



# Schaeffler AG

## Capital Markets Presentation

January 24, 2017  
Analyst and Investor Conference Call  
Pre-release FY2016 Results and Update Equity Story

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- 1** Overview
- 2** Strategy "Mobility for tomorrow"
- 3** Investment Highlights
- 4** Outlook and Summary

## Pre-release FY 2016 results – Update Equity story

### Chronology of events



### New Co-CEO Automotive Matthias Zink



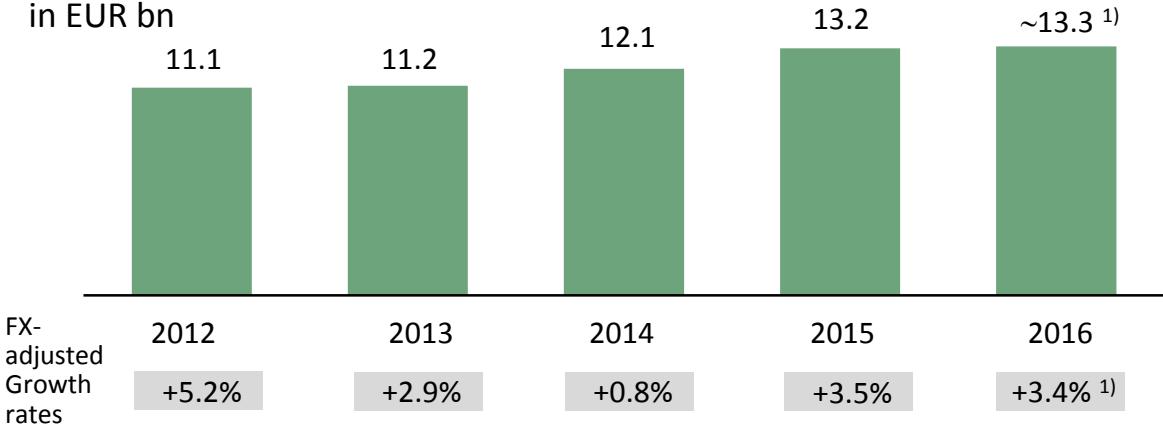
- ▶ Since 1994 with Schaeffler Group
- ▶ Until 2012 various leadership positions within Transmission Systems Unit
- ▶ Head of Schaeffler Automotive Asia/Pacific from 2012 until 2014
- ▶ Head of Transmission Systems Business Division from 2014 until 2016
- ▶ Since January 1, 2017 Member of the Executive Board of Schaeffler AG

### Schaeffler at a glance

- ▶ Leading automotive and industrial supplier of high-precision components and systems
- ▶ Global footprint with around 85,000 employees at about 170 locations in more than 50 countries
- ▶ Balanced business portfolio across sectors, geographies and diversified customer base with leading market positions
- ▶ Sizeable aftermarket exposure contributes to stable financial performance
- ▶ Highly attractive profitability and cash returns

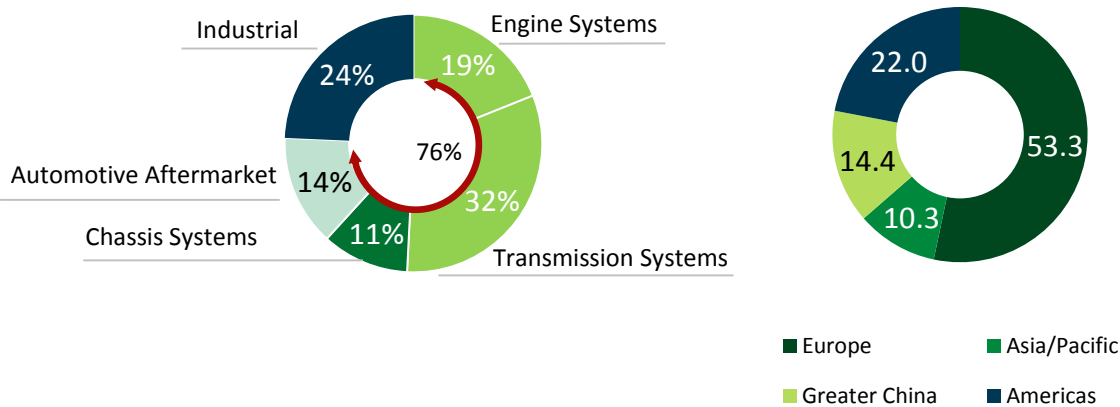
### Sales growth 2012 – 2016

in EUR bn



1) Preliminary figures

### Sales by division and region (9M 2016)



### Global footprint

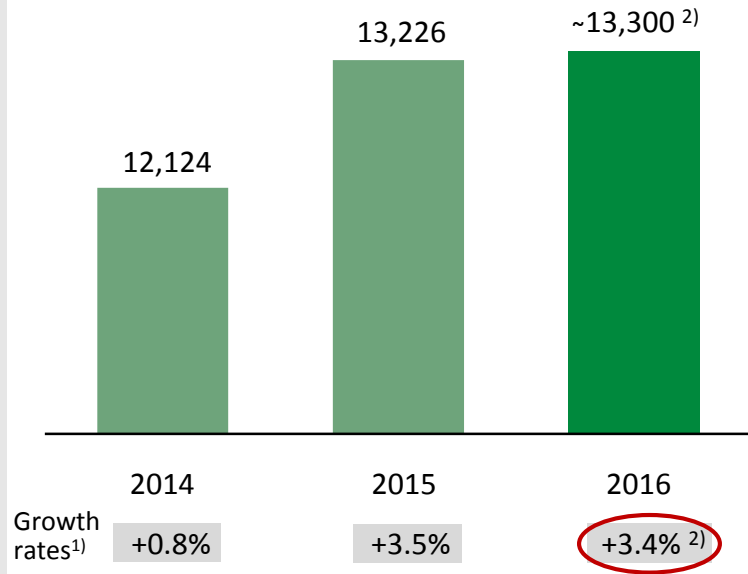
	#Plants	#R&D Centers
Europe	48	9
Americas	14	5
Greater China	8	1
Asia / Pacific	5	2
<b>Total</b>	<b>75</b>	<b>17</b>

# Preliminary Results for 2016 – Guidance 2016 comfortably achieved

**SCHAEFFLER**

## Sales 2014-2016 in EUR mn

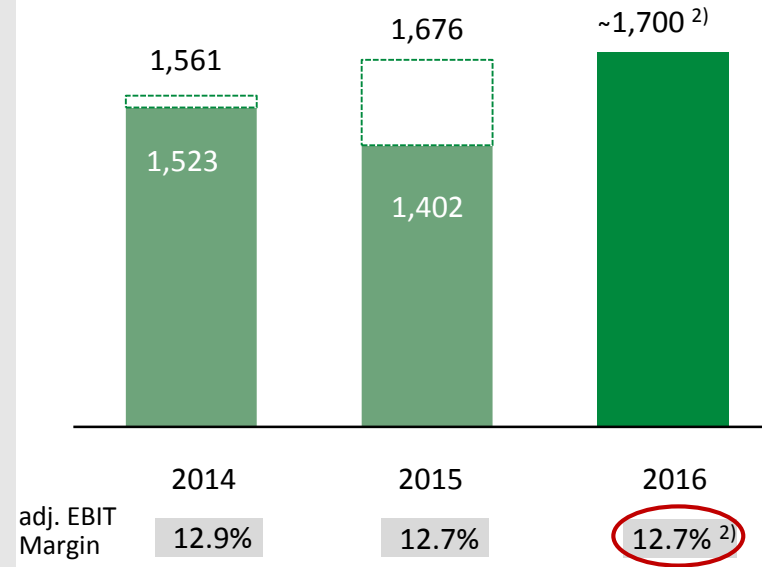
Guidance 2016  
Sales growth<sup>1)</sup>  
3-5%



1) FX-adjusted, w/o external growth  
2) Preliminary figures

## EBIT<sup>3)</sup> 2014-2016 in EUR mn

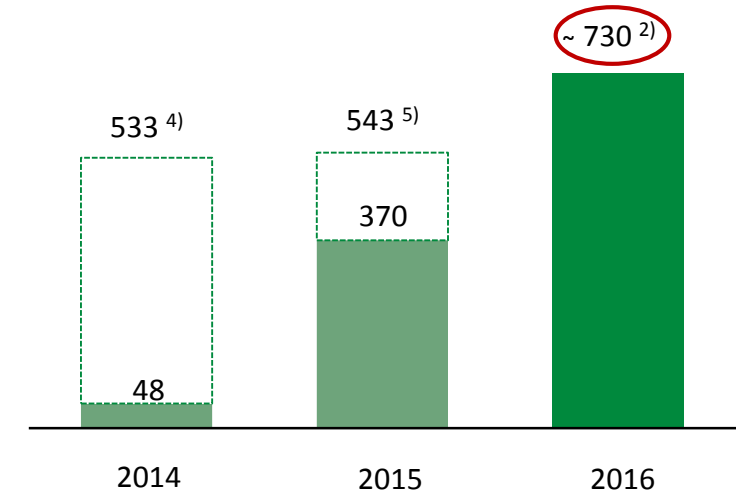
Guidance 2016:  
EBIT Margin<sup>3)</sup>  
12-13%



3) Before one-off effects

## Free Cash Flow 2014-2016 in EUR mn

Guidance 2016:  
Free Cash Flow<sup>6)</sup>  
~ 600 mn EUR



4) Excl. EUR 114 mn refinancing charges and EUR 371 mn reversal of EU antitrust provisions  
5) Excl. EUR 173 mn refinancing charges for early redemption of bonds  
6) W/o external growth

## Strategy "Mobility for tomorrow" – 4 key elements

### Vision / Mission

#### 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 manufacturing technology and systems know-how. 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."



### 4 Focus areas

#### Eco-friendly drives

- ▶ Optimized combustion engine
- ▶ Electric vehicles
- ▶ Industrial drives



#### Urban mobility

- ▶ Two-wheelers
- ▶ Inner-city railways
- ▶ Micro mobiles

#### Interurban mobility

- ▶ Rail vehicles
- ▶ Aircraft
- ▶ Off-highway



#### Energy chain

- ▶ Wind power
- ▶ Solar power
- ▶ Conventional power generation

Mobility for tomorrow

### 8 Strategic pillars

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.

### 16 Strategic initiatives

#### Agenda 4 plus One



#### Initiatives

#### Sponsor

1	Customer Excellence	Prof. Pleus / Dr. Spindler
2	E-Mobility	Prof. Gutzmer
3	Industry 4.0	Dr. Spindler
4	Quality for Tomorrow	Rosenfeld
5	Global Footprint	Rosenfeld
6	Factory for Tomorrow	Jung
7	Shared Services	Dr. Hauck
8	Process Excellence	Rosenfeld
9	Working Capital	Dr. Hauck
10	Leadership & Corporate Values	Schittenhelm
11	Qualification for Tomorrow	Schittenhelm
12	New Work	Schittenhelm
13	Program CORE	Dr. Spindler
14	Digital Agenda	Prof. Gutzmer
15	IT 2020	Prof. Gutzmer
16	Global Branding	Rosenfeld



### Financial Ambitions 2020

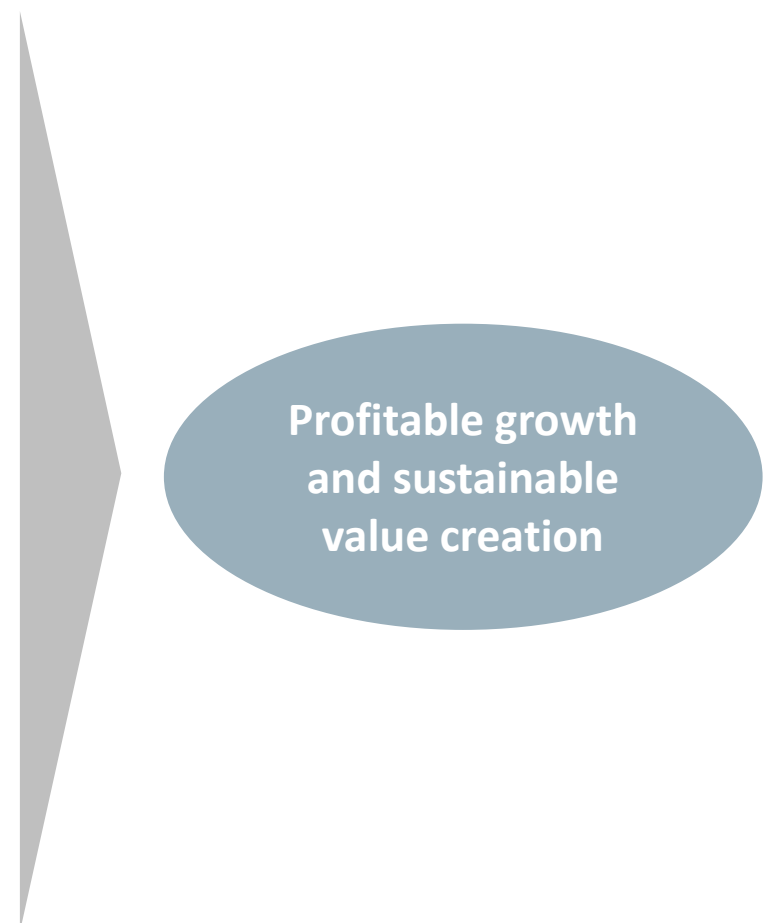
<b>Sales Growth</b>	Ø 4-6% p.a. w/o external growth, FX-adjusted
<b>EBIT Margin</b>	12-13% p.a. Before one-off effects, w/o external growth
<b>Free Cash flow</b>	~€ 900M in 2020 w/o external growth
<b>Earnings per Share</b>	~€ 2.00 per share in 2020 w/o external growth
<b>Gearing ratio <sup>1)</sup></b>	<75% in 2020
<b>Dividend <sup>2)</sup></b>	30-40% of Net income

### 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)

2) Payout ratio based on Net income



**Profitable growth  
and sustainable  
value creation**



### Equity Story – 3 key elements

Automotive growth above market

+

Margin upside in Industrial

+

Strong Free cash flow generation

### 4 key questions

1 What is your expectation regarding outperformance in Automotive for 2017?

2 What does e-mobility mean for Schaeffler?

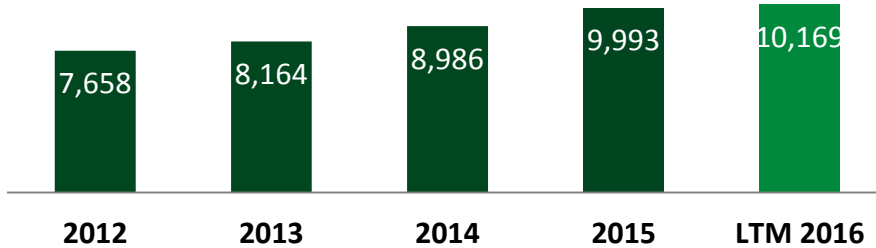
3 When do you think the Industrial margin will pick up again?

4 What are your priorities with regard to "use of cash"?

## Schaeffler Automotive at a glance

### Sales and EBIT margin 2012 – LTM 9M 2016

in EUR mn



Growth rate (y-o-y)<sup>1)</sup>

+5.1%   +8.6%   +10.7%   +5.8%   +5.3%

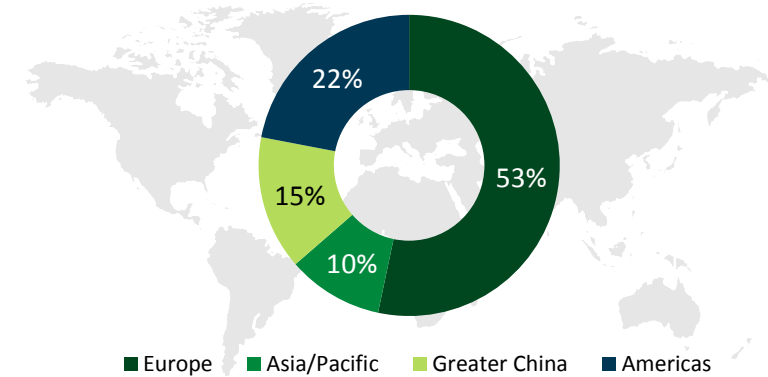
EBIT margin<sup>2)</sup>

13.5%   13.0%   14.0%   13.6%   14.4%

<sup>1)</sup> Before FX effects

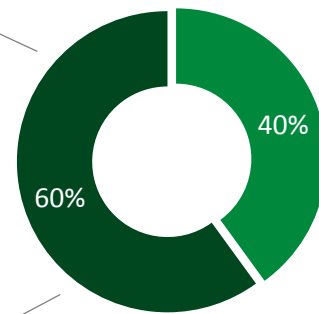
<sup>2)</sup> Before one-off effects

### Sales by region 2015



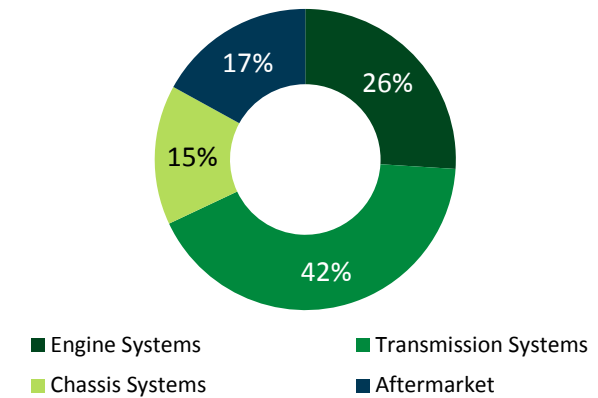
### Broad customer mix

#### Top 10 customers



■ Top 10 automotive customers  
■ Other customers

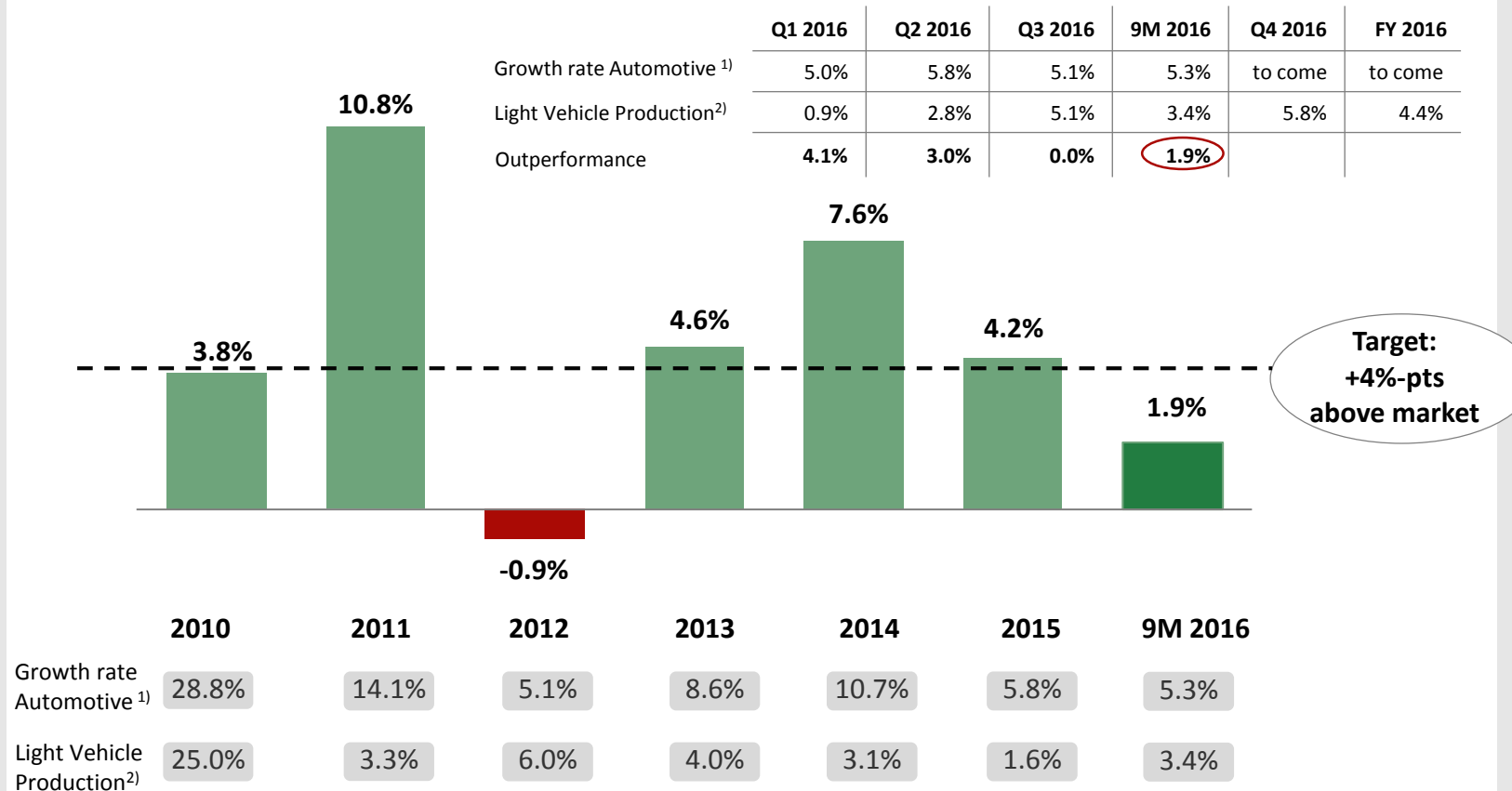
### Sales by business 2015



# 1 Outperformance Automotive 2016 – Below average

**SCHAEFFLER**

## Outperformance 2010 – 9M 2016

<sup>1)</sup> Before FX effects<sup>2)</sup> Source: IHS

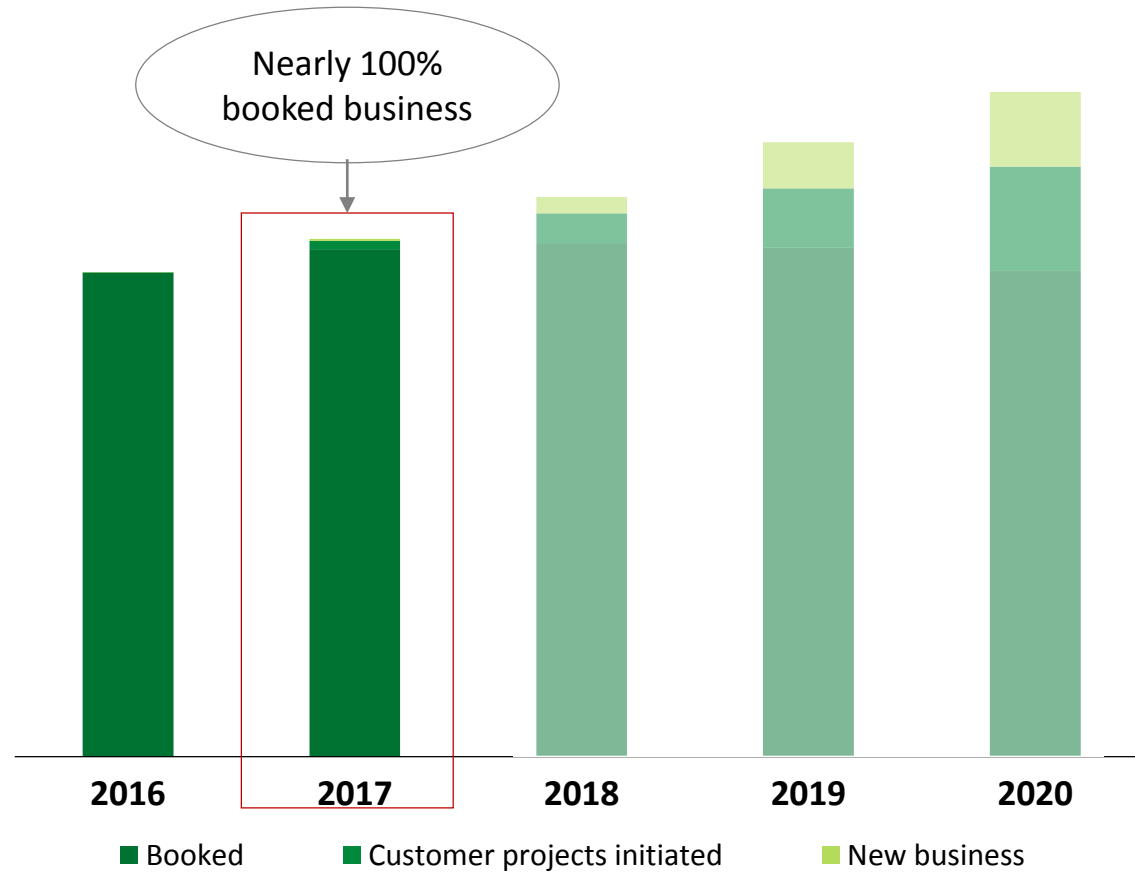
## Key aspects

Indicative figures for illustration purposes

- ▶ Historical outperformance 2010 – 9M 2016 above internal benchmark of plus 4%-pts
- ▶ Above vehicle production in 2016 with strong 4<sup>th</sup> quarter
- ▶ Schaeffler outperformance 9M 2016 1.9% due to:
  - Trucks effect: Truck sales is part of our total Automotive sales, weak markets dampening growth
  - Phase out effect: Phase-out of two projects affecting growth rate negatively in 2016
  - Americas mix effect: OEM stopped production of two small sedans as market was shifting to SUVs and light trucks

# 1 Outperformance Automotive 2017 – Back to plus 4%-pts above-market

## Sales development



<sup>1)</sup> At constant currency

## Key aspects

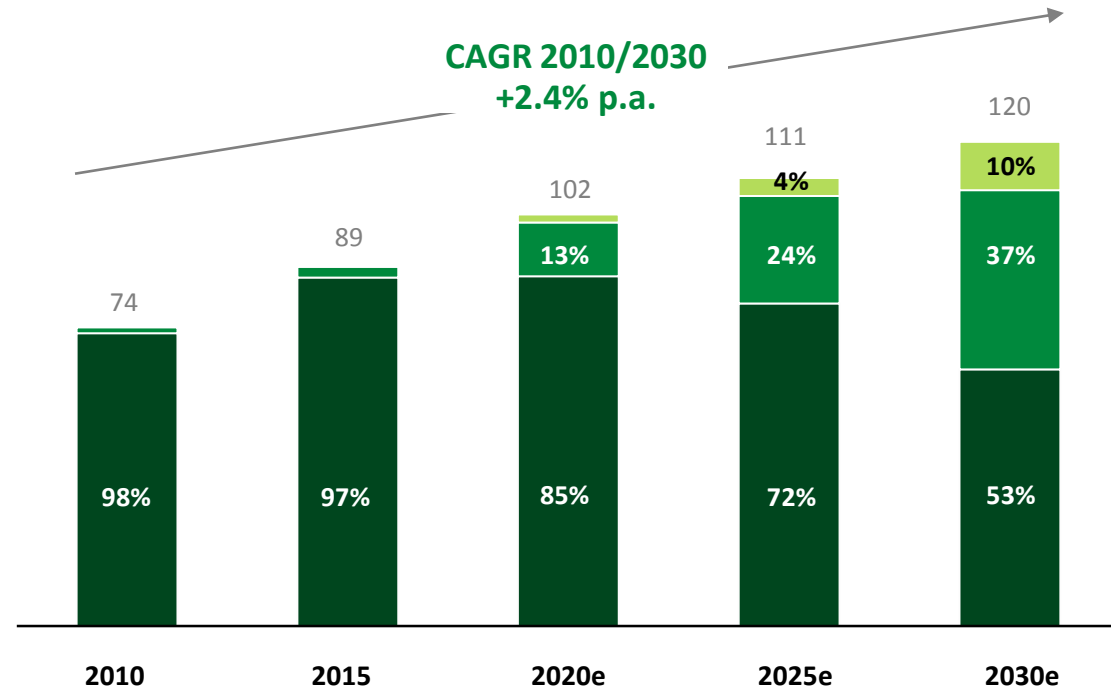
- ▶ Expected global light vehicle production growth of around 1.5% for 2017
- ▶ Sales growth Schaeffler 2017 supported by strong orderbook (nearly 100% booked business)
- ▶ Several high-volume launches and above-average content per vehicle
  - UniAir system (Europe)
  - Electromechanical camphaser (Europe)
  - Torque converter (US)
  - Dual-clutch transmission (China)

4%-pts  
outperformance  
in 2017

## 2 E-Mobility – Accelerated scenario becomes more realistic

**Global production volume <sup>1)</sup>**  
in millions of units

Basic scenario <sup>2)</sup>



Source: IHS, LMC Automotive, Schaeffler Group projections

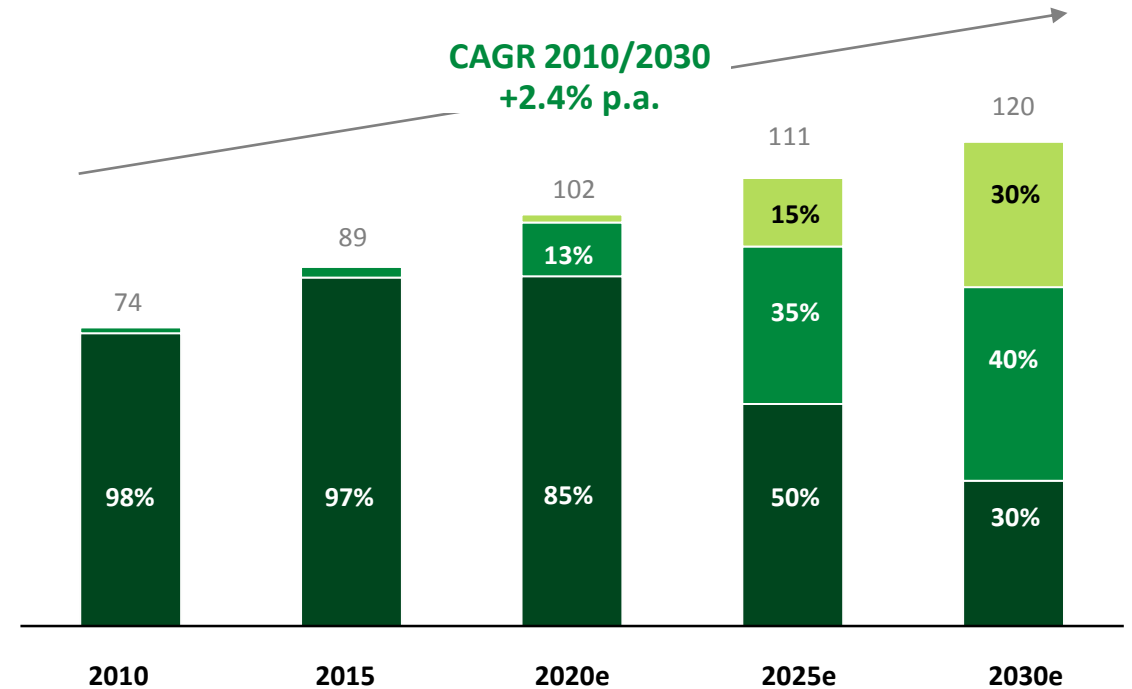
<sup>1)</sup> Annually expected global production volume, automobiles/small utility vehicles in millions of units

<sup>2)</sup> Schaeffler estimates

■ Battery electric vehicles  
■ Hybrid vehicles  
■ Internal combustion engines

**Global production volume <sup>1)</sup>**  
in millions of units

Accelerated scenario <sup>2)</sup>



Source: IHS, LMC Automotive, Schaeffler Group projections

<sup>1)</sup> Annually expected global production volume, automobiles/small utility vehicles in millions of units

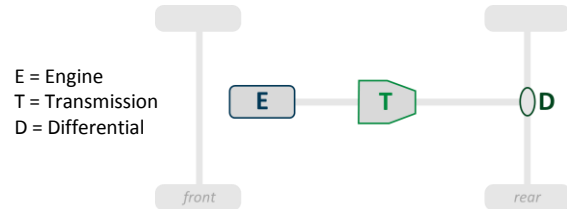
<sup>2)</sup> Schaeffler estimates

■ Battery electric vehicles  
■ Hybrid vehicles  
■ Internal combustion engines

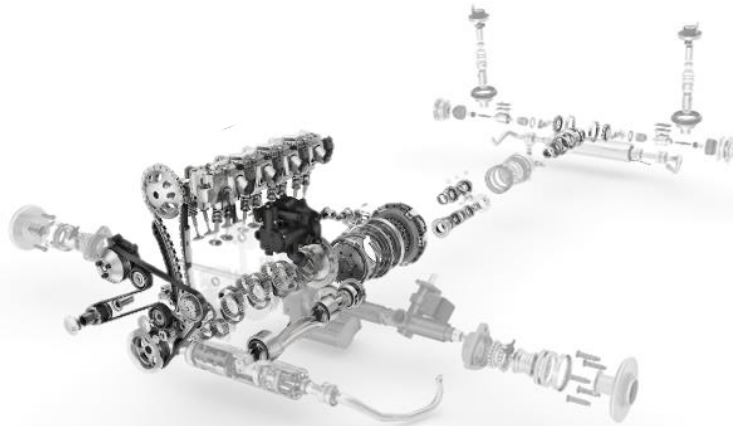
## 2 E-Mobility – 3 main powertrain structures

### 1 Internal combustion engines

#### ► Powertrain structure



#### ► Powertrain portfolio



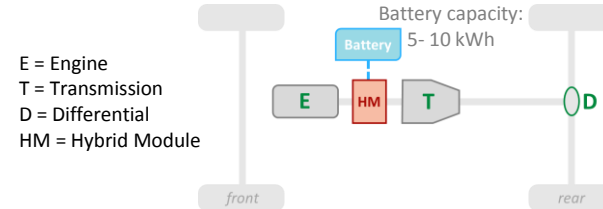
Existing Schaeffler portfolio

Est. Content per Vehicle  
50 – 500 Euro

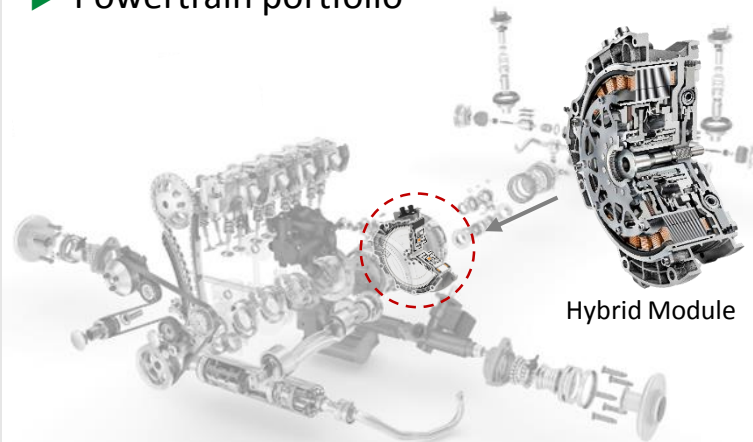
<sup>1)</sup> Bearings; Planetary Gears

### 2 Hybrid vehicles

#### ► Powertrain structure



#### ► Powertrain portfolio

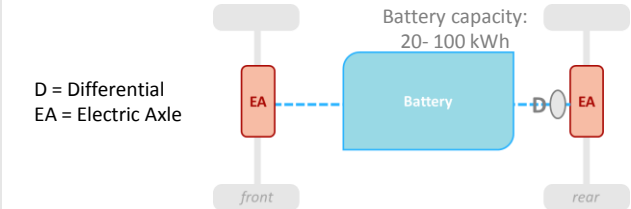


Existing Schaeffler portfolio + Hybrid Module

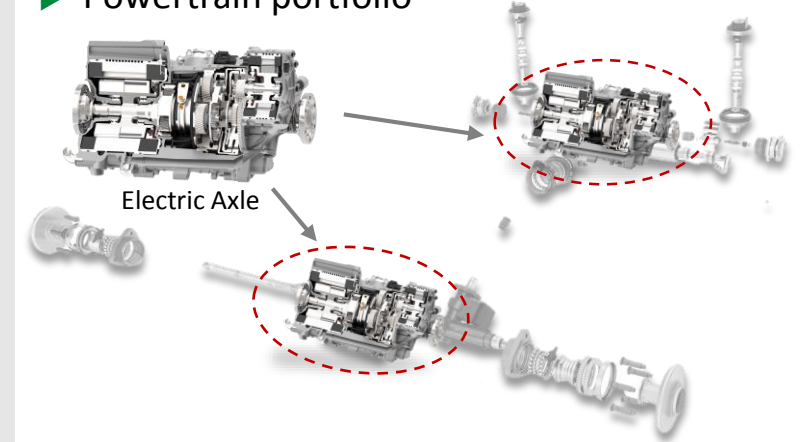
Est. Content per Vehicle<sub>2020</sub>  
200 – 1,000 Euro

### 3 Battery electric vehicles

#### ► Powertrain structure



#### ► Powertrain portfolio

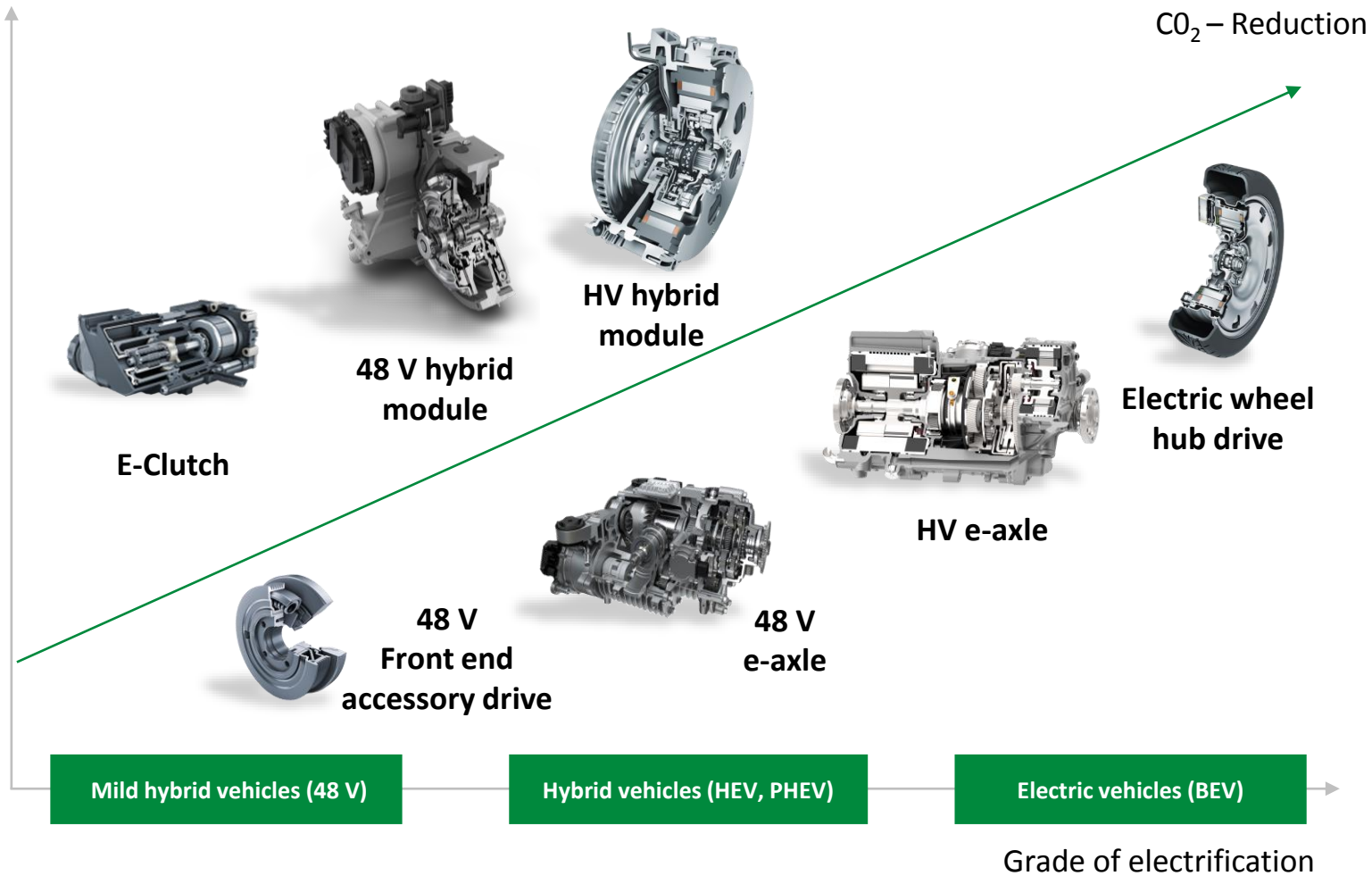


Selected components<sup>1</sup> + Electric Axles

Est. Content per Vehicle<sub>2020</sub>  
25 – 1,250 Euro

## 2 Strong starting position in e-mobility – Broad portfolio of solutions

### Product portfolio



### Key aspects

1999

1<sup>st</sup> Schaeffler E-Mobility symposium

2002

1<sup>st</sup> E-Mobility concept car

2005

1<sup>st</sup> serial production of components for hybrid modules

2016

- ▶ 500 Million Euro investment to date<sup>1)</sup>, 1,200 employees globally
- ▶ More than 20 customer projects
- ▶ 6 series contracts for hybrid modules and e-Axles

2020

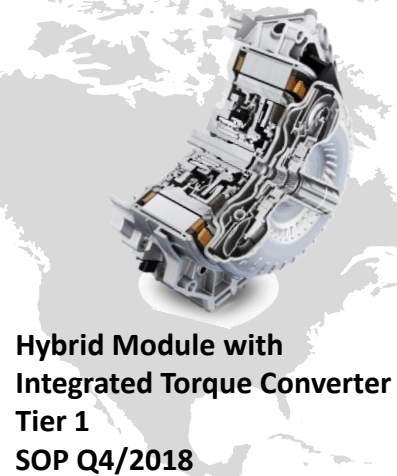
- ▶ Further 500 Million Euro investment<sup>1)</sup>
- ▶ Doubling of employees in R&D and manufacturing

<sup>1)</sup>Including R&D

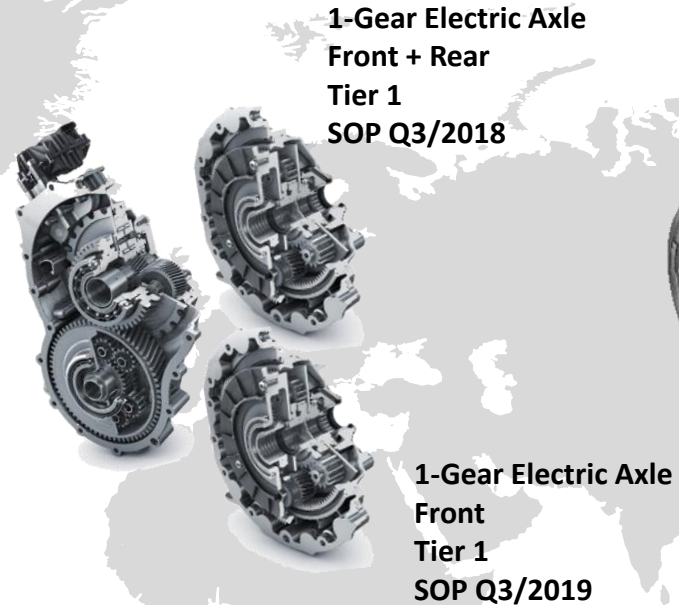


**2 More than 20 customer projects – 6 series contracts**

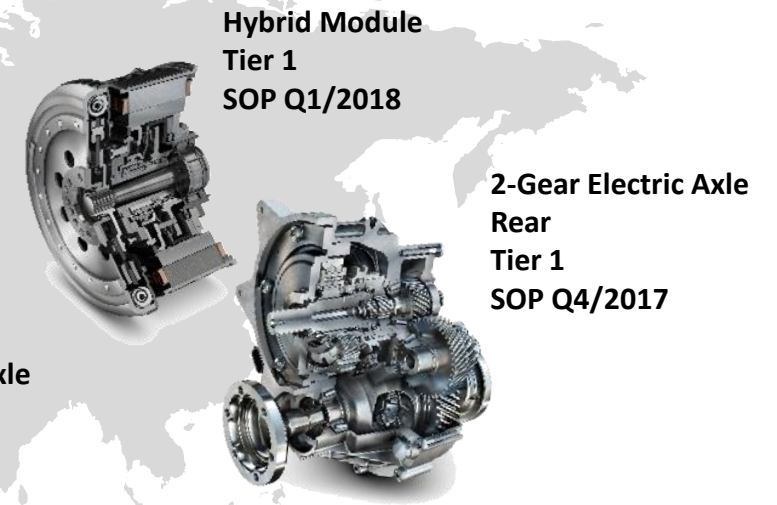
**Americas**



**Europe**



**China**



**Hybrid Modules**

- ▶ 2 series contracts received
- ▶ **More than 10** customer projects ongoing

**E-Axles**

- ▶ 4 series contracts received
- ▶ **More than 10** customer project ongoing

## 2 Compact Dynamics acquired – Broadening competence and scope

SCHAEFFLER

### 1 System and Powertrain Competence



- ▶ 500 Million Euro investment to date<sup>1)</sup>, 1,200 employees globally
- ▶ More than 20 customer projects
- ▶ 6 series contracts for hybrid modules and e-axes

### 2 Acquisition

Compact  
Dynamics

- ▶ Schaeffler acquires a 51% stake in Compact Dynamics GmbH from SEMIKRON International GmbH.
- ▶ Closing expected in Q1 2017; call option for remaining 49% stake until June 2018.
- ▶ Compact Dynamics is a development specialist in the field of innovative, electric drive concepts

### 3 Cooperation

SEMIKRON

- ▶ At the same time, SEMIKRON and Schaeffler establish a cooperation to develop power electronic solutions for alternative drive concepts
- ▶ SEMIKRON is a worldwide leader for innovative power electronics
- ▶ Schaeffler is significantly expending its expertise in e-motors and power electronics

SCHAEFFLER

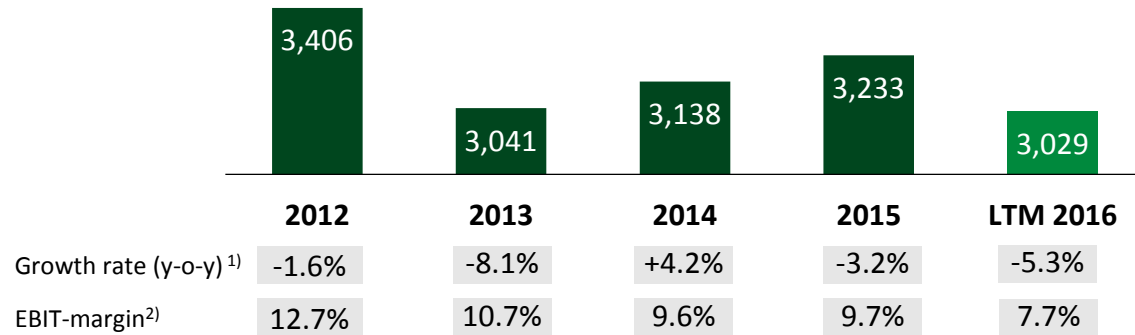


HV E-Axle

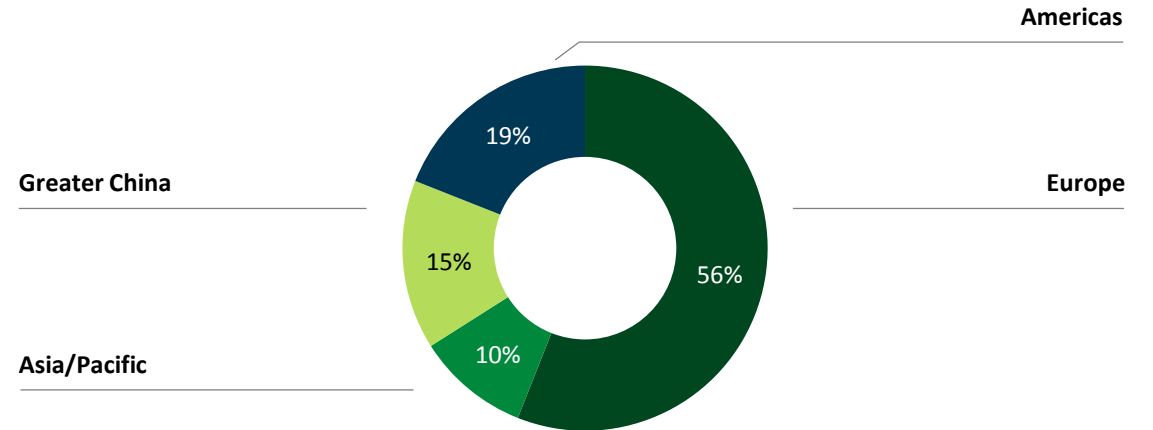
**Quality,  
Technology and  
Innovation**

## Sales and EBIT margin 2012 – LTM 9M 2016

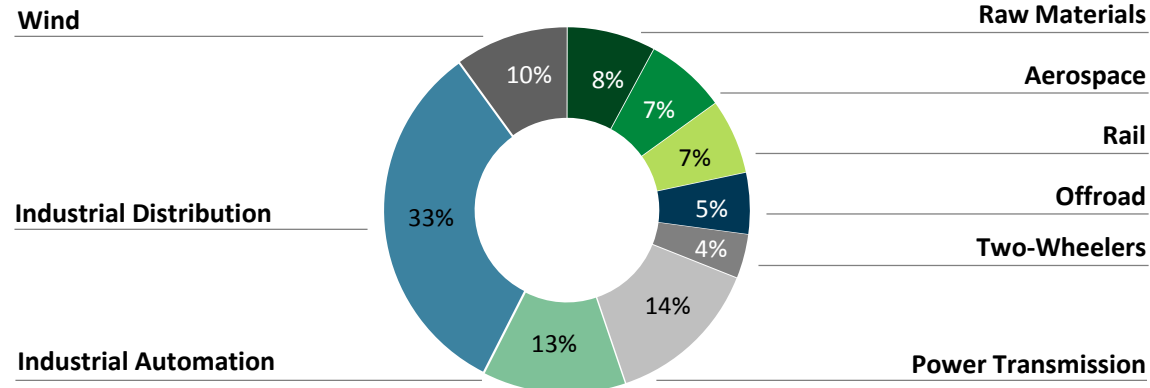
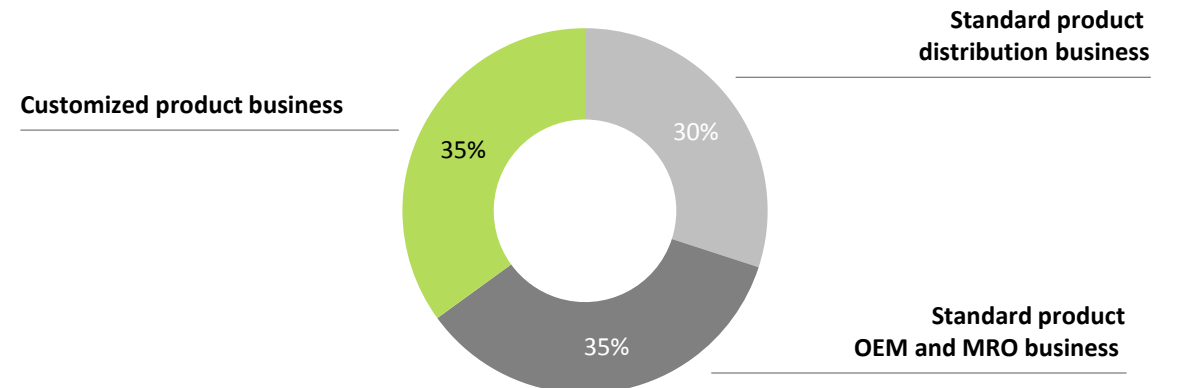
in EUR mn

<sup>1)</sup> Before FX effects<sup>2)</sup> Before one-off effects

## Sales by region 2015



## Sales split by sector cluster &amp; distribution channel 2015

Sales by business model 2015<sup>1)</sup><sup>1)</sup> Including service business

### 3 Revitalizing the Industrial division – Program CORE



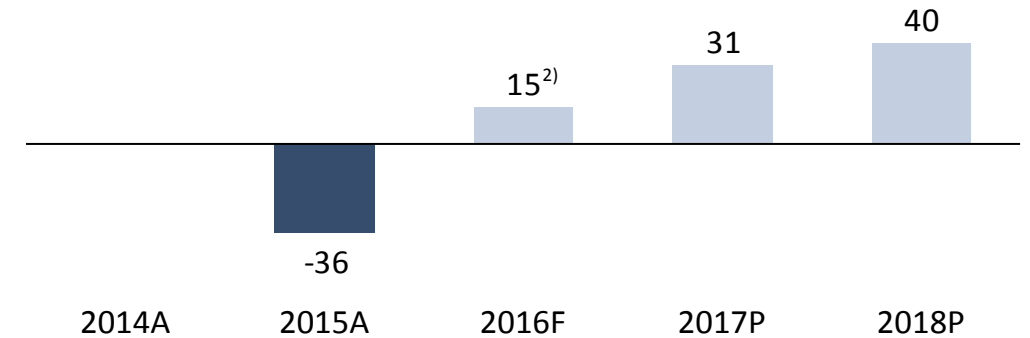
### 3 Cost reduction and efficiency improvements – First wave mostly completed in 2016

#### 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

Δ EBIT in EUR mn



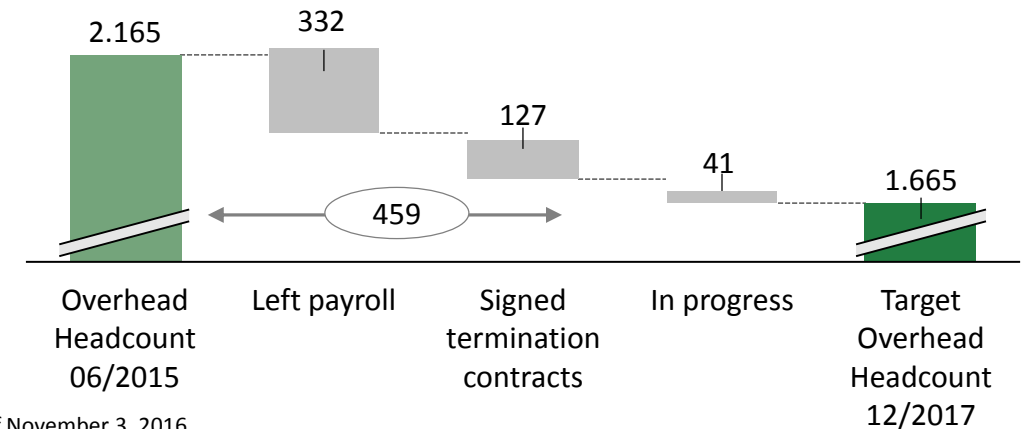
<sup>1)</sup> Financial impact in specific year

<sup>2)</sup> thereof 9 mn Euro YTD September 2016

EBIT Improvement One-off effects

#### HCO reduction Overhead

Completion Ratio~90% <sup>3)</sup>



<sup>3)</sup> as of November 3, 2016

### 3 Cost reduction and efficiency improvements – Second wave initiated in 2016

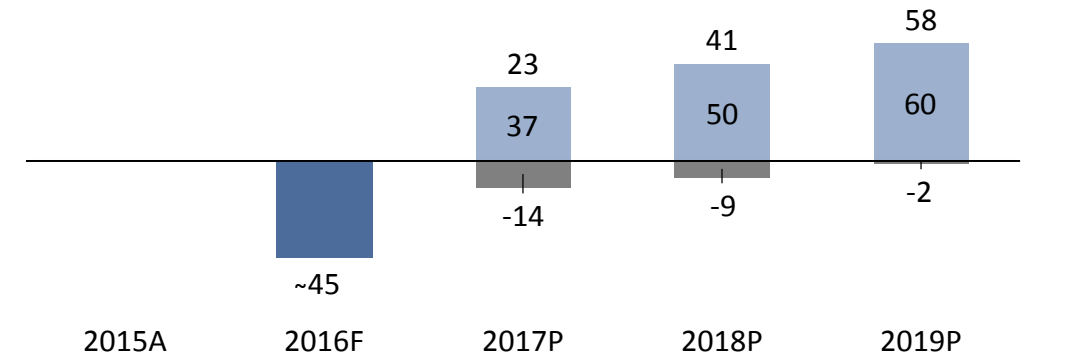
#### Key aspects

- ▶ 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<sup>1)</sup>, Europe and other regions targeted
- ▶ Approximately 60 EUR mn improvement from Gross Profit optimization and Overhead cost reduction until 2019 planned
- ▶ Around 70 EUR mn one-off effects until 2019 of which approximately 45 EUR mn will be booked as restructuring cost as of year end 2016

<sup>1)</sup> Subject to negotiation with working council

#### Indicative Financial Impact<sup>2)</sup>

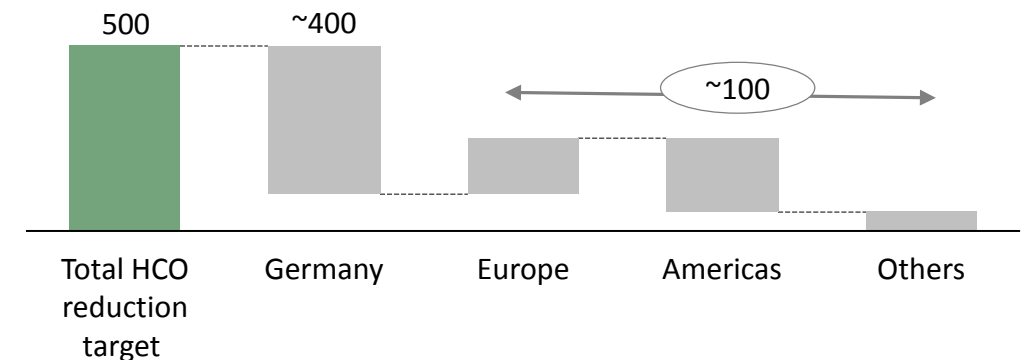
Δ EBIT in EUR mn



<sup>2)</sup> 2016-2019 in total 70 mn Euro one-off effects, thereof 45 mn Euro booked as restructuring cost

■ EBIT Improvement ■ One-off costs

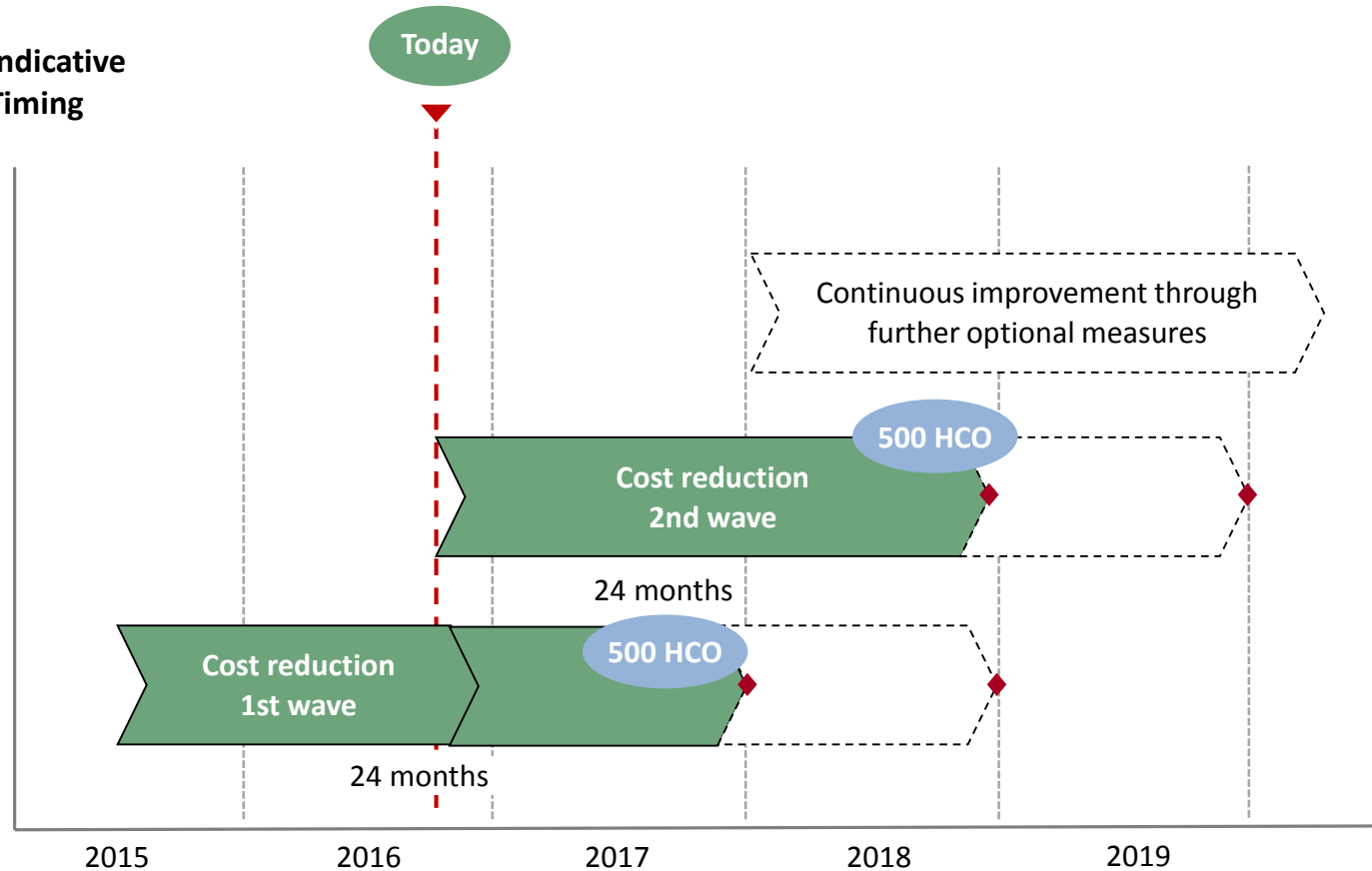
#### HCO reduction Plants/Overhead



### 3 Cost reduction and efficiency improvements – Overall target remains in place

#### Successful implementation

Indicative  
Timing



#### Financial ambitions

Stable market  
environment

EBIT margin  
Industrial Division  
10-11% in 2018

Successful  
implementation  
of CORE program



### 3 Customer focus and growth – New business picking up

#### Railway

##### Example 1

##### Sectors and products



- ▶ E-locomotive
- ▶ Tapered and cylindrical roller bearing with ceramic coating; TAROL for Wheelset and Axle box housing
- ▶ Supplier network



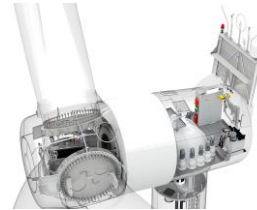
Signed 12/2016

10-year contract  
Two-digit Euro mn

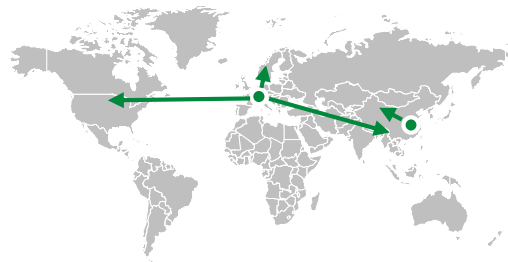
#### Wind

##### Example 2

##### Sectors and products



- ▶ Wind turbine
- ▶ Durotect B coated spherical roller bearing with WPOS
- ▶ Supplier network



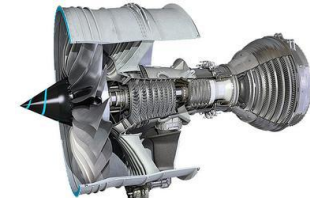
Signed 09/2016

1-year contract  
Two-digit Euro mn

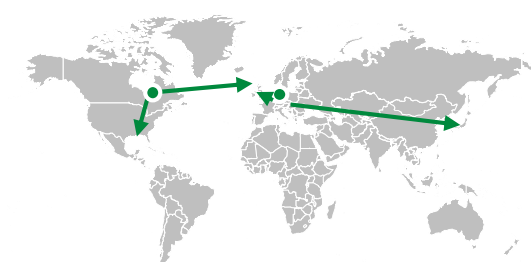
#### Aerospace

##### Example 3

##### Sectors and products



- ▶ Aerospace engine
- ▶ Bearings and components for key engine programs; Main shaft and gearbox bearings
- ▶ Supplier network



Signed 12/2016

5-year contract  
Three-digit Euro mn

## 4 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

**Use  
of  
Cash**

#### Deleveraging

Further  
optimization of  
balance sheet

#### Dividends

30-40% of  
net income

## Guidance for 2017 – Improved growth prospects

	Guidance 2016	Actuals 2016	Guidance 2017
<b>Sales growth</b>	3-5% FX-adjusted	3.4% FX-adjusted	4-5% FX-adjusted
<b>EBIT margin</b>	12-13% of sales before one-off effects	12.7% of sales before one-off effects	12-13% of sales before one-off effects
<b>Free Cash Flow</b>	~ EUR 600 mn w/o external growth	~ EUR 730 mn	~ EUR 600 mn w/o external growth

Profitable growth  
and sustainable  
value creation

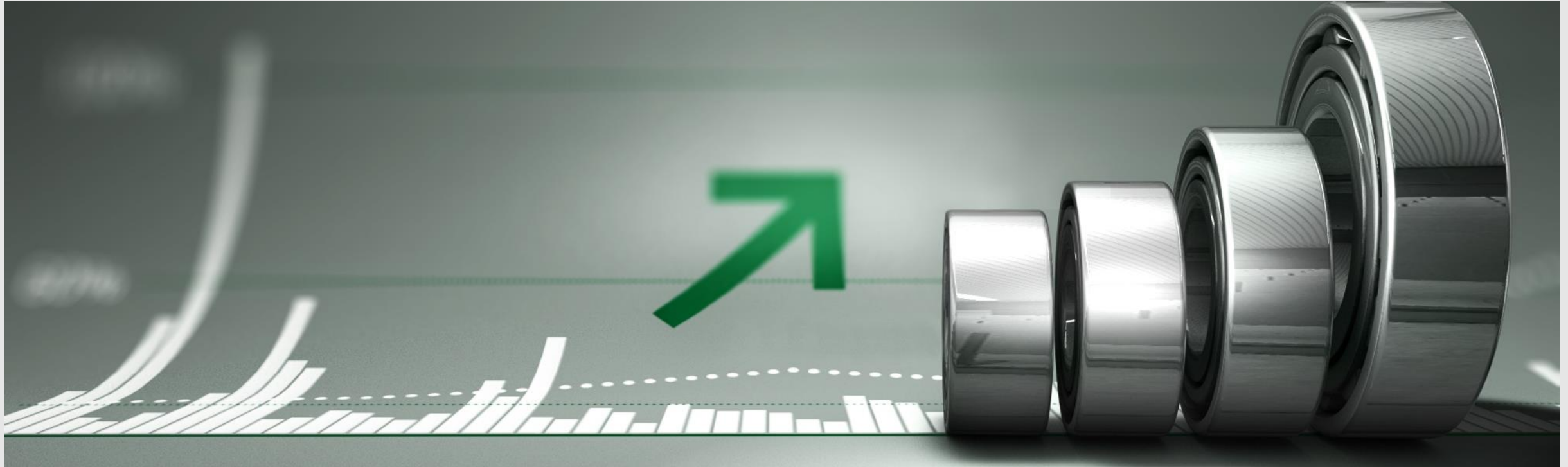
### Market assumptions

- ▶ Automotive: Global Light Vehicle production growth of around 1.5%
- ▶ Industrial: Slight volume growth of global Industrial production at constant prices

## Key messages

- 1 Pre-release of preliminary figures with strong results (FX-adjusted sales growth 3.4%, adj. EBIT margin 12.7%; FCF EUR ~730mn), comfortably achieving Guidance for 2016
- 2 Outperformance Automotive below-average in 2016, but back to 4%-pts target in 2017
- 3 Powertrain electrification requires alignment of product portfolio offering significant growth potential; more than 20 customer projects, 6 series contracts with top customers
- 4 Program CORE on track; second wave of efficiency measures initiated; increasing customer business
- 5 Strong cash flow generation allows for balanced use of cash including healthy dividend payments and add-on acquisitions
- 6 Guidance 2017 (FX-adjusted sales growth 4-5%, adj. EBIT margin 12-13%, FCF ~600 mn EUR); Foundations laid to achieve financial ambitions 2020

**Mobility for  
tomorrow**



### Investor Relations

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### Financial Calendar

FY 2016 results:	March 8, 2017
Q1 2017 results:	May 11, 2017
H1 2017 results:	August 8, 2017
9M 2017 results:	November 8, 2017