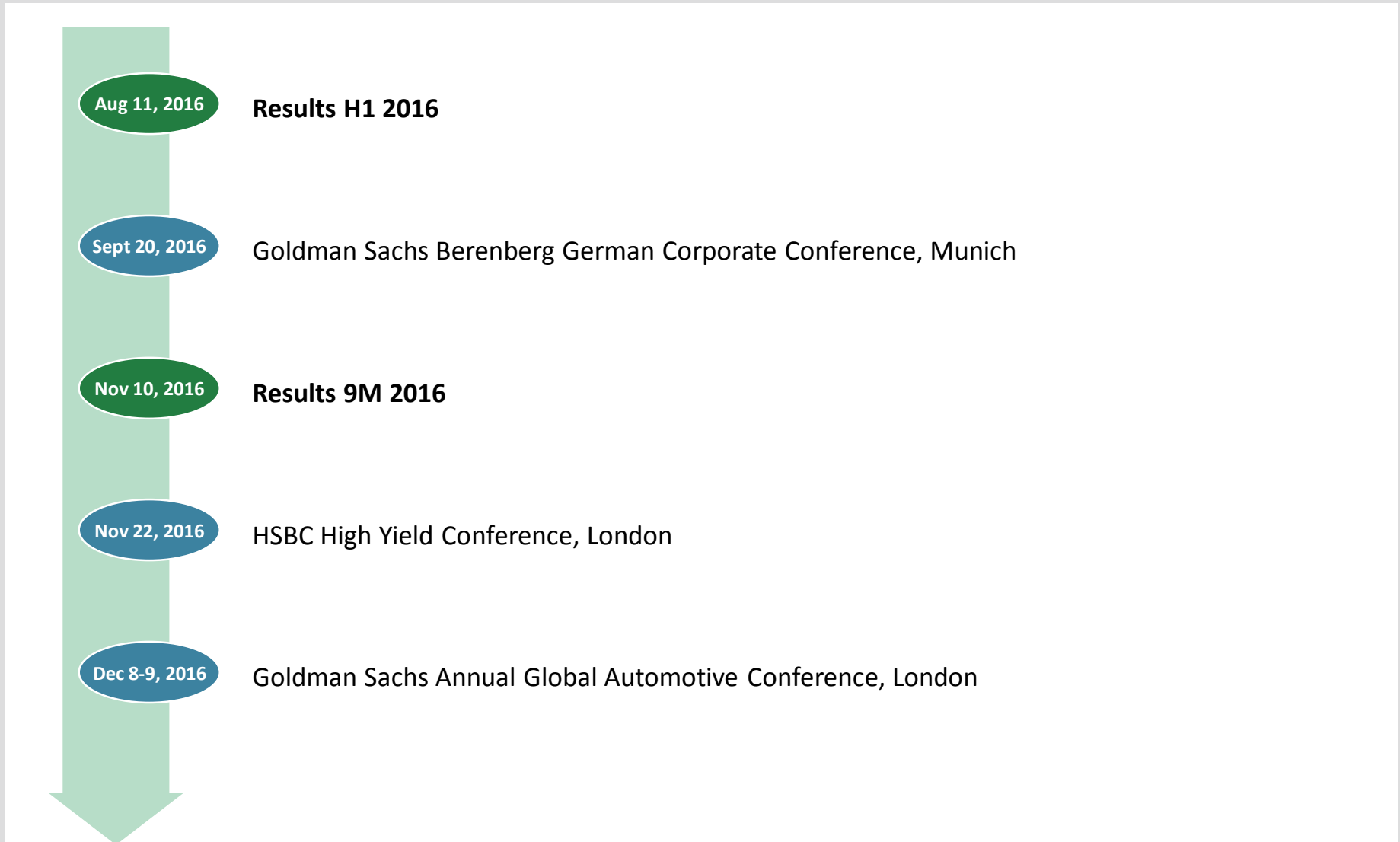
## Guidance 2016

<b>Sales growth</b>	3-5% FX-adjusted
<b>EBIT margin</b>	12-13% of sales before one-off effects
<b>Free Cash Flow</b>	~ EUR 600 mn

## Market assumptions

- ▶ Automotive: Global Light Vehicle production growth of around 2%
- ▶ Industrial: Low single-digit growth in global Industrial production







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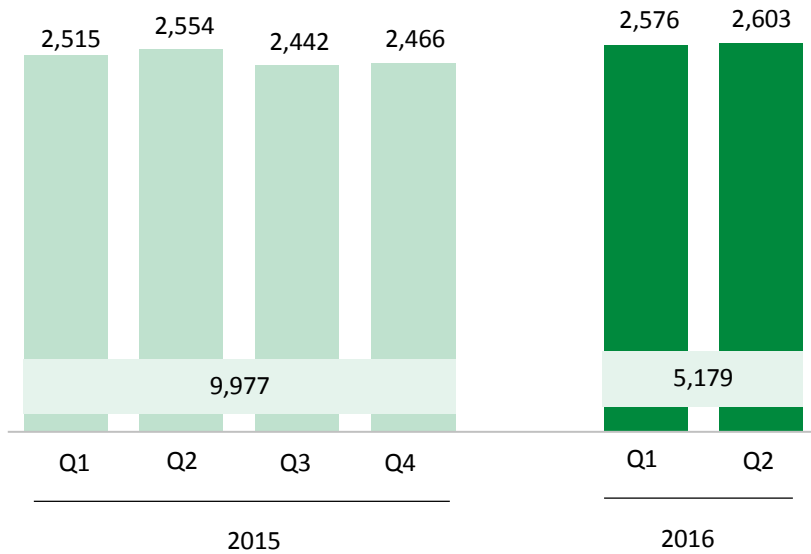
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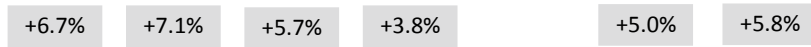
# Sales per division

## Sales Automotive

in EUR mn

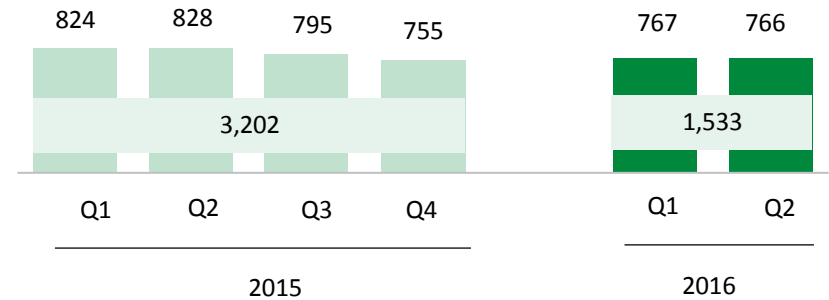


Growth rate (w/o FX effects)

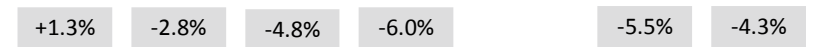


## Sales Industrial

in EUR mn



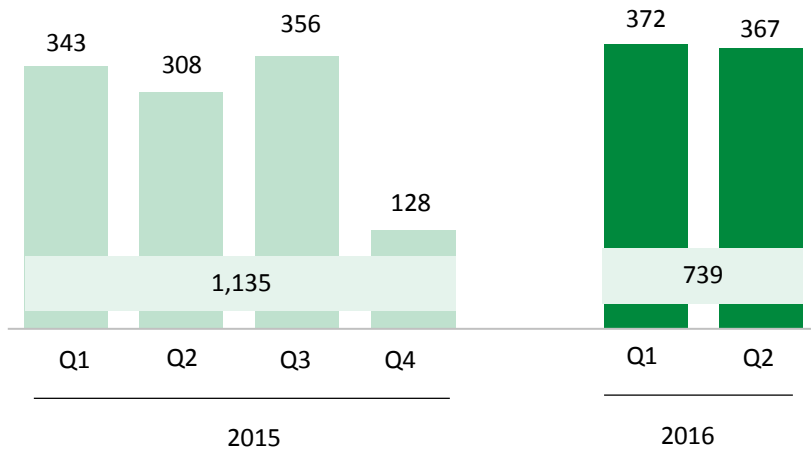
Growth rate (w/o FX effects)



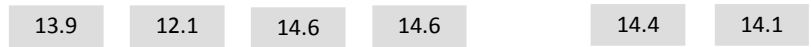
# EBIT per division

## EBIT Automotive

in EUR mn



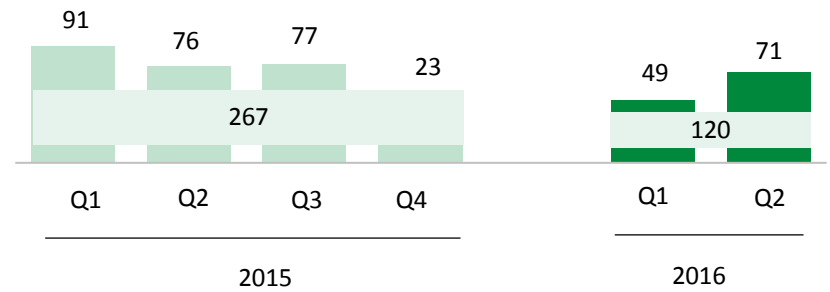
EBIT<sup>1)</sup> margin in %



1) Before one-off effects

## EBIT Industrial

in EUR mn

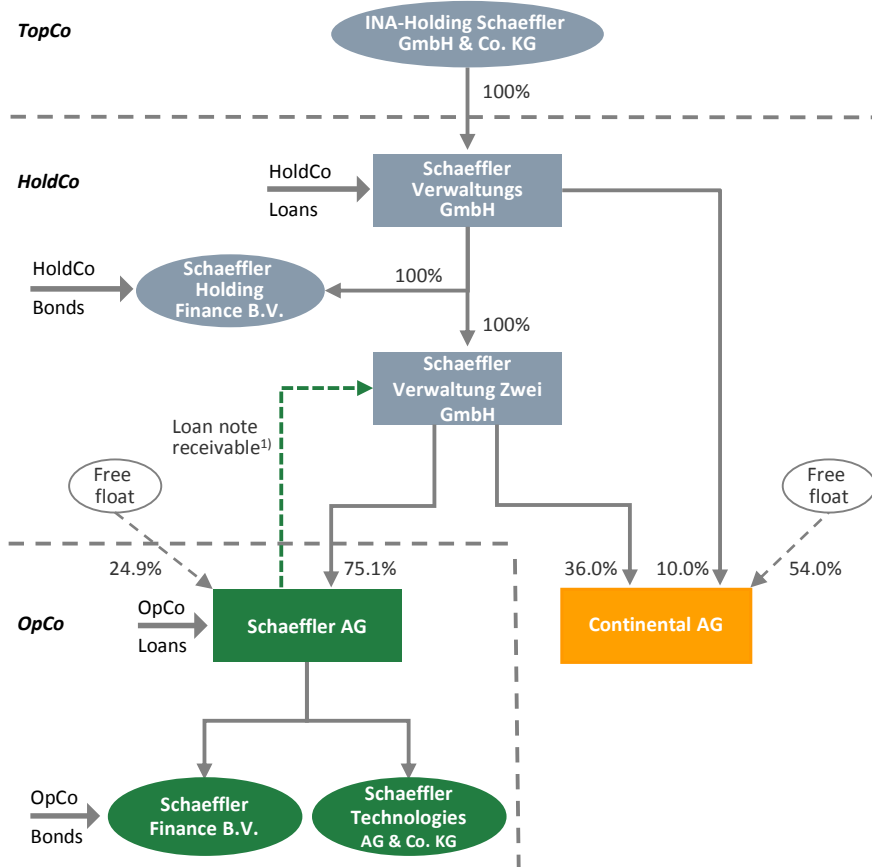


EBIT<sup>1)</sup> margin in %



## Corporate structure (simplified)

as of 30 June 2016



- 1) Loan note receivable of EUR 1,674 mn    2) PIK Toggle Notes  
 3) EUR / USD = 1.1105 as of 30 June 2016  
 4) Redemption of 4.25% SSNs 2018 EUR 600mn in full envisaged for 18 August

## Financing structure

pro-forma as of 18 August 2016<sup>4)</sup>

Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating
HoldCo Term Loan (EUR)	-	600	E+3.25%	Oct-20	Not rated
HoldCo RCF (EUR 200 mn)	-	-	E+3.25%	Oct-20	Not rated
<b>Total HoldCo Loans</b>		<b>600</b>			
6.875% SSNs 2018 (EUR) <sup>2)</sup>	-	300	6.875%	Aug-18	Ba3 / B+
6.875% SSNs 2018 (USD) <sup>2)</sup>	400	360 <sup>3)</sup>	6.875%	Aug-18	Ba3 / B+
6.25% SSNs 2019 (USD) <sup>2)</sup>	475	428 <sup>3)</sup>	6.25%	Nov-19	Ba3 / B+
5.75% SSNs 2021 (EUR) <sup>2)</sup>	-	210	5.75%	Nov-21	Ba3 / B+
6.75% SSNs 2022 (USD) <sup>2)</sup>	405	365 <sup>3)</sup>	6.75%	Nov-22	Ba3 / B+
<b>Total HoldCo Bonds</b>		<b>1,663</b>			
<b>Total HoldCo</b>		<b>2,263</b>			

Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating
OpCo Term Loan (EUR)	-	1,000	E+1.70%	Jul-21	Not rated
OpCo RCF (EUR 1,300 mn)	-	-	E+1.30%	Jul-21	Not rated
<b>Total OpCo Loans</b>		<b>1,000</b>			
2.75% SSNs 2019 (EUR)	-	500	2.75%	May-19	Ba2 / BB
3.25% Unsec.Ns 2019 (EUR)	-	500	3.25%	May-19	Ba3 / B+
2.50% SSNs 2020 (EUR)	-	400	2.50%	May-20	Ba2 / BB
4.75% SSNs 2021 (USD)	850	765 <sup>3)</sup>	4.75%	May-21	Ba2 / BB
4.25% SSNs 2021 (USD)	700	630 <sup>3)</sup>	4.25%	May-21	Ba2 / BB
3.50% SSNs 2022 (EUR)	-	500	3.50%	May-22	Ba2 / BB
4.75% SSNs 2023 (USD)	600	540 <sup>3)</sup>	4.75%	May-23	Ba2 / BB
3.25% SSNs 2025 (EUR)	-	600	3.25%	May-25	Ba2 / BB
<b>Total OpCo Bonds</b>		<b>4,435</b>			
<b>Total OpCo</b>		<b>5,435</b>			