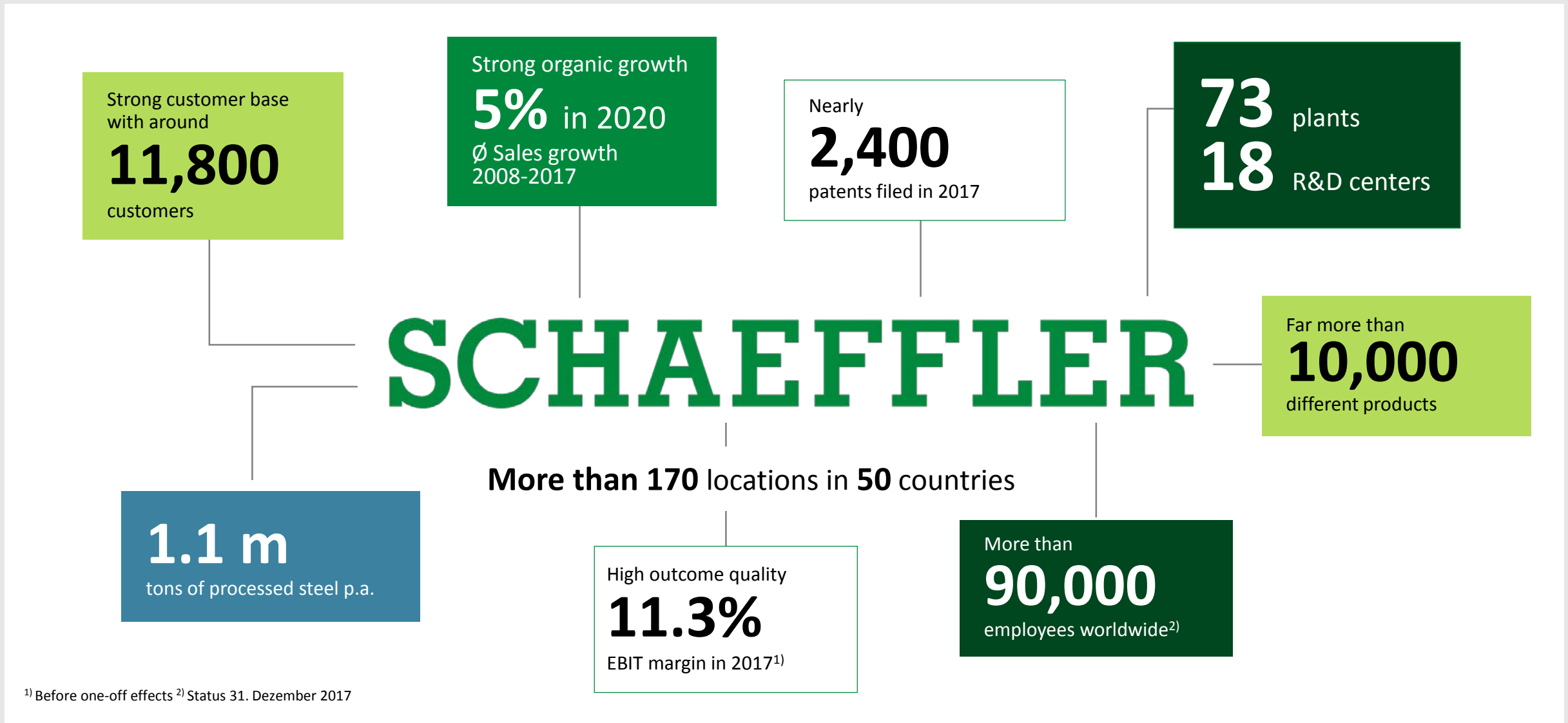




## Strategy “Mobility for tomorrow”

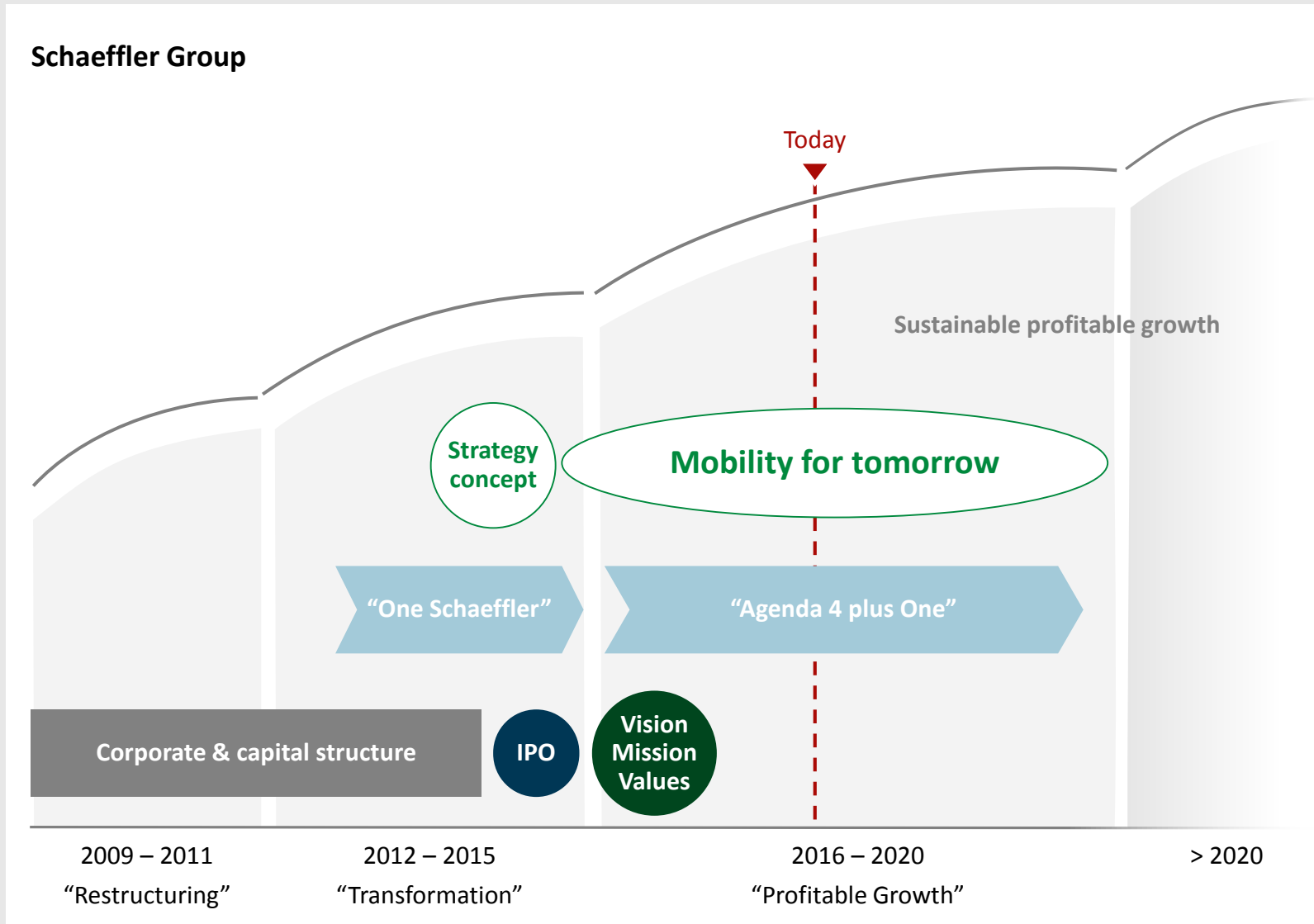
Klaus Rosenfeld  
Chief Executive Officer  
Schaeffler AG

- 1 Overview
- 2 Background
- 3 Strategy “Mobility for tomorrow”
- 4 Excellence program “Agenda 4 plus One”
- 5 Outlook



<sup>1)</sup> Before one-off effects <sup>2)</sup> Status 31. Dezember 2017

# 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
- ▶ “Mobility for tomorrow” strategy concept established
- ▶ Vision, mission, corporate values and brand promise defined
- ▶ Received Investment Grade rating



# Starting point for developing our strategic direction – Four megatrends

Environment

Climate change



- ▶ Greenhouse-gas emissions drive global warming – highest CO<sub>2</sub> concentration since beginning of measurement, automotive industry as one of the main drivers
- ▶ Focus on limiting climate changes and preservation of natural resources; the Paris agreement as a common, worldwide base

Society

Urbanization



- ▶ Strong growth of megacities, by 2025 ~60% of global population (~4.5 bn people) will live in cities; number of cities with >10 m citizens will rise to 35
- ▶ New solutions for infrastructure and mobility required

Economy

Globalization



- ▶ Significant increase in global trade worldwide in the last few years, increasing number of globally fragmented value chains, mobility as a driver of growth and wealth
- ▶ Establishing stronger ties across borders as well as affordable mobility are important drivers

Technology

Digitalization



- ▶ Increasing digital connection between machines and products as well as between companies, suppliers and customers, by 2020 ~30 bn objects will be connected via the internet and will generate ~10% of all data
- ▶ Transformation of business models and processes, emergence of new interfaces and intelligent products

# Basis for strategic direction – Four focus areas

## Eco-friendly drives

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



## Urban mobility

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



# Mobility for tomorrow

## Interurban mobility


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



## Energy chain

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





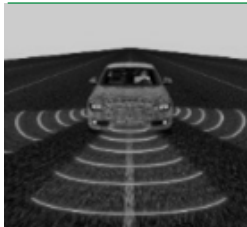
**“We are a precision mechanic with best-in-class manufacturing and system expertise.”**

## Growth Drivers



### Electrification

- ▶ Stricter global (CO<sub>2</sub> emissions) regulations
- ▶ Gradual shift toward (purely) electric drives 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



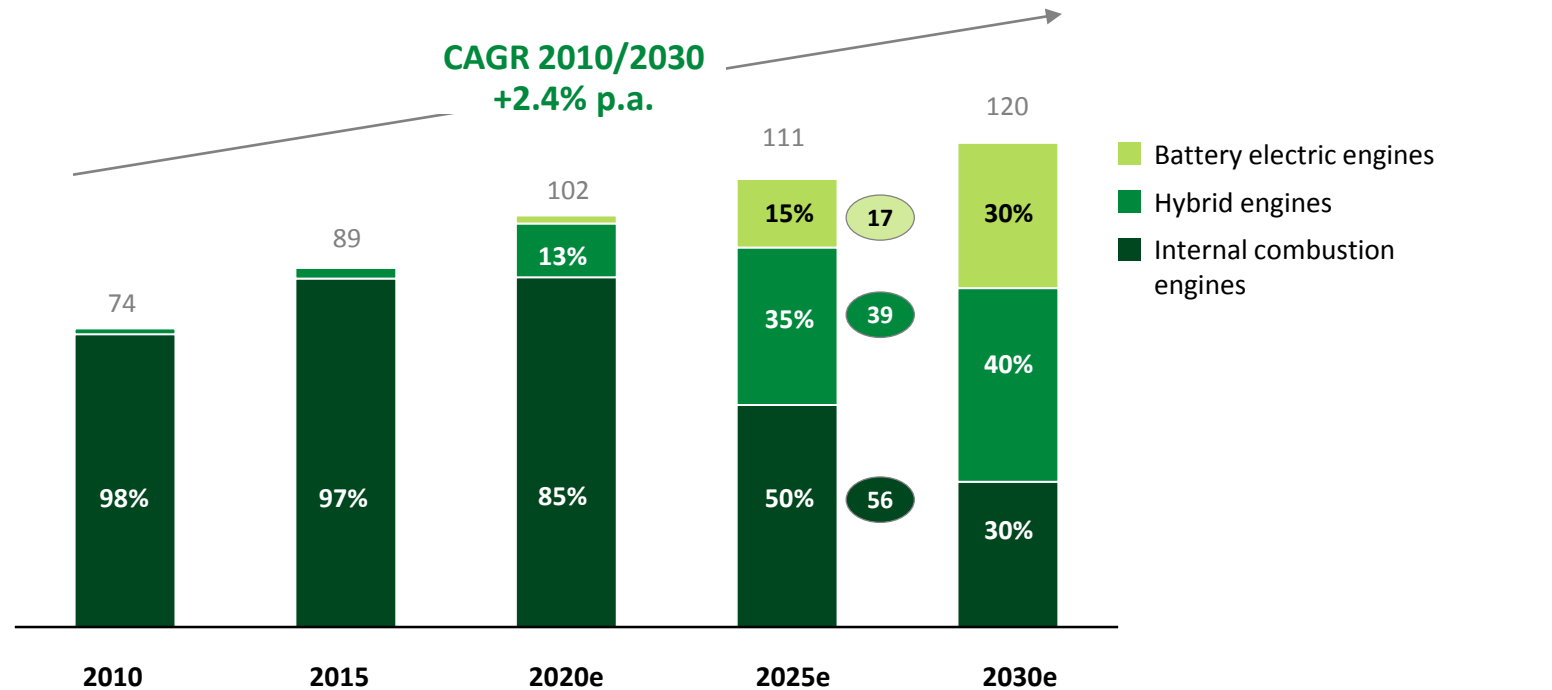
### Added value of automotive suppliers

- ▶ Increasingly supply modules/systems rather than individual components
- ▶ Systems business requires collaboration and an increasing willingness to cooperate



**Global production volume <sup>1)</sup>**

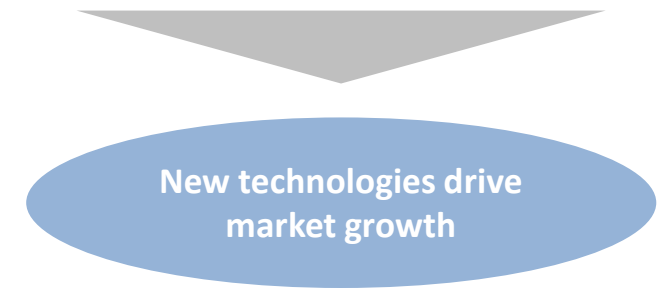
in millions of units



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

**Key aspects**

- ▶ Continuous market growth expected for the next years
- ▶ Future growth based on increasing production of hybrid and electro vehicles, in 2030 around 70% of the market.
- ▶ Decrease of amount of vehicles with conventional engine expected from 2020
- ▶ Global fleet today >1 bn vehicles – importance of aftermarket grows



**Growth drivers****Energy efficiency**

- ▶ Increasing importance of efficient drive technologies
- ▶ Conventional drivetrains (hydraulics, combustion engines) increasingly being replaced/complemented 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**

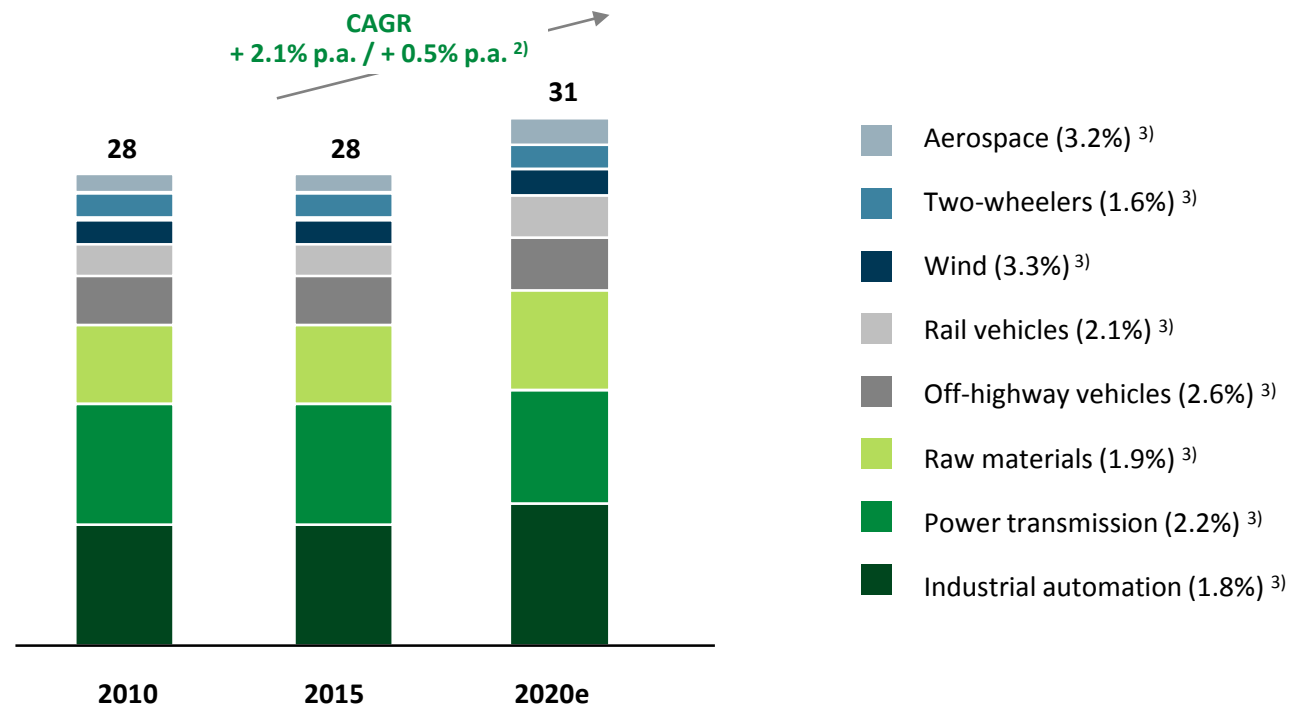
- ▶ Usage opportunities Internet of Things, development of an Industry 4.0 series machine with focus on predictive maintenance
- ▶ Smart sensor technology to optimize maintenance intervals and setup times

**Service business**

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

**Global market volume<sup>1)</sup>**

in EUR bn




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

**Key aspects**

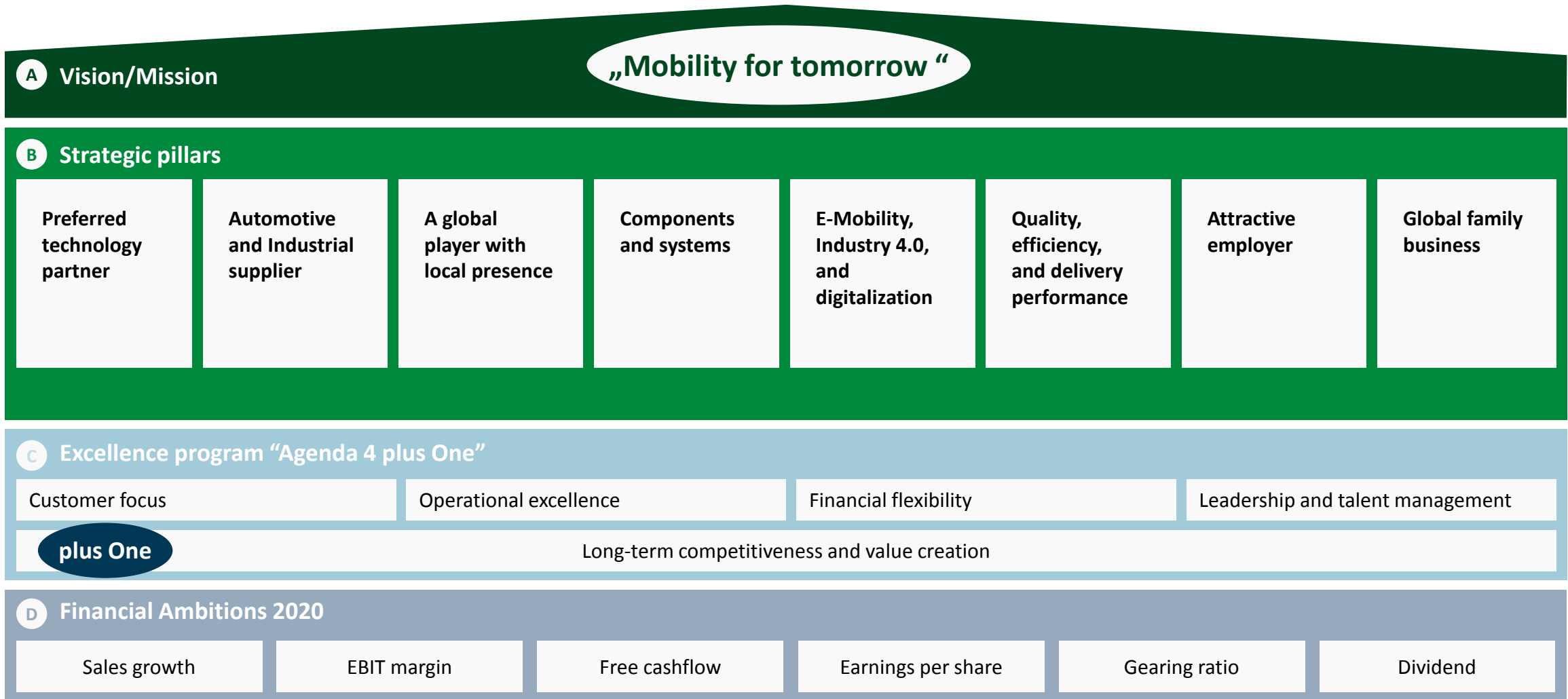
- ▶ Global roller bearing market stagnates considering price declines (CAGR 2015/2020 ~0.5% p.a.)
- ▶ Wind and aerospace with biggest growth rates, but small basis
- ▶ Nominal biggest growth in segments of power transmission and industrial automation
- ▶ Strongest regional growth in emerging nations (MEA/India, South East Asia, South America) expected

Market volume is stagnating, different developments within the industries



**“We want to contribute to make the world a little cleaner, safer and smarter.”**

# Our strategy concept – 4 essential elements



## 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."



**B** 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.

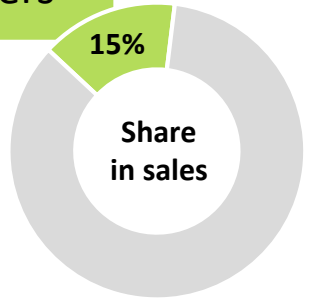
1 We want to be the preferred technology partner for our customers

Portfolio of products and services  
Automotive



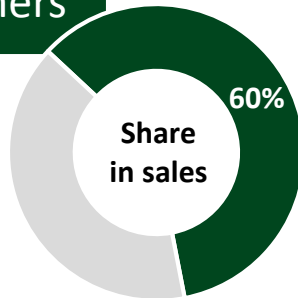
Customer focus through  
cooperative collaboration

Top 10  
Industry customers



Our customers are  
our top priority

Top 10  
Automotive customers



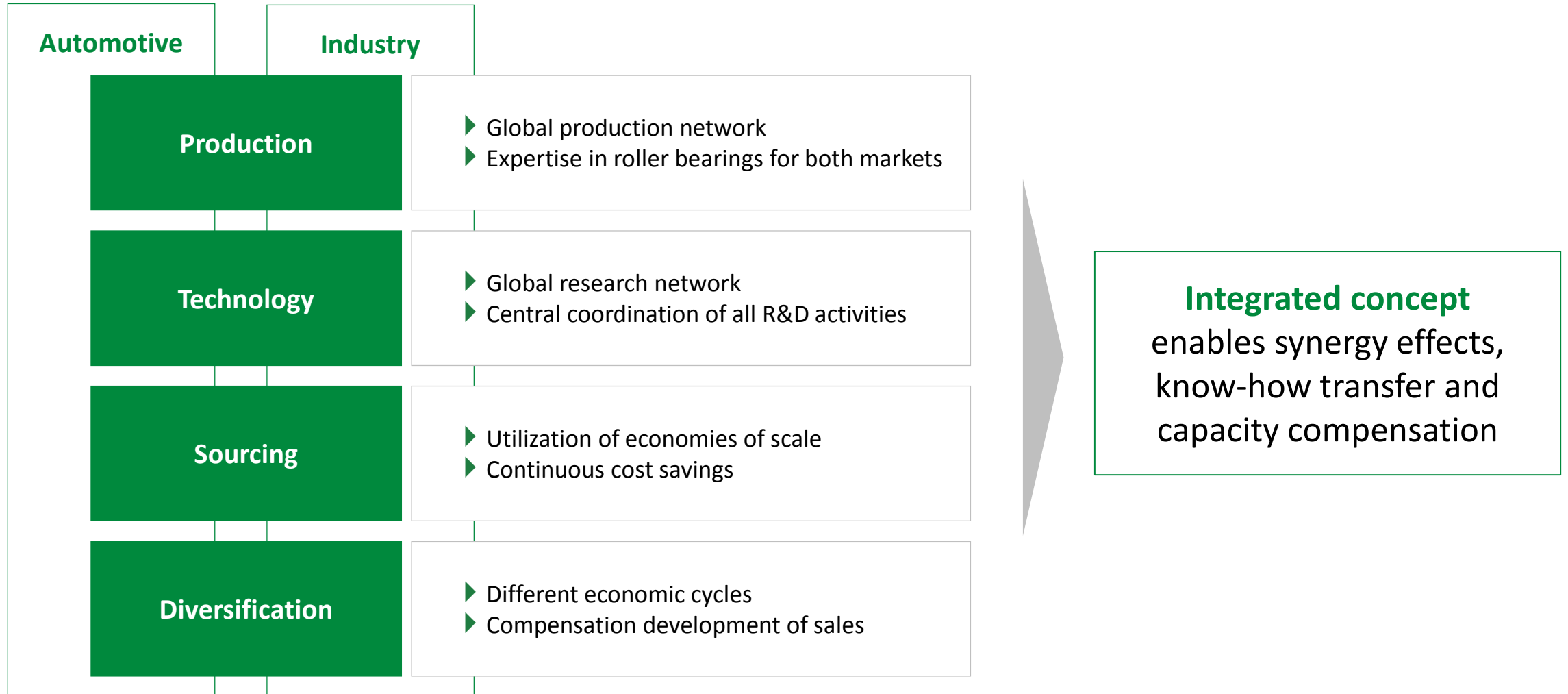
Expertise in systems and  
manufacturing technology as key  
differentiating factors



Portfolio of products and services  
Industry

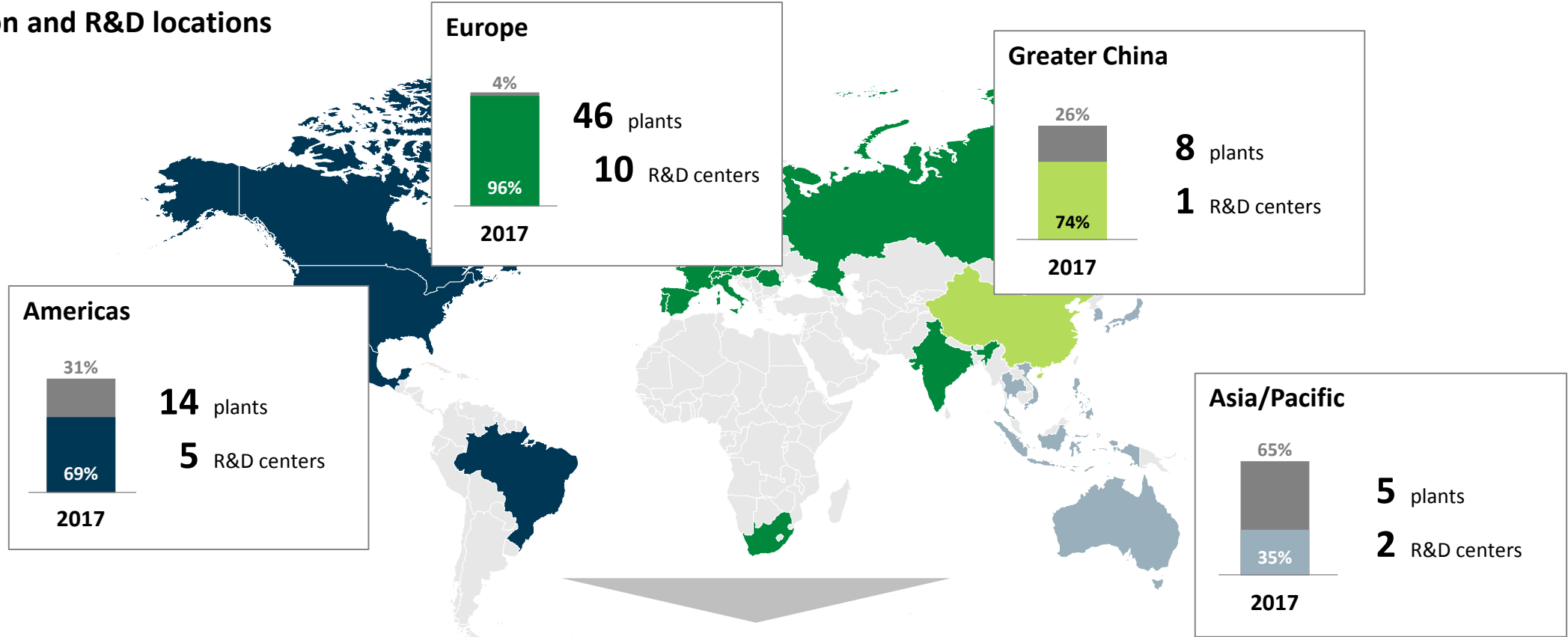


**2 We are an automotive and industrial supplier**



### 3 We are a global player with local presence

#### Production and R&D locations by region

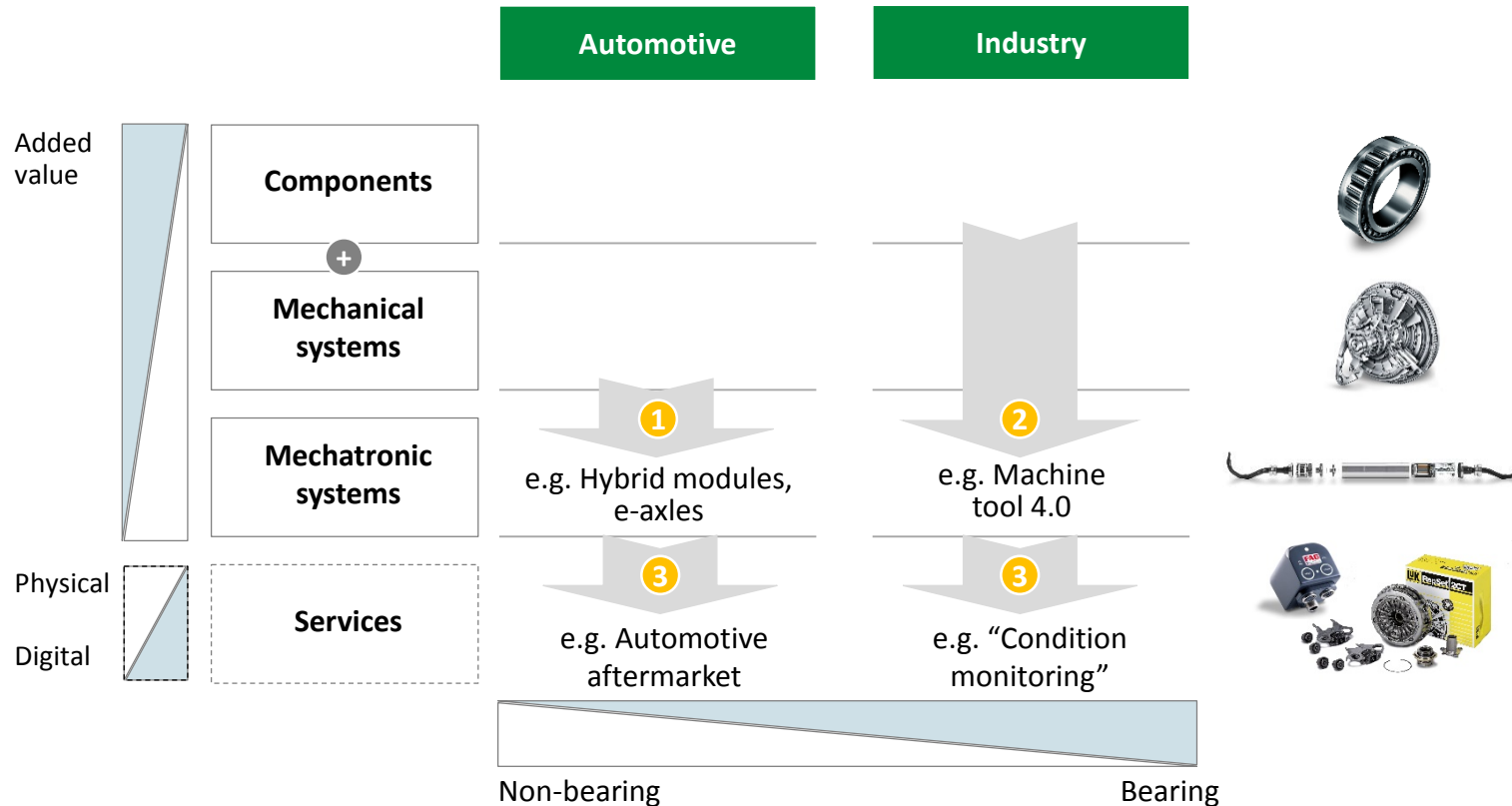


Consistent **localization** as crucial success factor

■ Produced outside of the region  
■ Produced inside of the region

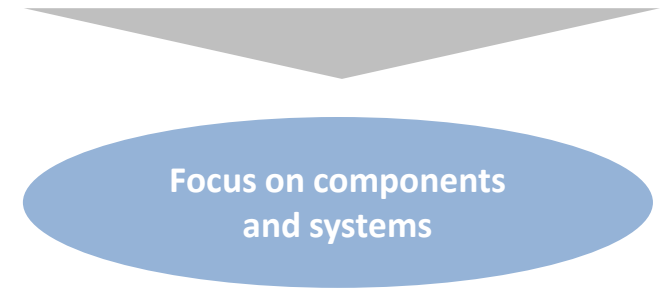
**4 We produce components and systems**

**Portfolio of Products and Services**



**Key aspects**

- ▶ Components and mechanical systems are our core competence with significant sales contribution and target – continuous optimization and technology expansion
- ▶ Systems expertise allows for diversification and additional growth through system and service offerings
  - ▶ Mechatronic systems for growing markets, such as 1 E-Mobility and 2 Industry 4.0
  - ▶ 3 Automotive aftermarket and service business of Industrial division



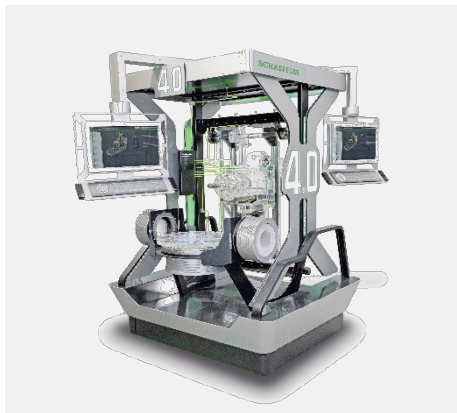
## 5 We view E-Mobility, Industry 4.0, and Digitalization as key opportunities for the future

### E-Mobility



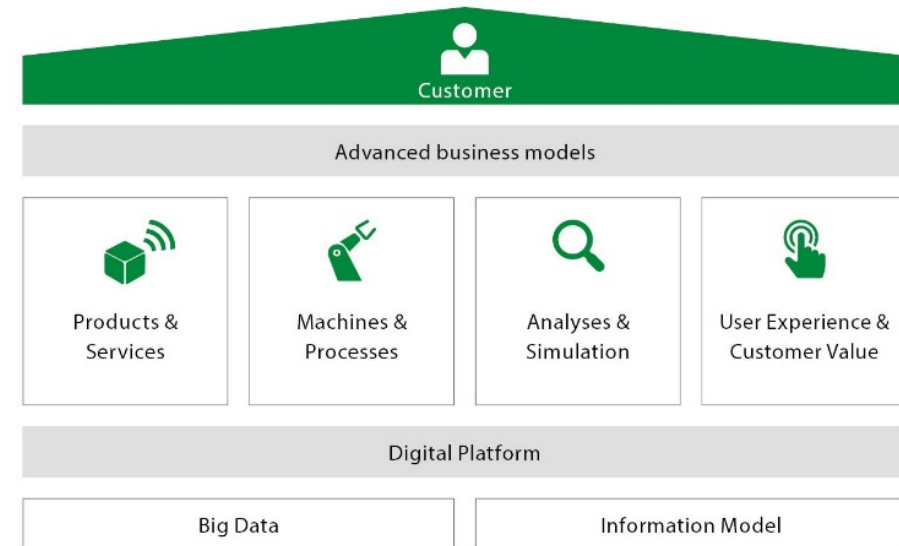
- ▶ More than 15 years composition competence for future drivetrain concepts
- ▶ Expertise in engine, transmission, and chassis form the basis for ideal system solutions
- ▶ Production competence and mechanic know-how, integration and vehicle/drivetrain section as important differentiating factor

### Industry 4.0



- ▶ Machine 4.0 combines existing technologies with new intelligent components – from sensor to cloud
- ▶ Bearings are equipped with sensors, thereby becoming data providers
- ▶ Innovation project with DMG Mori started in 2015

### Digitalization



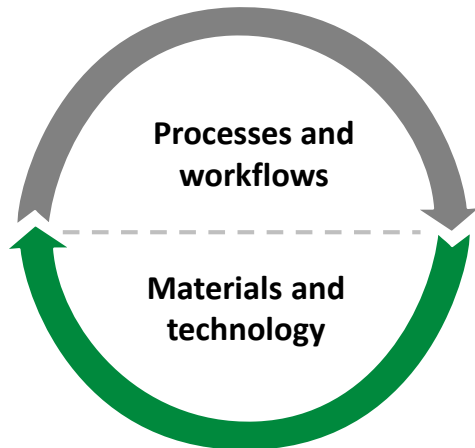
#### Digital Agenda

- ▶ Equipping components with digital intelligence and sensor technology
- ▶ Digitization of internal processes and equipment as a means to improve productivity

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

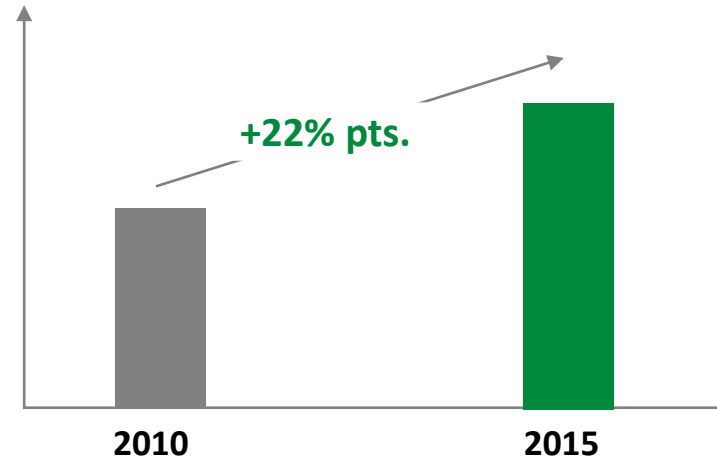
### Quality

- ▶ Comprehensive quality management with group-wide guidelines and processes
- ▶ "Zero defects" principle at all Schaeffler locations
- ▶ Continuous improvement through programs "Fit for Quality" and "MOVE"



### Delivery reliability

On time delivery in %



- ▶ Further improvement of delivery reliability through the "Integrated Planning" program
- ▶ Optimizing Logistic (e.g. EDZ Kitzingen)
- ▶ Improvement of sourcing quality (raw material and parts) through intensive supplier management

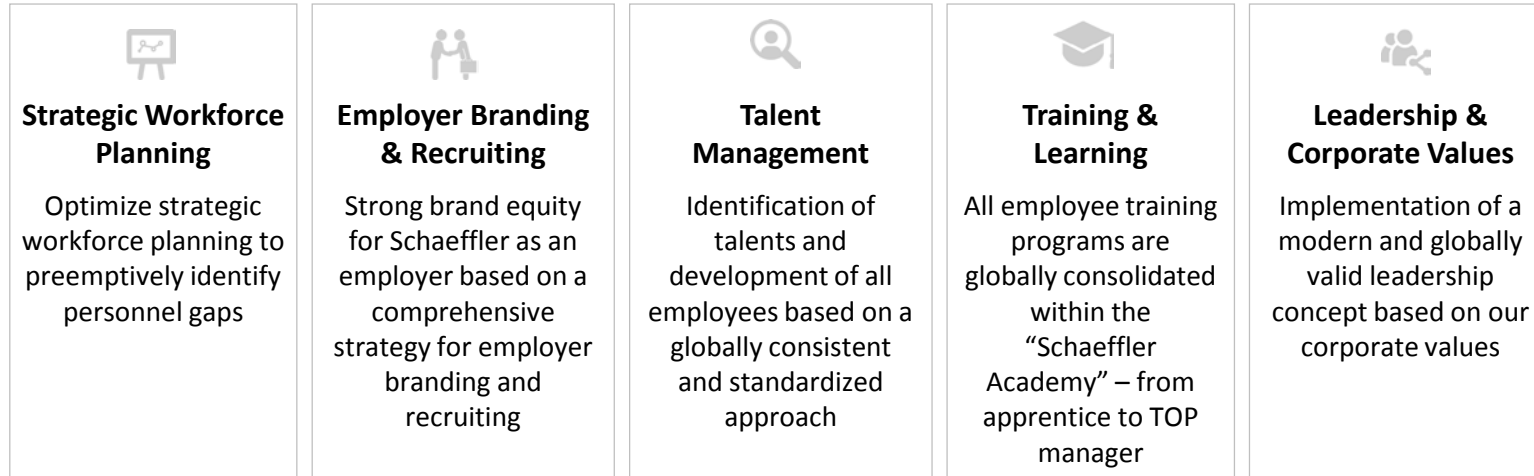
### Key aspects

- ▶ Continuously ensure high level of quality with respect to products, technology, processes and starting
- ▶ Continuous optimization efficiency and production costs
- ▶ Optimizing delivery performance in order to increase customer loyalty



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

**Schaeffler HR Strategy**



**HR Organization**

- ▶ Differentiation and definition of roles and responsibilities within the HR organization
- ▶ Implementation of a standardized process and systems landscape within the scope of a functional and well-coordinated HR organizational model
- ▶ Strengthening the understanding as a global HR function with different regional challenges
- ▶ Implementation of the global HR strategy through well-coordinated initiatives and projects
- ▶ Implementation of the HR initiatives within the Agenda 4 plus One: "Leadership & Corporate Values", "Qualification for Tomorrow", and "New Work"

**Key aspects**

- ▶ Internationalization and professionalization of HR function based on a global HR Vision and Mission
- ▶ Strengthening the domestic and foreign perception as an attractive employer
- ▶ Development of a professional and familial work environment that motivates and promotes employees
- ▶ Extending and modernizing Schaeffler's comprehensive training offerings
- ▶ Adjusting the leadership understanding to Schaeffler's strategic direction and corporate values



**8 We live by the values of a global family business**



**Sustainable**

A long-term view and continuity will foster the growth of the Schaeffler Group, thereby enabling a future worth living.

**Innovative**

For (nearly) every problem there is a solution. If not, we will create one!

**SCHAEFFLER**

**Passionate**

Our biggest driver is our passion for innovative technologies and joint success with our customers.

**Excellent**

We develop solutions that are of the highest quality based on our extensive expertise.



**“Every strategy is only as good as its implementation.”**



**Group initiatives**

**Core business**

**Schaeffler Portfolio**

Engine Systems

Industrial OEM

Transmission Systems

Industrial Distribution

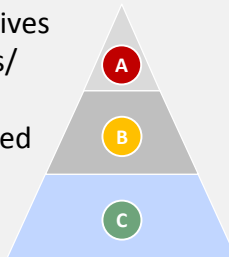
Chassis Systems

Automotive Aftermarket



**Strategic initiatives**

- ▶ 400 different initiatives identified (Divisions/ Functions/Regions)
- ▶ Initiatives categorized and evaluated
- ▶ 16 strategic initiatives prioritized, 2018 extended to 20 initiatives



2013 – 2015

"One Schaeffler"

1<sup>st</sup> Program

2016 – 2020

"Agenda 4 plus One"

2<sup>nd</sup> Program

**Agenda 4 plus One**

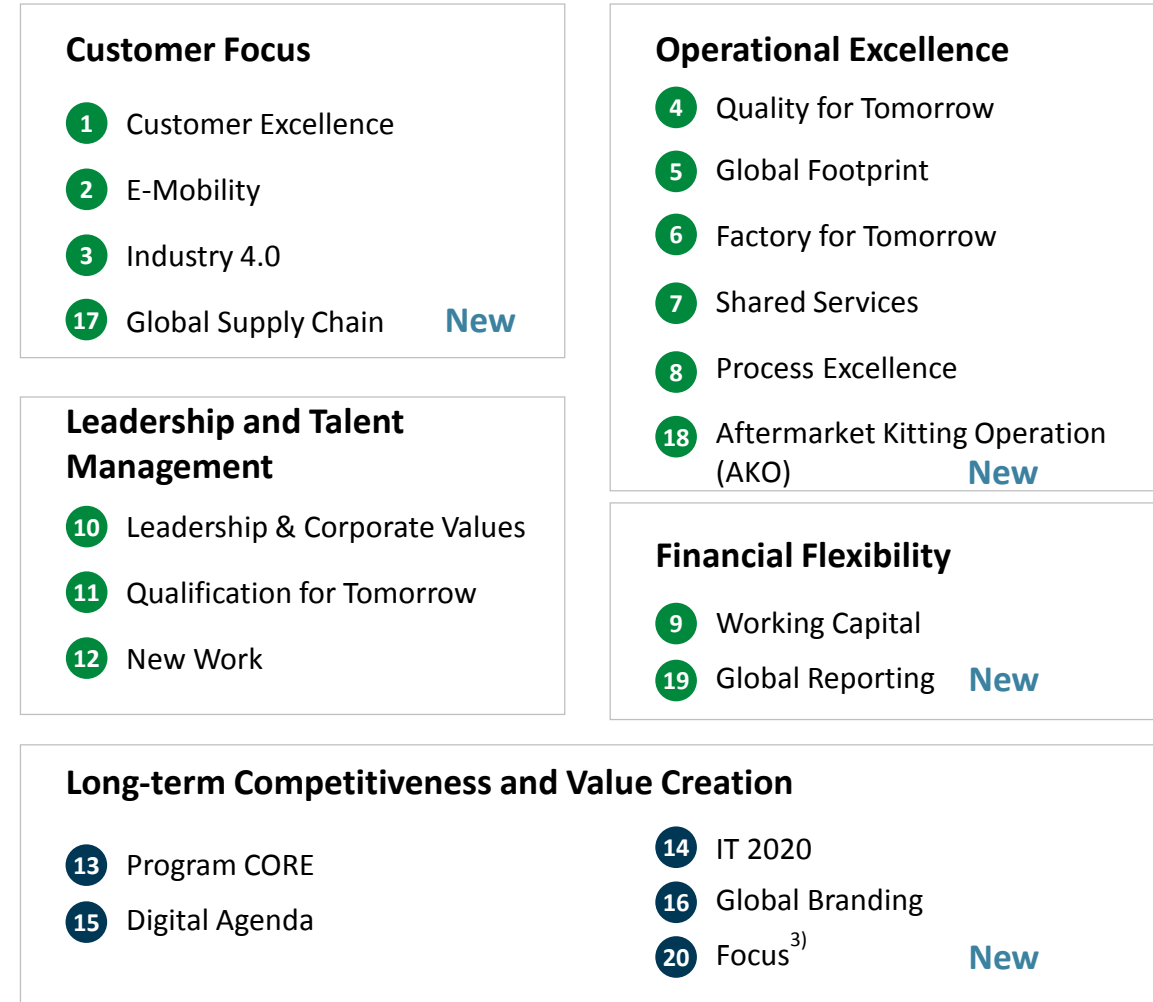


**20 strategic initiatives – Clear responsibilities**

**Agenda 4 plus One**



**20 strategic initiatives**



**6 substantial figures**

<b>Sales growth<sup>1)</sup></b>	<b>Ø 4 – 6% p. a.</b> FX-adjusted
<b>EBIT margin</b>	<b>12-13% in 2020</b> before one-off effects
<b>Free cashflow<sup>1)</sup></b>	<b>~900 million</b> in 2020
<b>Earnings per share<sup>1)</sup></b>	<b>~ € 2.00</b> per share in 2020
<b>Gearing ratio<sup>2)</sup></b>	<b>&lt; 75%</b> in 2020
<b>Dividend<sup>3)</sup></b>	<b>30 – 40 %</b> of Net income

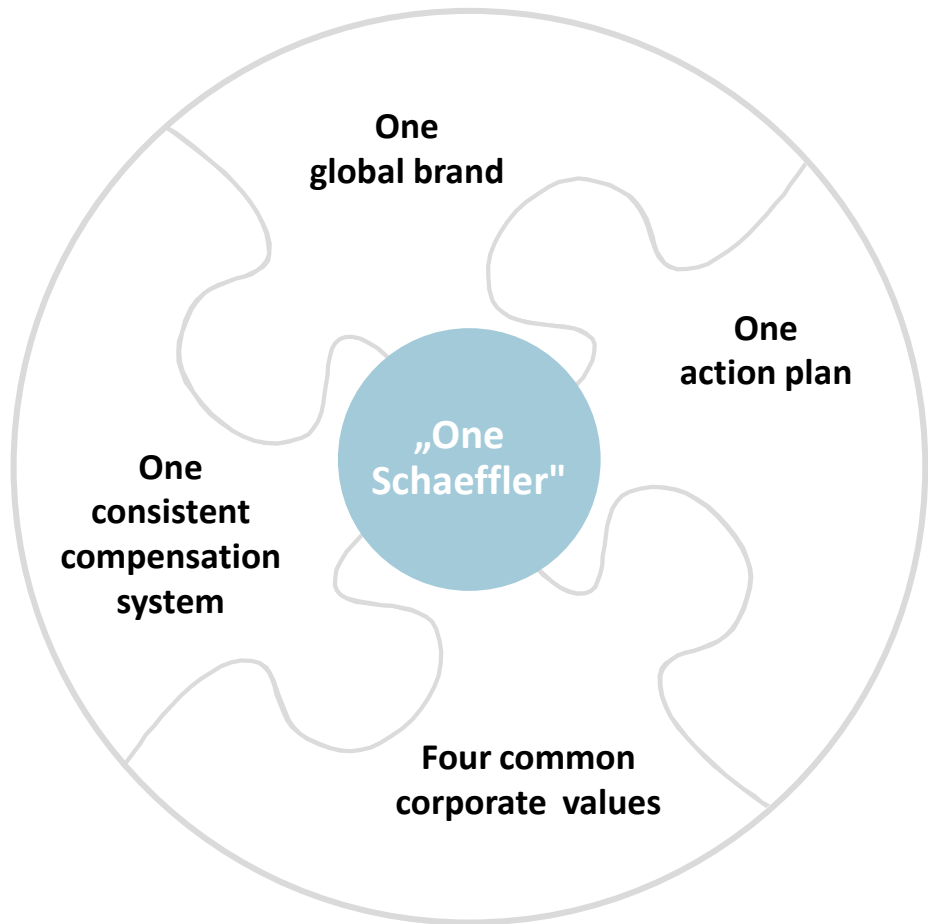
**Overriding objective**



<sup>1)</sup> Excluding external growth  
<sup>2)</sup> Net-debt-to-equity ratio (excluding pensions)  
<sup>3)</sup> Payout ratio based on net income

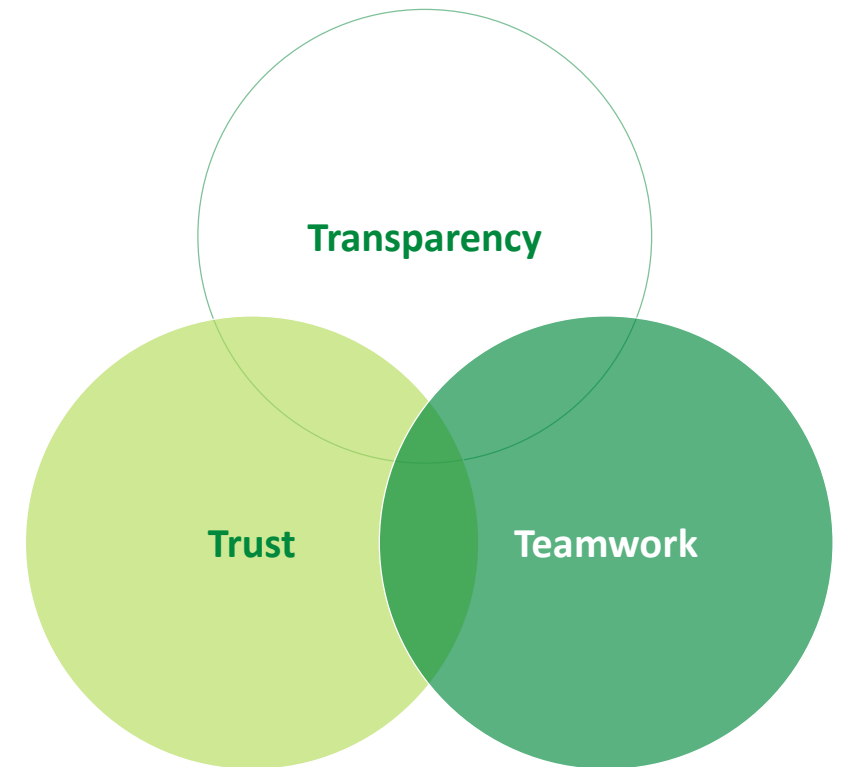
**Market assumptions**  
Automotive industry: Global growth in car production of 2%  
Industry: Low single digit growth in global industrial production

## Our approach



Identification  
Commitment  
Performance  
Passion

## Our principles



## Summary – Key messages

- 1 Schaeffler Group strategy defined following intensive dialogue with leadership team
- 2 Analysis of megatrends and definition of 4 focus areas
- 3 Vision, mission, and four corporate values of Schaeffler Group formulated
- 4 Eight strategic pillars define future scope for action
- 5 Excellence program "Agenda 4 plus One" with 20 strategic initiatives defined
- 6 Financial Ambitions 2020 revised
- 7 Transparency, Trust and Teamwork as key leadership principles



Because yesterday we were  
already thinking about tomorrow.

