



Schaeffler Group

Klaus Rosenfeld
Chief Executive Officer

July 20, 2017
Capital Markets Day 2017
Bühl

1	08:15 – 09:00	Schaeffler Group	Klaus Rosenfeld
2	09:00 – 09:45	Automotive	Matthias Zink
3	09:45 – 10:15	Automotive Aftermarket	Michael Söding
	10:15 – 10:45	Break	
4	10:45 – 11:30	Industrial	Dr. Stefan Spindler
5	11:30 – 12:15	Greater China	Dr. Yilin Zhang
	12:15 – 13:00	Lunch	
6	13:00 – 14:30	Exhibition / Driving Event	





Klaus Rosenfeld
Chief Executive Officer



Dietmar Heinrich
New Chief Financial Officer



Dr. Stefan Spindler
CEO Industrial



Michael Söding
President Automotive
Aftermarket



Matthias Zink
CEO Automotive



Prof. Dr. Peter Pleus
CEO Automotive

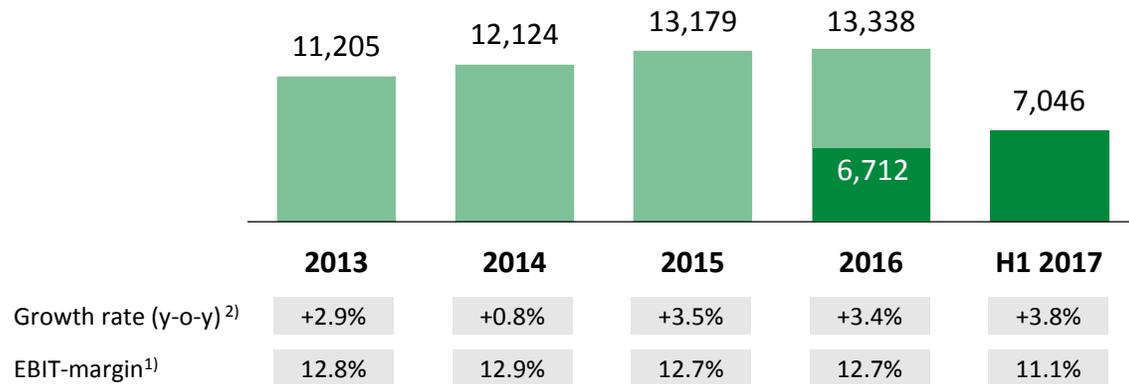


Dr. Yilin Zhang
Regional CEO Greater China



Renata Casaro
New Head of Investor Relations

Sales development 2013 – H1 2017

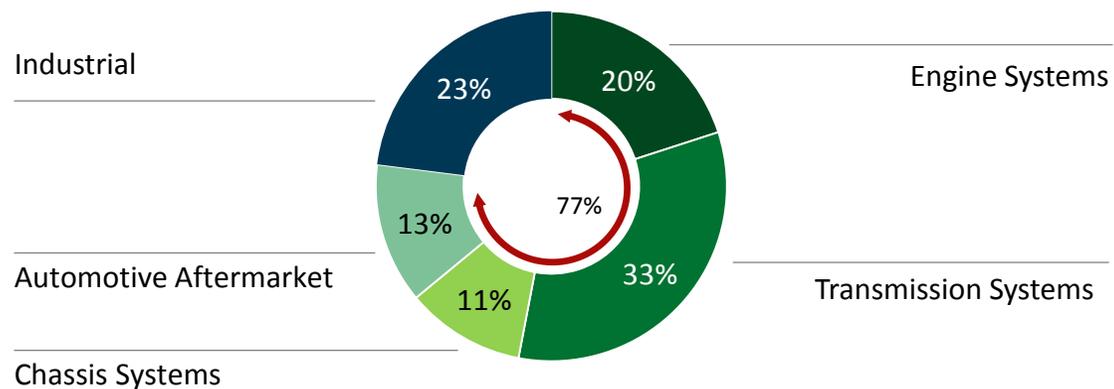


¹⁾ Before one-off effects; ²⁾ FX-adjusted

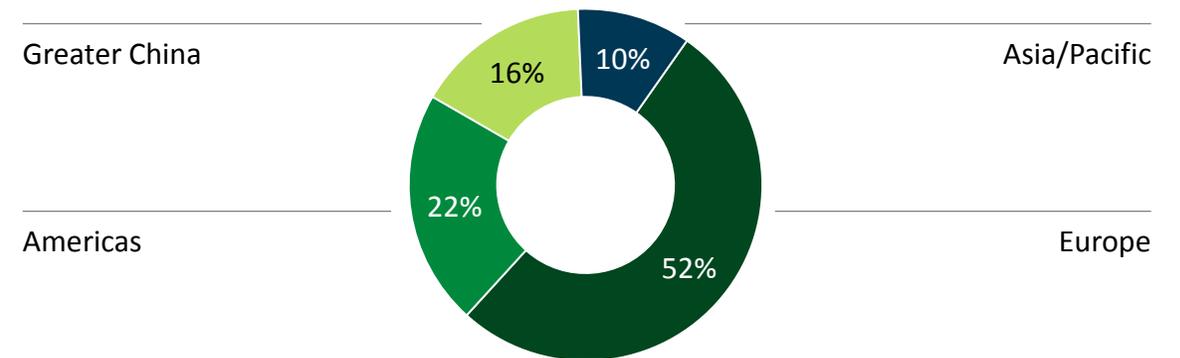
Key aspects

- ▶ Leading automotive and industrial supplier of high-precision components and systems
- ▶ Global footprint with around 86,000 employees at about 170 locations in more than 50 countries
- ▶ Balanced business portfolio across sectors, geographies and diversified customer base with leading market positions

Sales by division H1 2017



Sales by region H1 2017



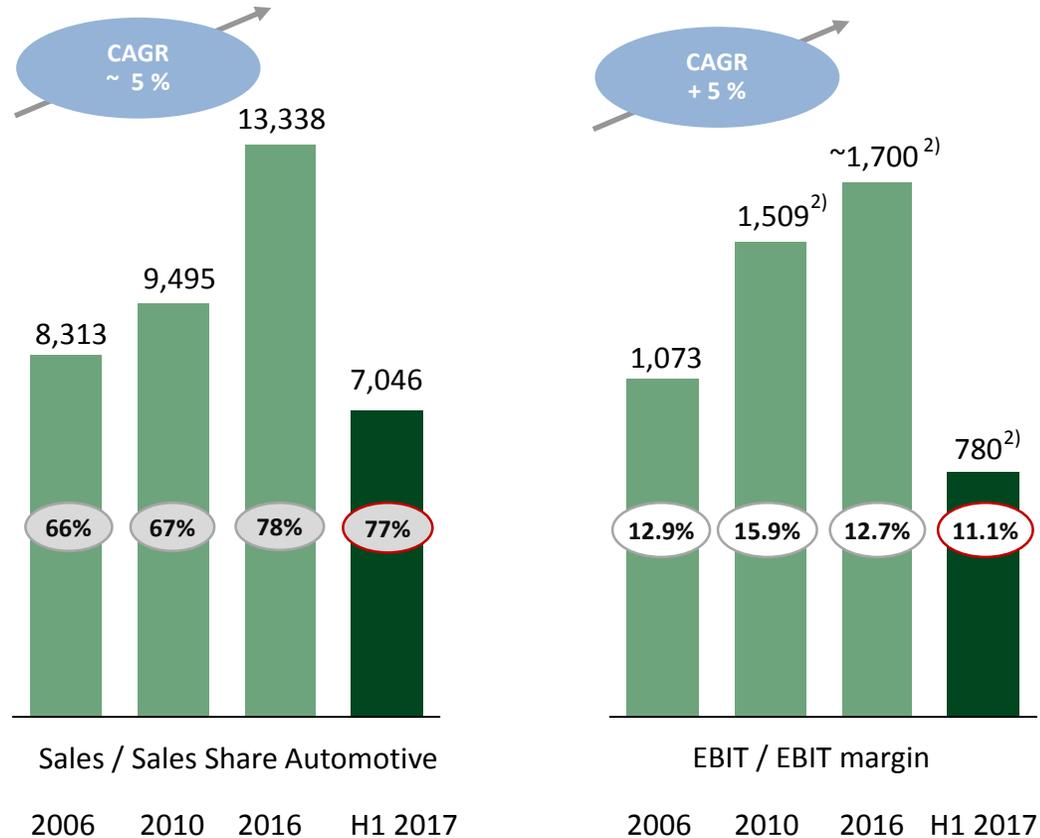
Sales H1 2017: EUR 7,046 mn

Above average profitability – Balance sheet strengthened

Sales and EBIT ¹⁾

in EUR mn

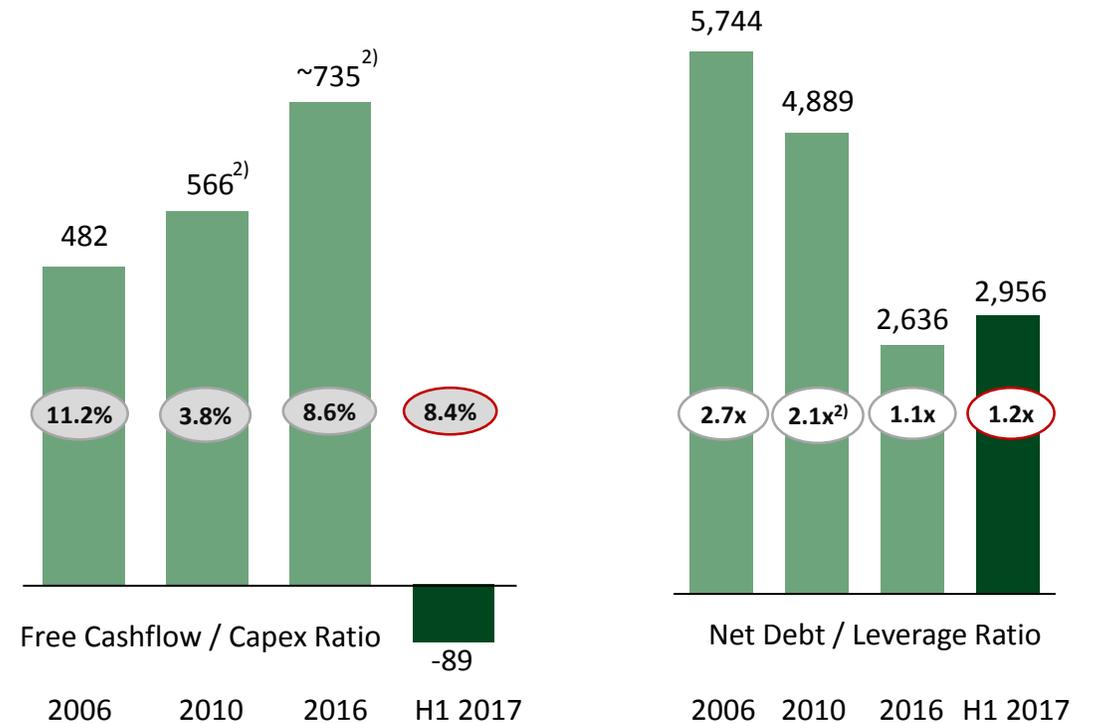
X% Sales Share Automotive
Y.Y% EBIT Margin



Free Cash Flow and Net Debt ¹⁾

in EUR mn

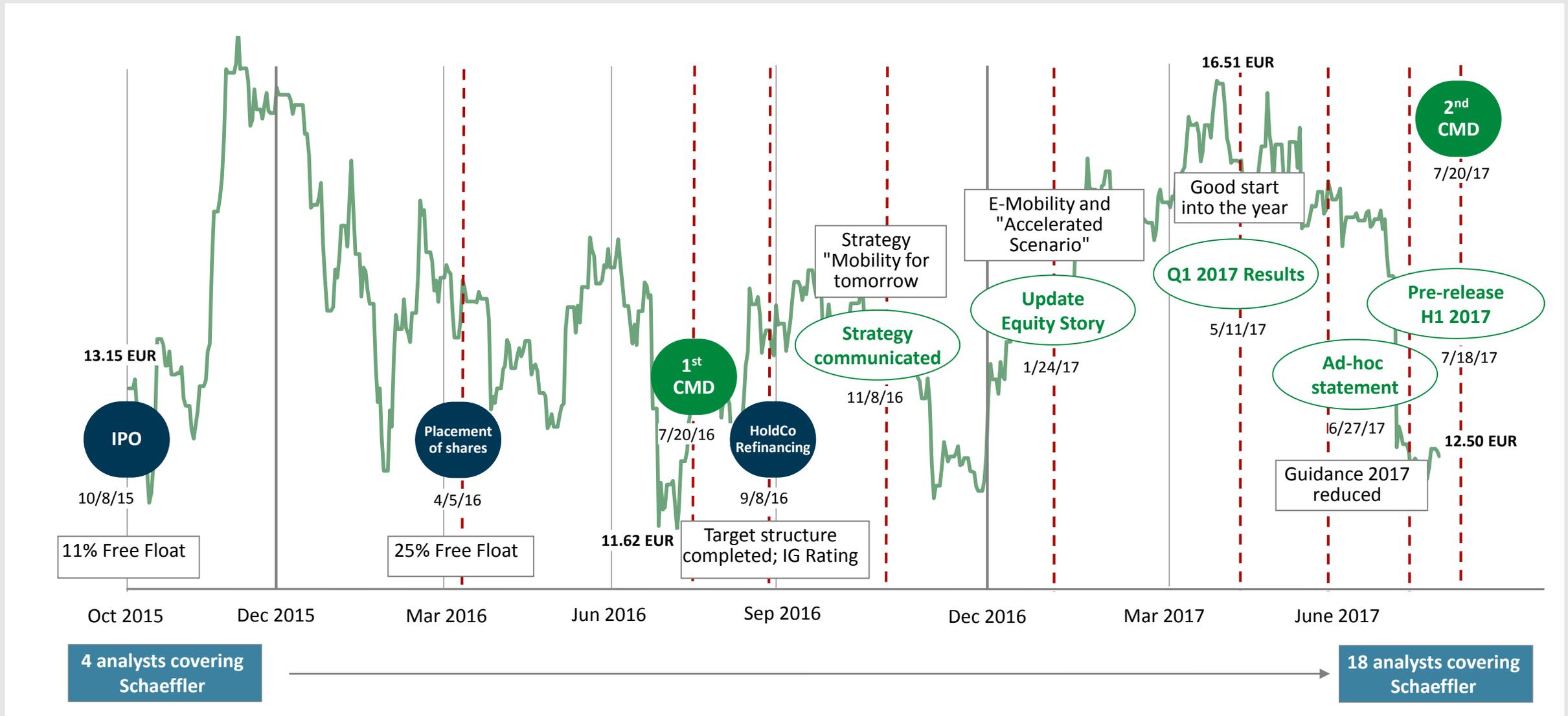
X.X% Capex in % of sales
Y.Yx Leverage Ratio



¹⁾ 2006-2010 are financial figures of a different legal entity (Schaeffler VZ GmbH)

²⁾ Before special items

Our way with the Capital Markets – "A challenging journey"



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

- We want to be the preferred technology partner for our customers.
- We are an Automotive and Industrial supplier.
- We are a global company with a local presence throughout the world.
- We produce components and systems.
- We view E-Mobility, Industry 4.0, and Digitalization as key opportunities for the future.
- We strive for the highest possible quality, efficiency, and delivery performance.
- We want to be an attractive employer.
- We live by the values of a global family business.

16 Strategic initiatives

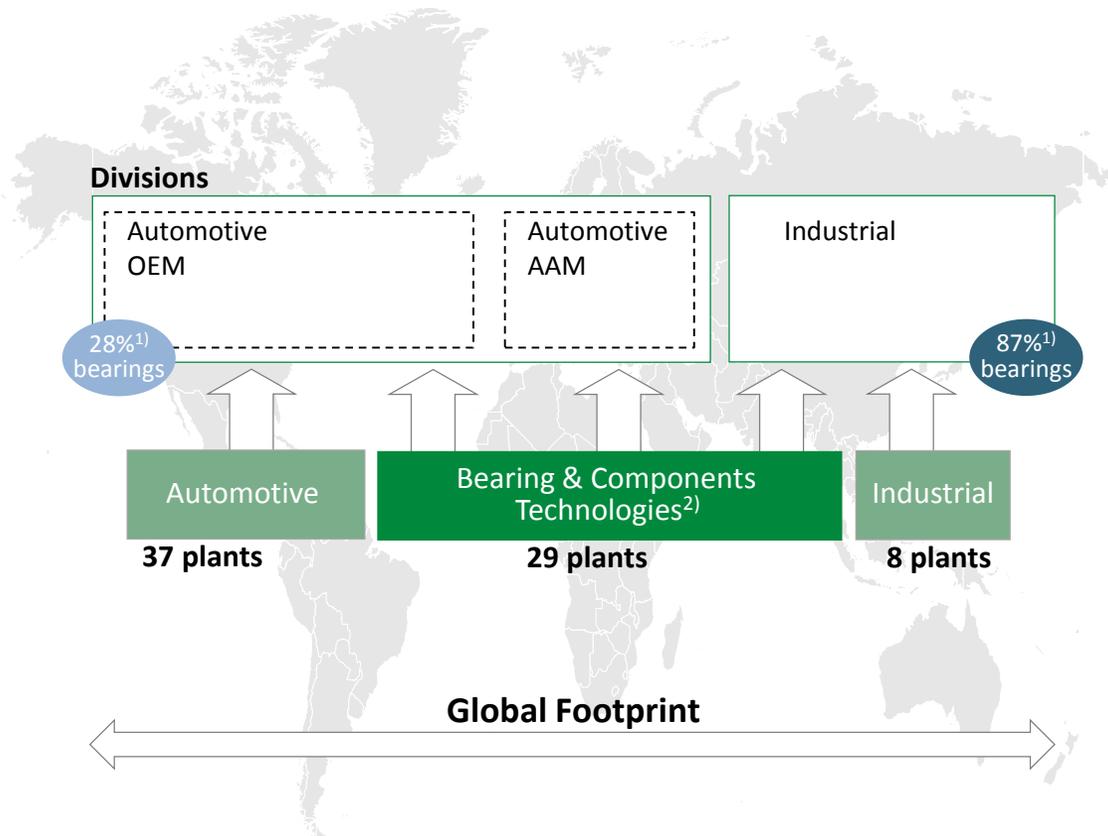
Agenda 4 plus One



Initiatives

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

One integrated model



¹⁾Of divisional sales 2015 ²⁾ Production for both Automotive and Industrial division

Key aspects

- ▶ Bearing & Components Technologies as internal bearing supplier for both divisions
- ▶ Manufacturing technology and system-know-how as key success factor
- ▶ Schaeffler Production System with focus on quality, cost efficiency and delivery performance
- ▶ High vertical integration with strong internal added value

Best-in class manufacturing technologies



Forging



Machining processes



Forming methods



Plastics technology



Heat treatment



Grinding and Honing



Coating and Phosphating



Assembly

1 E-Mobility



- ▶ Separate Business Division "E-Mobility" as of January 1st, 2018
- ▶ Strengthen footprint in Greater China as lead market for E-Mobility
- ▶ E-Motor and electronic competence as key drivers



15% of total Sales Automotive OEM from HEV/BEV in 2020

3 Digitalization



- ▶ Group wide Digital Agenda with 4 key areas coordinated by Digital Chief Officer
- ▶ Today 100 employees work on 30 digital projects
- ▶ Strategic partnership with IBM



10% of added value from digitally enhanced products and services in 2022¹⁾

2 Industry 4.0



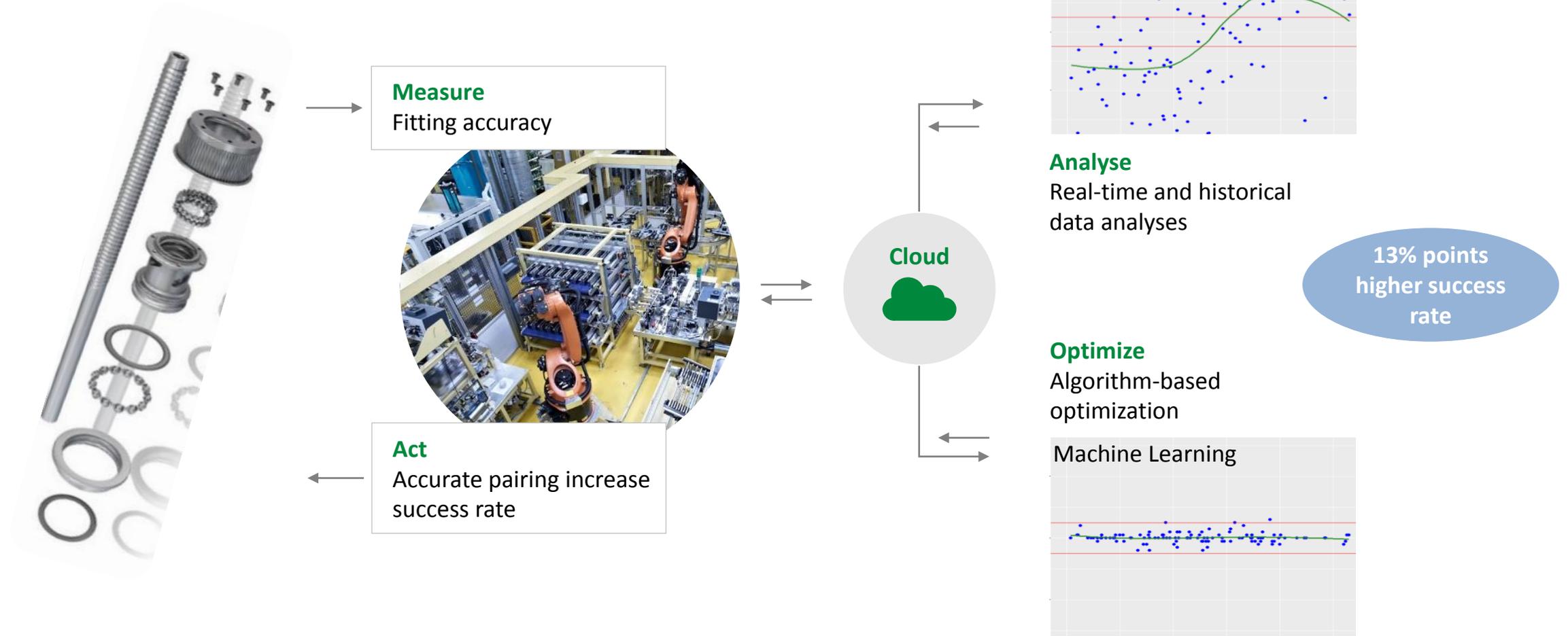
- ▶ Separate Organizational Unit "Industry 4.0" as of January 1st, 2018
- ▶ Combining Mechatronic business with digital driven services (i.e. Condition Monitoring)
- ▶ Schaeffler Eco System



10% of Sales from Industry 4.0-related products and solutions in 2022

¹⁾ Annual General Meeting 2017

Example: Ball Screw Driver



Building blocks

1

Outperformance in Automotive

- ▶ Consistent growth above markets
- ▶ Best-in-class margin

Growth

2

Margin upside in Industrial

- ▶ CORE program in execution
- ▶ Margin upside potential >3%-points

Margin

3

Strong Free Cash flow generation

- ▶ Strong operating Cash flow Generation
- ▶ FCF used for dividend payments, M&A and further deleveraging

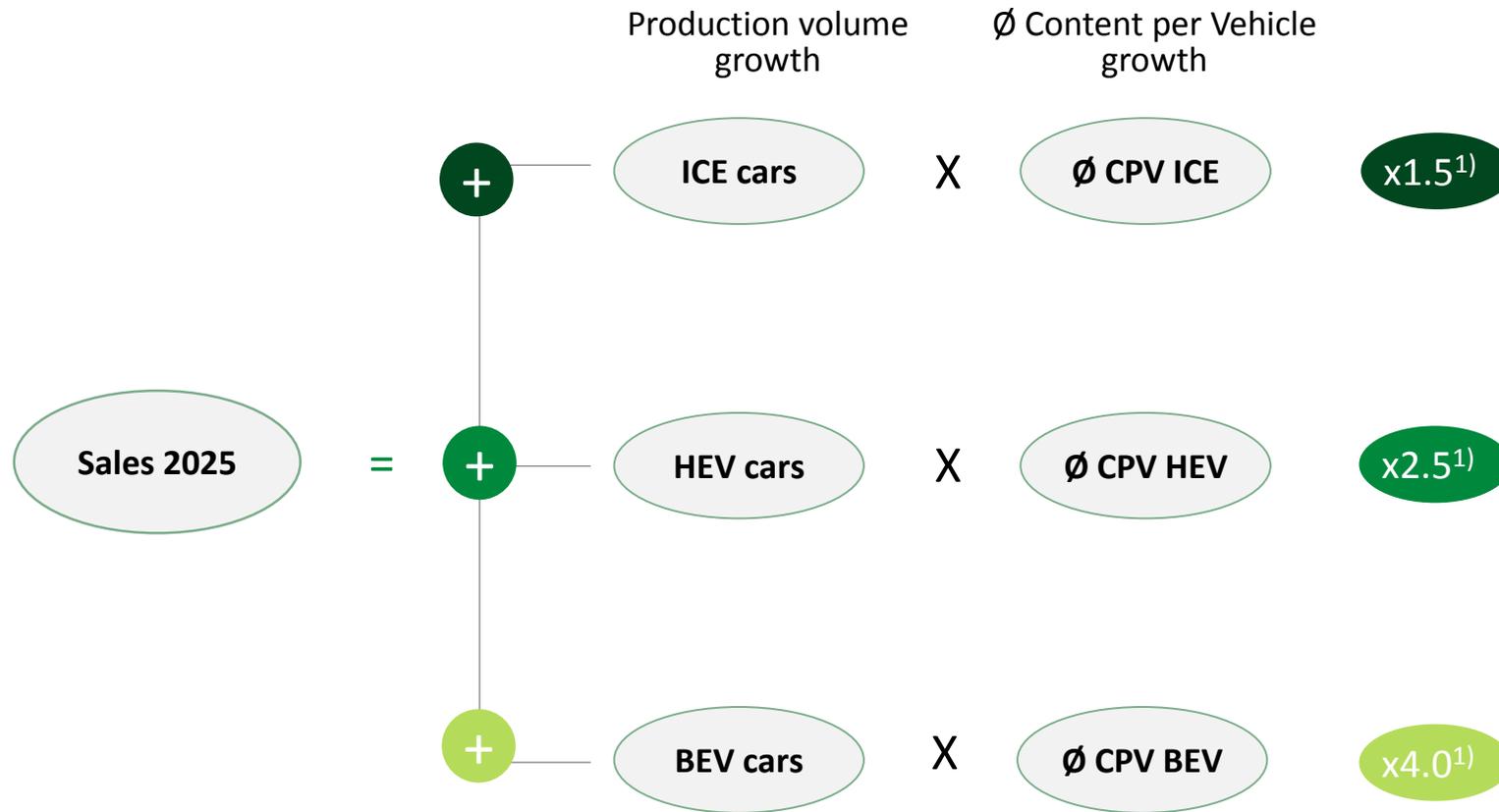
Cash flow

Key objectives

Profitable growth and sustainable value creation

1 Automotive – Growing above market

Our growth formula Automotive



Key aspects

- ▶ The market is moving towards our accelerated scenario (2025: 50% ICE, 35% HEV, 15% BEV)
- ▶ Automotive sales is driven by number of vehicles produced (per powertrain category) x Ø Content per Vehicle
- ▶ We expect Content per Vehicle to grow in all three powertrain categories (ICE, HEV and BEV) ²⁾

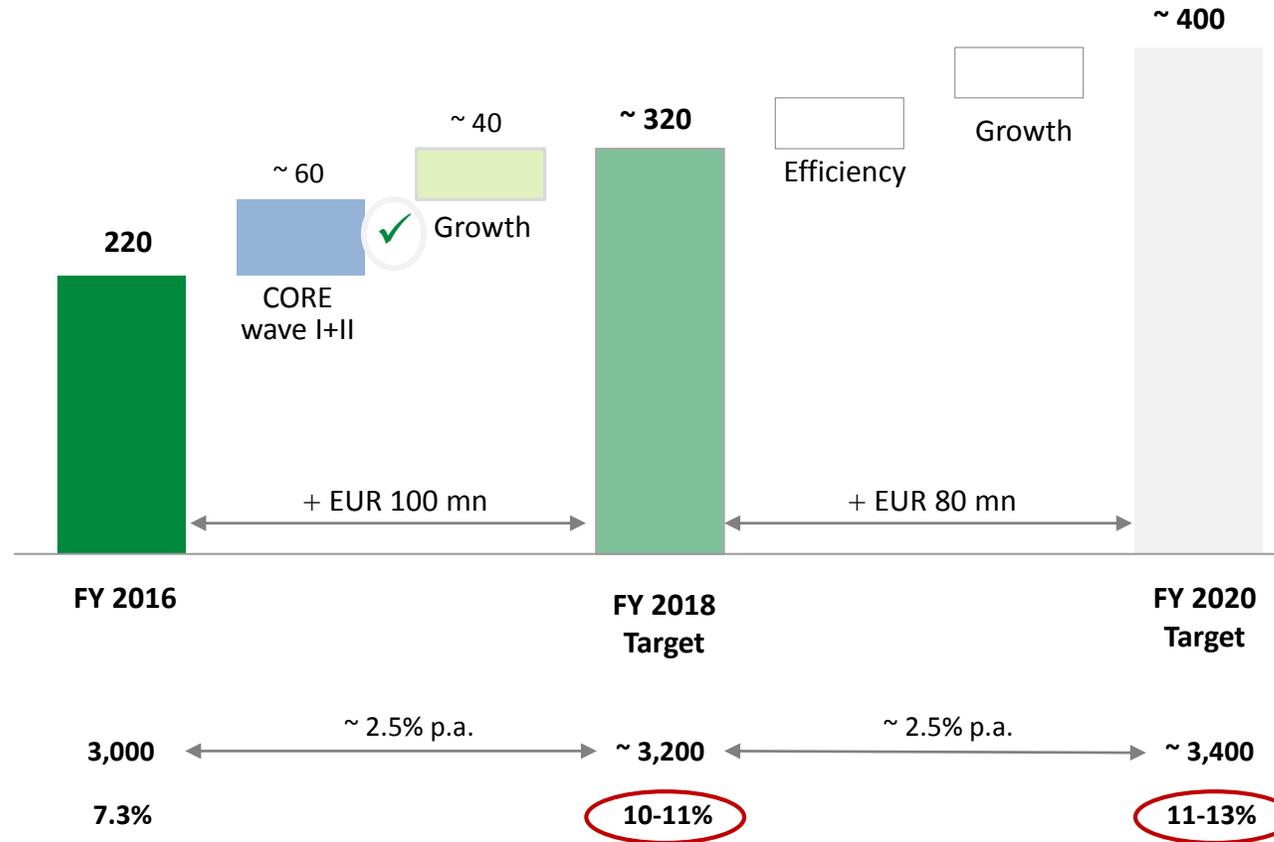
Above average market growth

1) Content per Vehicle 2025 compared to 2016

2) ICE = Internal combustion engine, HEV = Hybrid electric vehicles, BEV = Battery electric vehicles

Our EBIT targets Industrial

in EUR mn



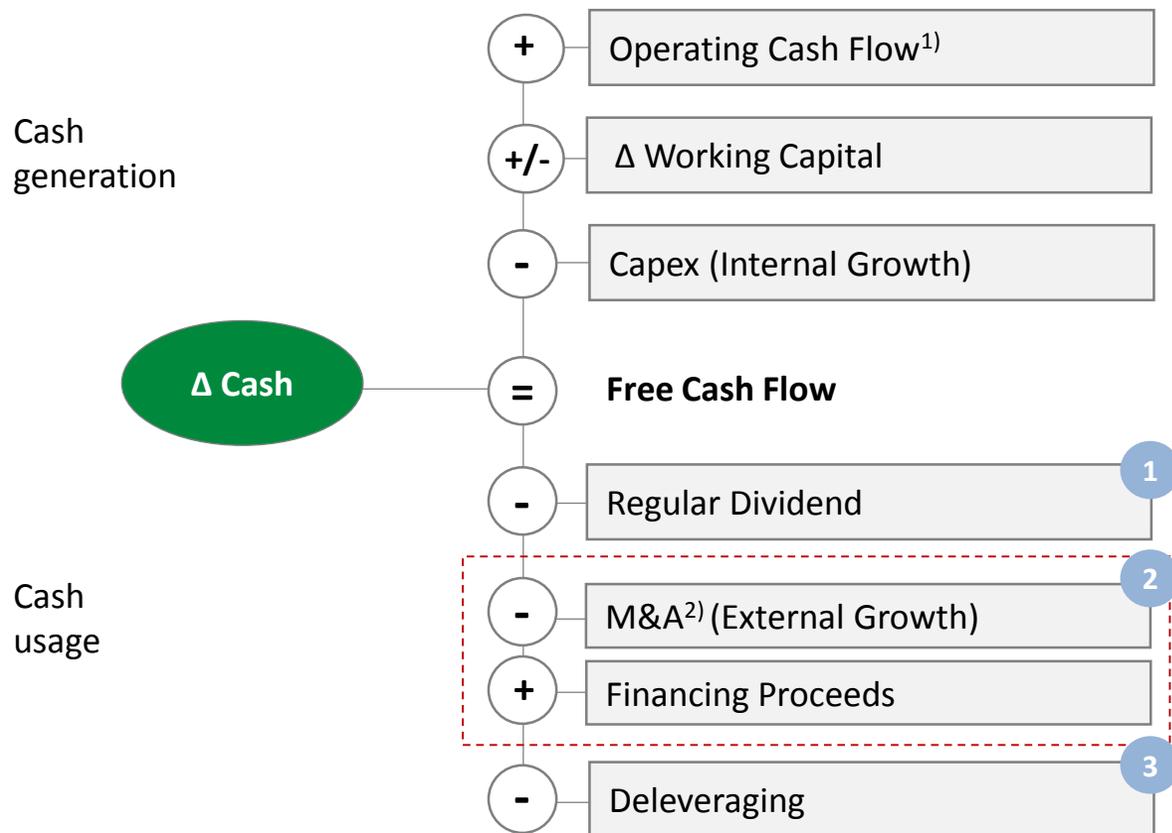
Key aspects

- ▶ Industrial division on track to achieve EBIT margin target for 2018 of 10-11%
- ▶ Mid-term target of 11-13% EBIT margin remains in place for 2020
- ▶ Gap to mid-term target to be bridged by additional efficiency improvement and growth measures (to be determined)



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

Our Cash Flow formula



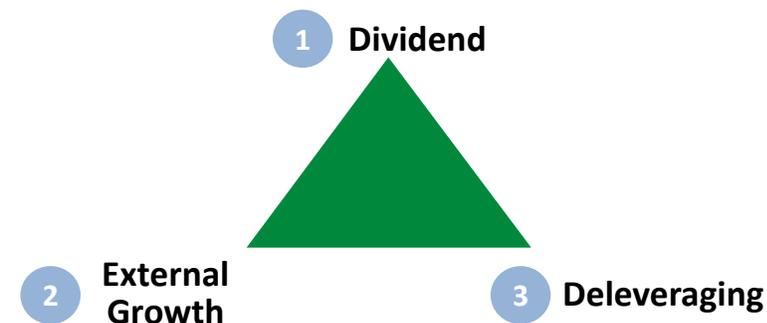
¹⁾ Before Δ Working Capital

²⁾ Including one-off long-term investment projects (i.e. Real estate)

³⁾ Adjusted for one-offs

Use of Cash

- ▶ Strong cash flow generation from operating business and 3 main uses of cash:
- ▶ Annual Dividend pay-out 30-40% of net income³⁾ (Priority No. 1)



- ▶ External growth / M&A²⁾ to be (primarily) financed from external sources (Priority No. 2)
- ▶ No immediate deleveraging needs (Priority No. 3), significant financing headroom⁴⁾

⁴⁾ Max leverage up to 1,5x EBITDA LTM to maintain Investment Grade Rating

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

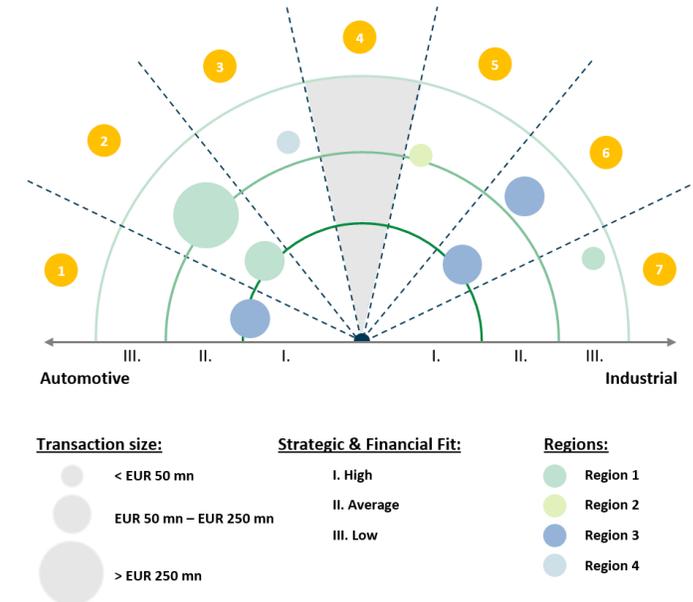
Acquisition Criteria

- ▶ 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

M&A Radar



- ▶ 7 strategic search fields
- ▶ Transaction sizes to vary between 100 EUR mn and 500 EUR mn
- ▶ All regions are taken into account



1
Optimizing
our disclosure

- ▶ Regular reporting of Order intake Automotive OE and Order book Industrial
- ▶ Semi annual disclosure starting in 2018

2
Intensifying
our communication

- ▶ New CFO
- ▶ New Head of IR

3
Managing expectations
in a more proactive manner

- ▶ Annual Guidance 2017
- ▶ Financial Ambition 2020

4
Making our business model
more transparent

- ▶ 2 divisions / 3 main building blocks
- ▶ Automotive OE / Automotive AAM / Industrial

5
Explaining internal
synergy potential

- ▶ Integrated Automotive and Industrial supplier
- ▶ "One Schaeffler" approach

Guidance 2017

New Guidance for 2017
as of June 26, 2017

Sales growth	4-5% FX-adjusted
EBIT margin	11-12% of sales before one-off effects
Free Cash Flow	~ EUR 500 mn w/o external growth



Financial Ambitions 2020

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

Market assumptions

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

1) Reported FCF of EUR -89 mn minus EUR 3 mn negative impact from M&A

1) Net-debt to equity ratio (excluding pensions)

2) Payout ratio based on Net income

Key messages

- 1 Dynamic and fast changing environment requires accelerated transformation building on our integrated Automotive and Industrial business model
- 2 Strategy "Mobility for tomorrow" provides a convincing framework with E-Mobility, Industry 4.0, and Digitalization as key opportunities for further growth
- 3 Equity story remains intact with 3 main building blocks: (1) Above-market growth in Automotive, (2) Margin upside in Industrial and (3) Strong free cash flow generation
- 4 Sharing order book / order intake numbers, intensifying our communication and making our business model more transparent to improve confidence and manage expectations
- 5 New Guidance for 2017 confirmed, Financial Ambitions 2020 reiterated



**Accelerating our
transformation**