# Finance

**Dr. Ulrich Hauck**
Chief Financial Officer

# Agenda

1 Overview

2 Capital structure optimization

3 Flagship initiative "Deleveraging"

4 Summary and key statements

# Solid financing structure established

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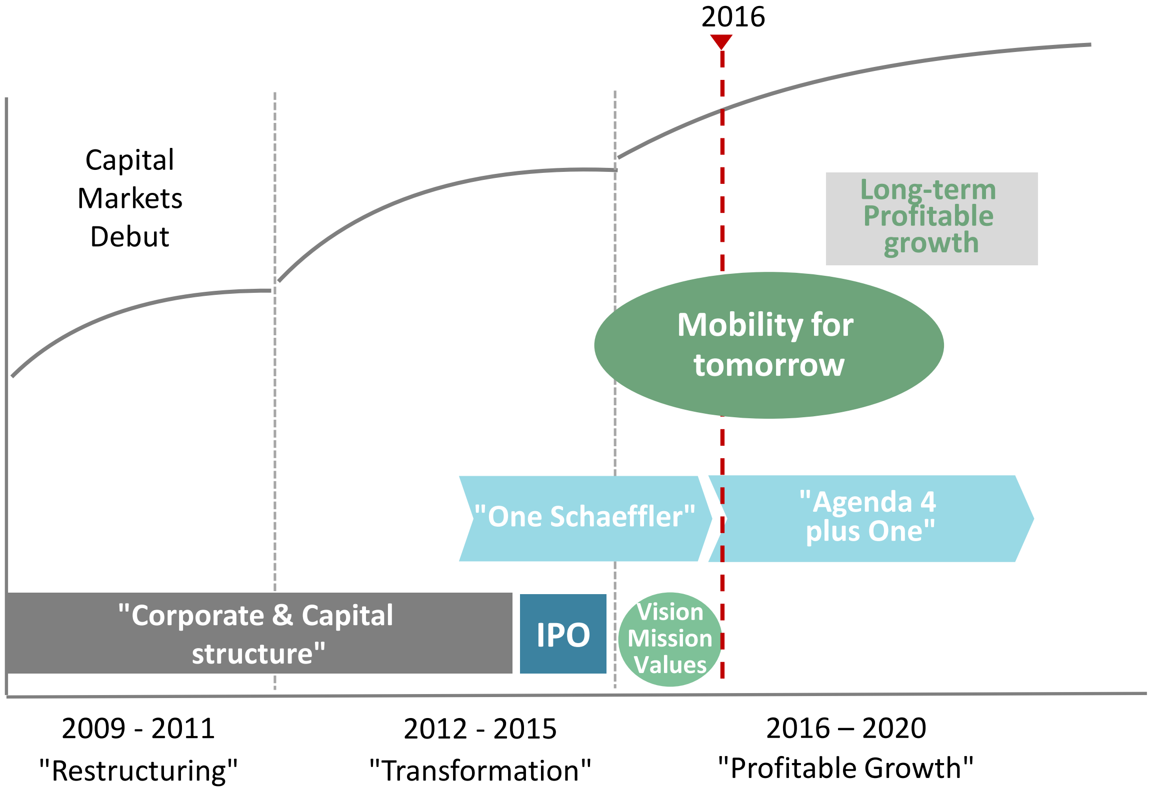
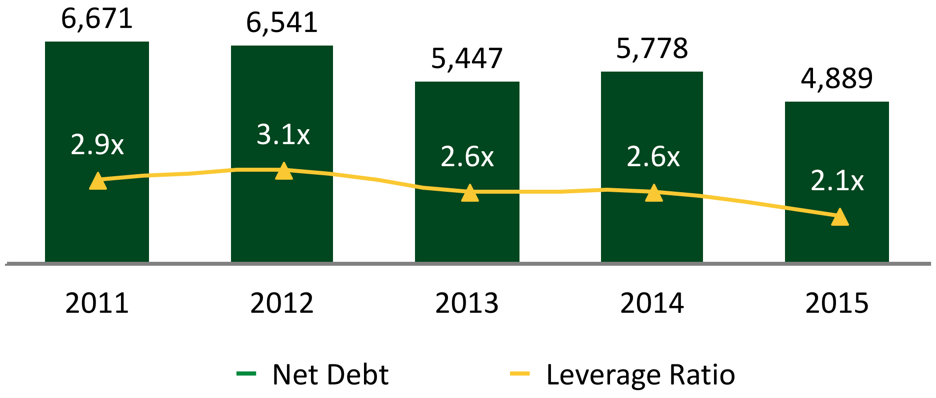
## Our way forward

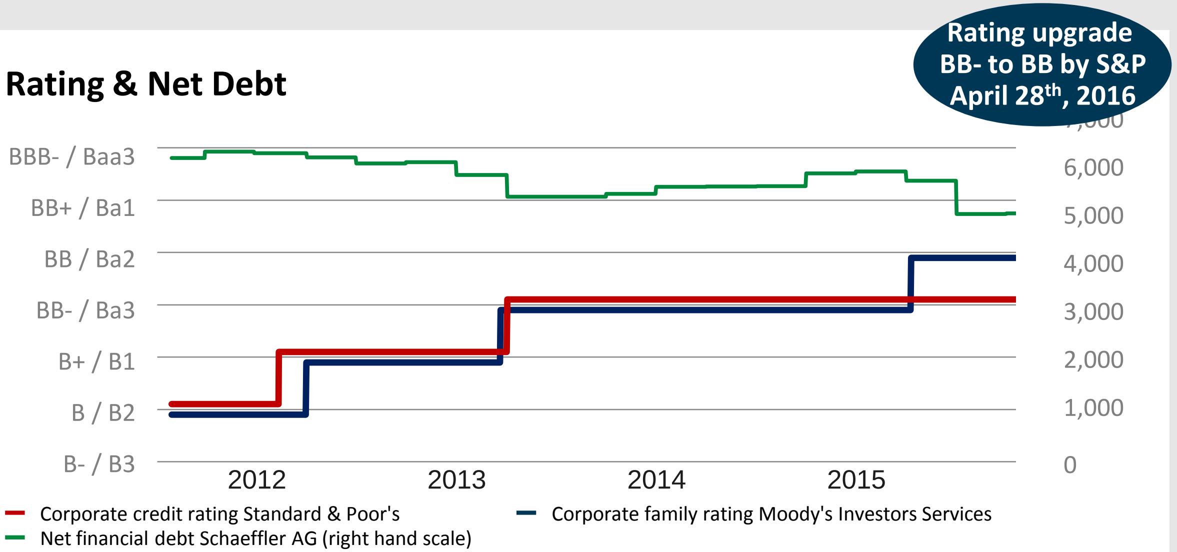



## Net debt development

in EUR mn




## Rating & Net Debt



# Further potential for optimization of financing structure

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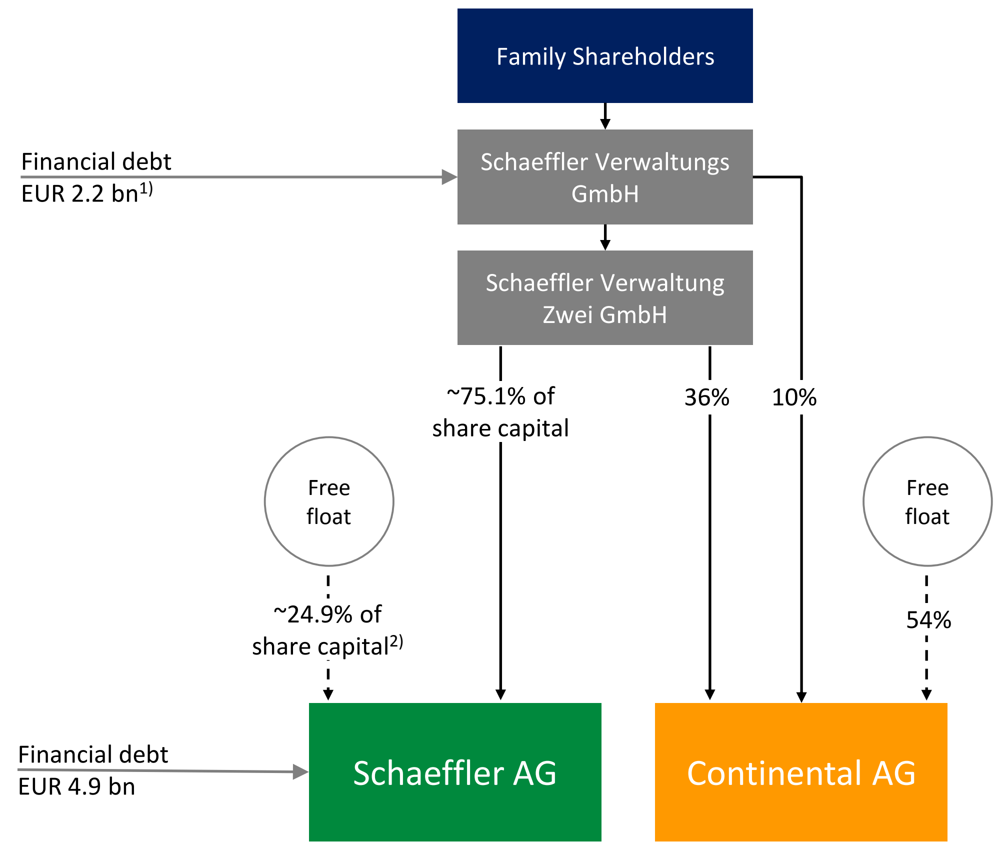
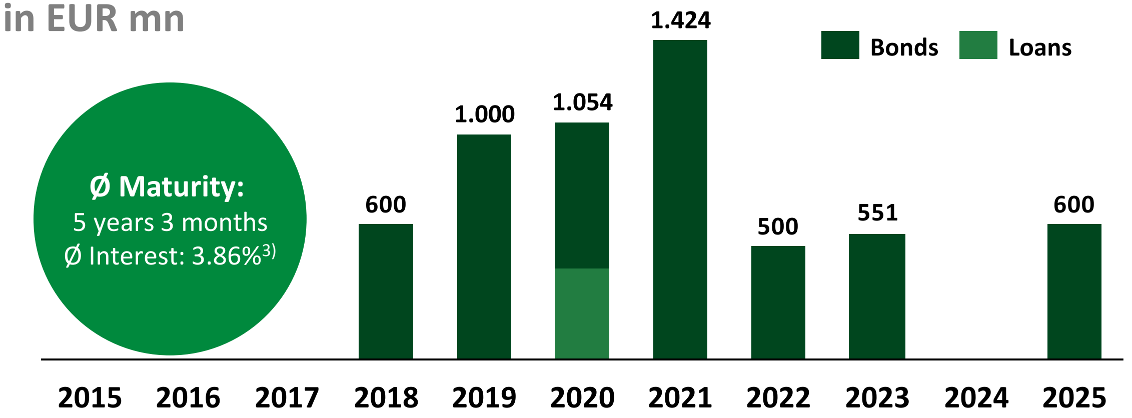
## Corporate structure finalized




[1)] Pro-forma nominal debt after redemption of HoldCo bonds
[2)] After placement of remaining non-voting shares on April 5, 2016

## Financing structure December 31, 2015

in EUR mn




| Instrument | Nominal | Interest | Maturity | Rating |
|---|---|---|---|---|
| Term loan B (EUR) | 250 | E[2)]+3.50% | May-20 | Ba2 / BB- |
| Term loan B (USD) | 404 | L[2)]+3.50% | May-20 | Ba2 / BB- |
| RCF (EUR 1,000 Mio.) | - | E+2.375% | Oct-19 | n/a |
| **Total loans** | **654** | | | |
| 4.25% SSNs 2018 (EUR) | 600 | 4.25% | May-18 | Ba2 / BB- |
| 2.75% SSNs 2019 (EUR) | 500 | 2.75% | May-19 | Ba2 / BB- |
| 3.25% Unsec.Ns 2019 (EUR) | 500 | 3.25% | May-19 | B1 / B |
| 2.50% SSNs 2020 (EUR) | 400 | 2.50% | May-20 | Ba2 / BB- |
| 4.75% SSNs 2021 (USD) | 781 | 4.75% | May-21 | Ba2 / BB- |
| 4.25% SSNs 2021 (USD) | 643 | 4.25% | May-21 | Ba2 / BB- |
| 3.50% SSNs 2022 (EUR) | 500 | 3.50% | May-22 | Ba2 / BB- |
| 4.75% SSNs 2023 (USD) | 551 | 4.75% | May-23 | Ba2 / BB- |
| 3.25% SSNs 2025 (EUR) | 600 | 3.25% | May-25 | Ba2 / BB- |
| **Total bonds** | **5,075** | | | |
| **Total debt Schaeffler AG** | **5,729** [4)] | | | |

[1)] EUR / USD = 1.09 as of 31 December 2015, [2)] Floor of 0.75%,
[3)] Before hedging. [4)] Considering liquidity of EUR 799mn and transactions costs to be amortized: Net debt: 4,889.

# EUR 2.3bn refinancing transaction signed on July 18, 2016 at favorable conditions and terms

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## Pro forma sources and uses of funds

in EUR mn[1)]

| Sources of Funds | | Uses of Funds | |
|---|---|---|---|
| New Bank Term Loan | 1,000 | Term Loans B | ~400 |
| | | EUR 2018 Notes | 600 |
| Notes 2013 and 2014<br>Envisaged harmonization with 2015 Notes | ~2,896 | Notes 2013 and 2014 | ~2,896 |
| Notes 2015 | ~1,540 | Notes 2015 | ~1,540 |
| **Total** | **~5,436** | **Total** | **~5,436** |
| New RCF | ~1,300 | RCF | 1,000 |
| **Total** | **~6,736** | **Total** | **~6,436** |

1) EUR / USD = 1.11.
2) Excluding commitment fee on revolving credit facility.

## Key facts of refinancing transaction

1. New EUR 1.0bn syndicated bank loan to refinance existing institutional Term Loans and to redeem EUR 2018 Notes at initial margin of 170 basis points
2. New EUR 1.3bn Revolving Credit Facility with initial maturity of 5 years to replace existing EUR 1bn RCF
3. Significantly improved credit terms ensuring enhanced flexibility
4. Envisaged harmonization of bond terms as final step to Schaeffler's new cross-over financing structure

# Lower interest and enhanced flexibility

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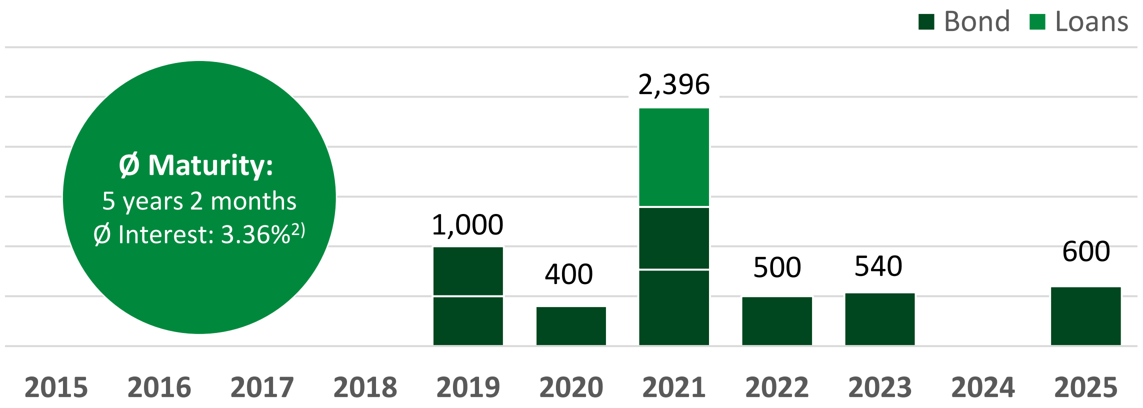
## Key improvements

| | Old Facility Agreement | New Facility Agreement |
|---|---|---|
| **Character** | Leveraged | Cross-over |
| **Current / Initial Margins** | 3.50%[1] (Term Loan)<br>2.375% (RCF) | 1.70% (Term Loan)<br>1.30% (RCF) |
| **Security Package** | Comprehensive security package | Minimum security package |
| **Limitations** | Significant limitations (M&A, Mandatory Prepayments, etc.) | Significant reduction of existing limitations |

[1] plus base rate floor of 0.75%.

## Financing structure 30 June 2016, pro-forma post transaction

in EUR mn




[1] Before hedging. [2] EUR / USD = 1.11.

## Benefits

- Significantly reduced margins and extension of maturity profile
- Increased operational and financial flexibility through improved credit terms and release of almost all security
- Rebalance of financial structure, including fix / float mix and redemption potential for further deleveraging

# Further deleveraging potential

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| Sources for deleveraging | Key aspects |
|---|---|
| 1 Strong operating cash flow generation | Intended debt redemption of EUR 250mn p.a. from operating cash flow |
| 2 Interest savings triggered by continuous prepayment of debt and further optimization of existing financing structure | Sufficient flexibility to prepay Term Loan or exercise call options for existing bonds |
| 3 Possible prepayment of Loan Note Receivable | Loan Note Receivable of EUR 1.8bn as of December 31, 2015. Interest coupon of 4%; since 2015 repayment of EUR 100mn semi-annually |
| 4 Working Capital optimization | Working Capital Initiative started in HY2 2015 |

# Continuous improvements in working capital performance until 2015

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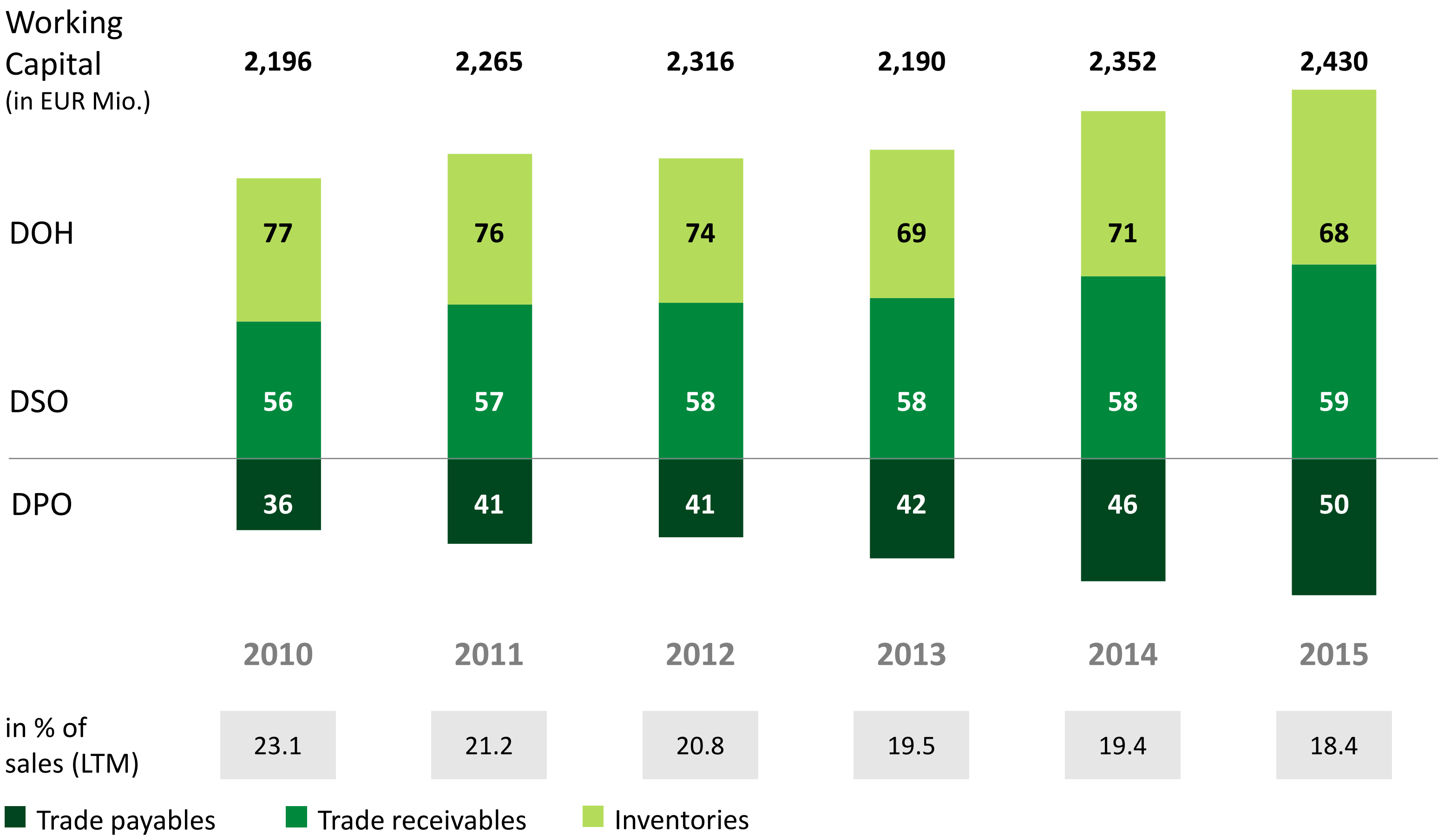
## Working Capital development

in EUR mn




## Key aspects

- Working capital performance improved from 23.1% (2010) to 18.4% (2015) of sales
- Improvement driven in particular by enhanced payment terms with suppliers
- Inventory performance benefitting from continuous optimization of automotive inventories
- Development of receivables slightly negative due to regional mix effects
- No sales of trade receivables so far

# Initiative set up to enhance Working Capital performance

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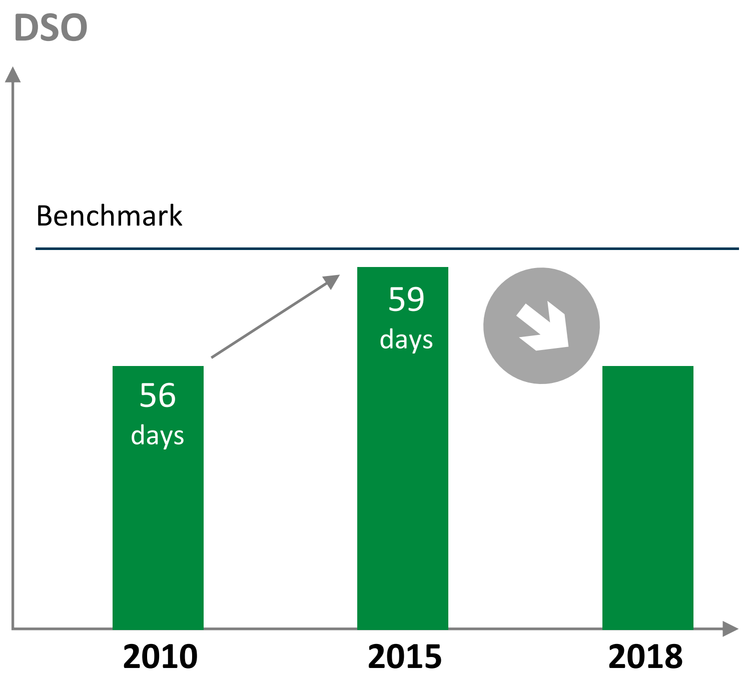
Working Capital benchmark analysis conducted

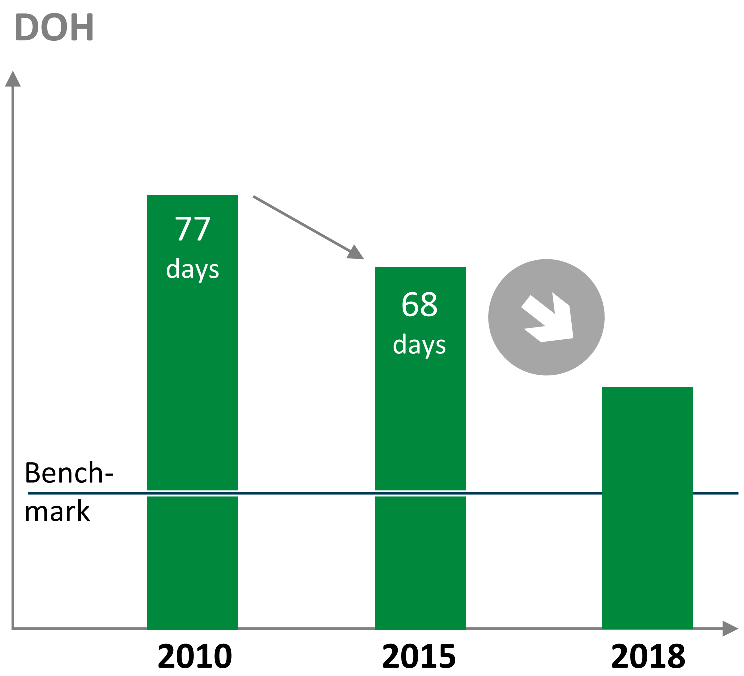
## Trade receivables




Target 2018:

Improve current benchmark positioning and come back to 2010 level

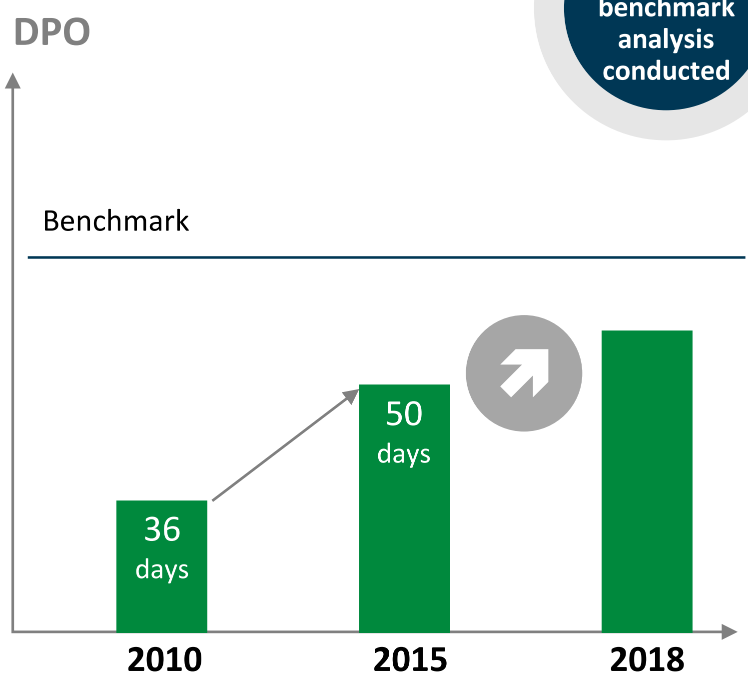
## Inventories




Target 2018:

Achieve median position

## Trade payables




Target 2018:

Reach benchmark position

# Investment grade rating as mid-term target until 2020

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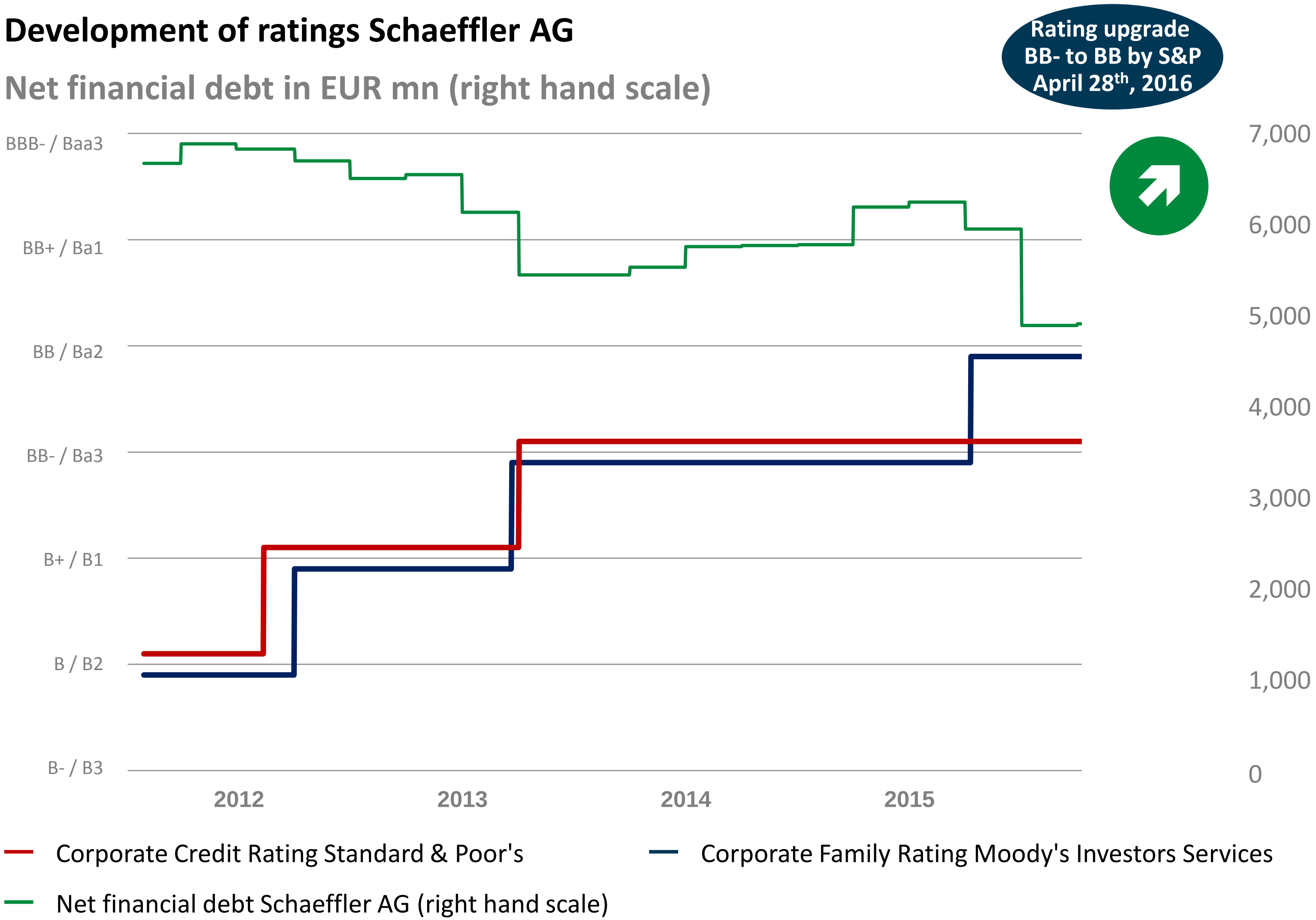
## Development of ratings Schaeffler AG

Net financial debt in EUR mn (right hand scale)




## Key aspects

- Continued deleveraging as one key driver for further rating improvements
- Current stand-alone rating for Schaeffler AG by S&P at "BB+“ (one notch up compared to Schaeffler's corporate rating)
- Investment grade by 2020

# Key messages

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1. **Capital structure, conditions** and **flexibility significantly strengthened** by new EUR 2.3bn refinancing transaction

2. Main **drivers for deleveraging** are operating cash flow, release of working capital, lower interest payments and potential further prepayments of Loan Note Receivable

3. **Net financial debt is expected to be reduced to <1.5x EBITDA in 2018 and <1.0x EBITDA by 2020**

4. **Investment grade rating targeted by 2020**