



## Part 1 – “Executing our strategy”

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- 1** Introduction
- 2** Strategy “Mobility for tomorrow”
- 3** Excellence Program “Agenda 4 plus One”
- 4** Long-term value creation
- 5** Summary and outlook

# Group Guidance FY 2018 confirmed – Divisional Guidance adjusted

See Press release as of September 19, 2018

## Group Guidance

	Group
<b>Sales growth</b>	5-6% FX-adjusted 
<b>EBIT margin</b>	10.5-11.5% before special items 
<b>Free Cash Flow</b>	~ EUR 450 mn before M&A 



## Divisional Guidance

	Automotive OEM	Automotive AM	Industrial
	<b>New</b> 4.5-5.5% (before 6-7%)	3-4%	<b>New</b> 8-9% (before 6-7%)
	<b>New</b> 8.5-9.5% (before 9.5-10.5%)	16.5-17.5%	<b>New</b> 10-11% (before 9-10%)

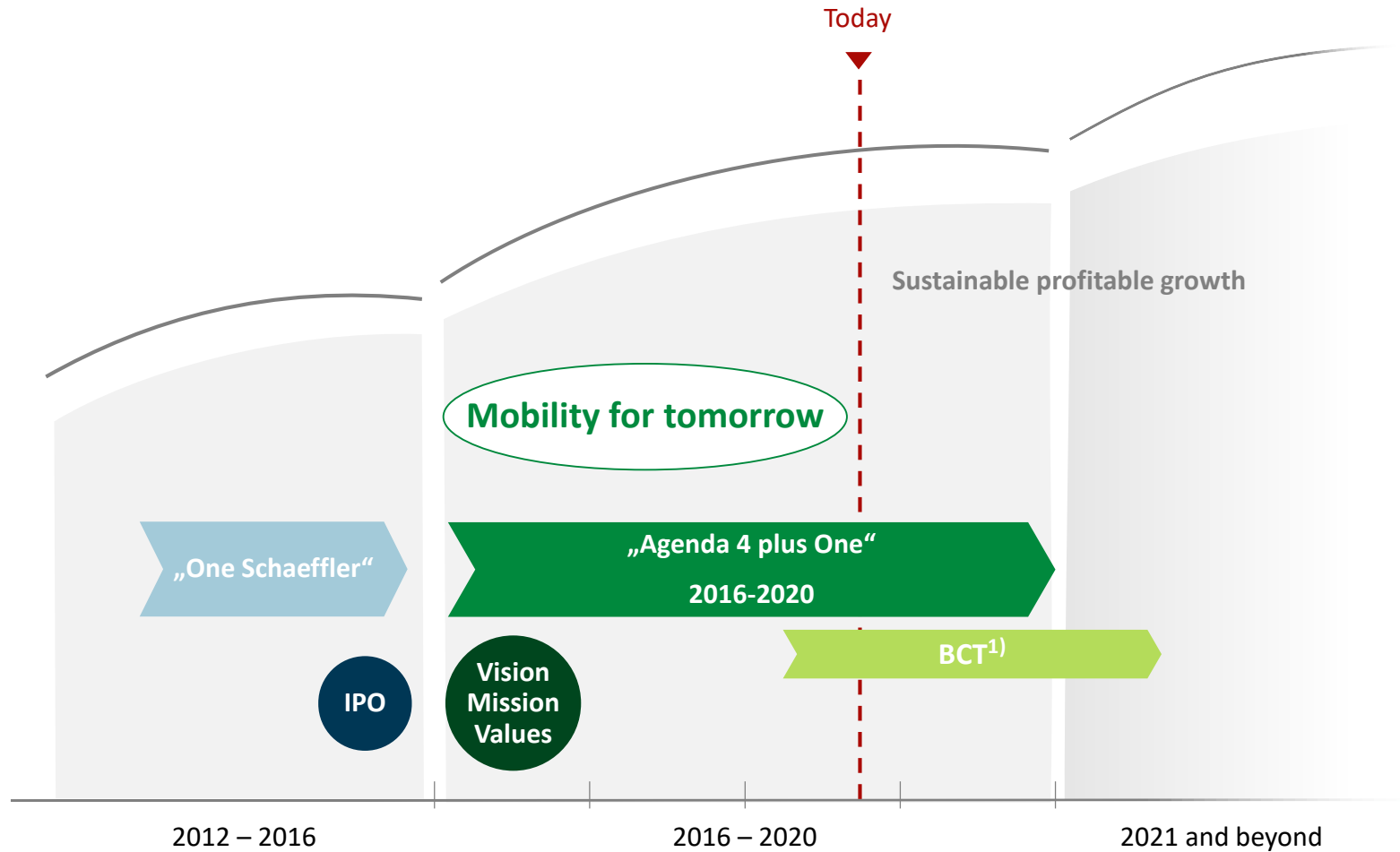
- ▶ Divisional Guidance FY 2018 Automotive OEM adjusted due to weaker development in Light Vehicle Market in China and Europe
- ▶ Divisional Guidance FY 2018 Automotive Aftermarket unchanged
- ▶ Divisional Guidance FY 2018 Industrial upgraded due to continuously positive business development

### Market assumptions<sup>1)</sup>

- ▶ Automotive: Global Light Vehicle production growth of around 2%
- ▶ Automotive Aftermarket: Stable growth in the global vehicle population and a nearly unchanged average vehicle age
- ▶ Industrial: Similar growth rate of industrial production in 2018 compared to 2017

1) As of March 7, 2018

## Roadmap Schaeffler Group



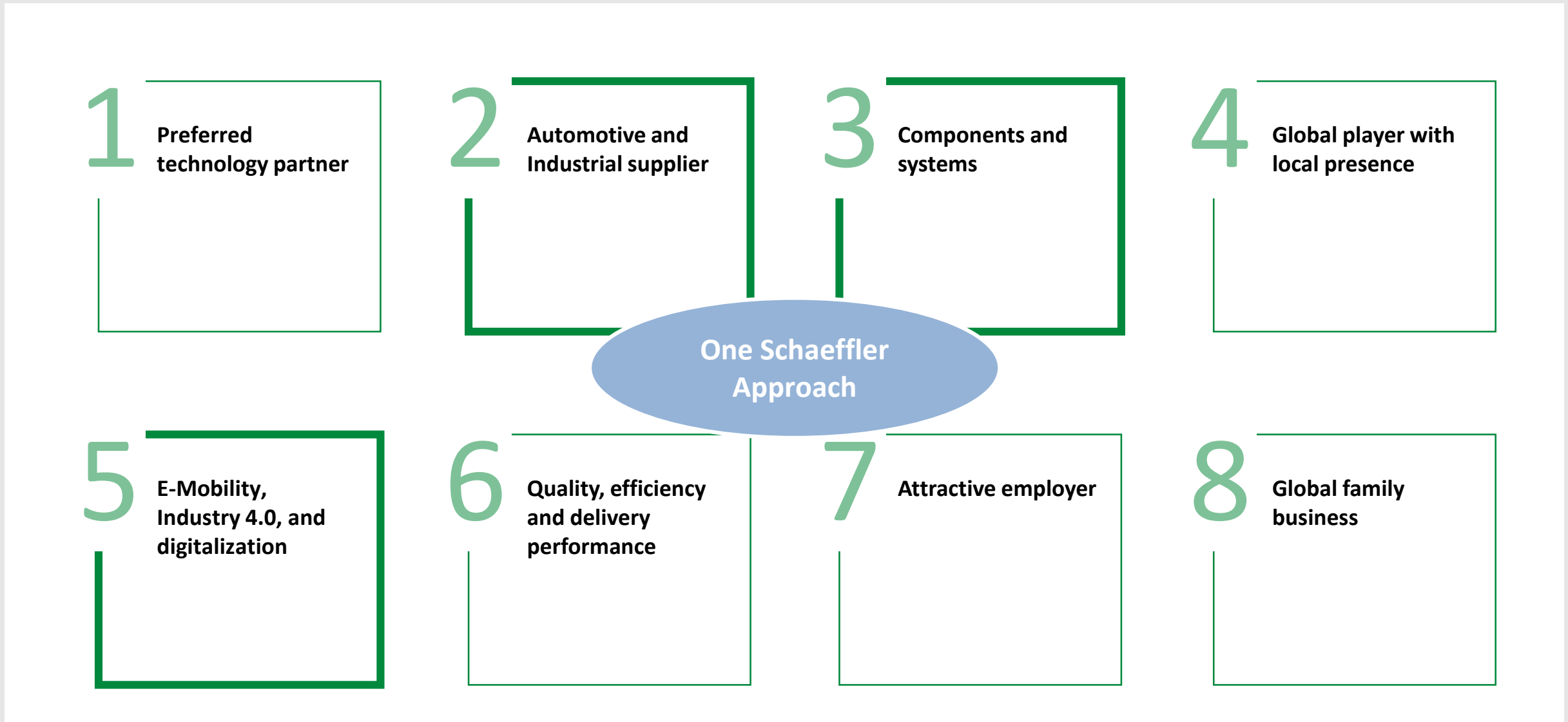
## Key aspects

- ▶ Strategy „Mobility for tomorrow“ to position Schaeffler for key future trends
- ▶ Excellence program "Agenda 4 plus One" to make Schaeffler a better company
- ▶ 3 divisions to enhance transparency and accountability
- ▶ Rigorous execution of efficiency initiatives to achieve financial ambitions



1) Bearing & Components Technologies

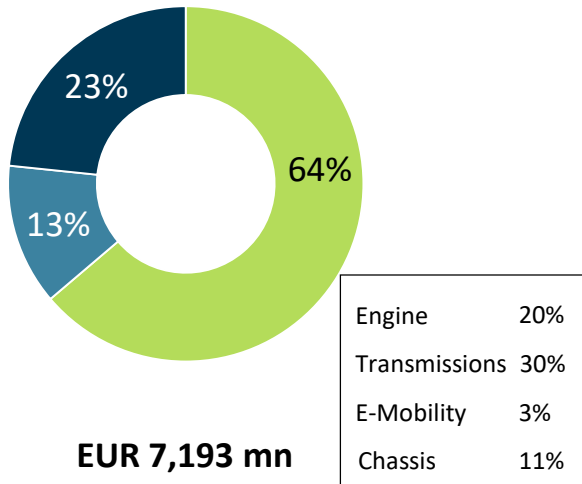
# Strategy "Mobility for tomorrow" – 8 strategic pillars



1 "Automotive and Industrial Supplier" – Balanced business portfolio

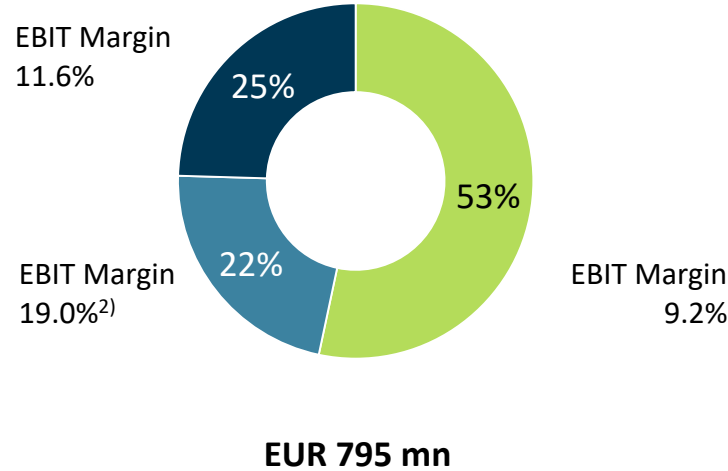


Sales H1 2018



- ▶ Automotive OEM accounts for 64% of Group sales
- ▶ Powertrain business (53%) includes growing E-Mobility business; Chassis business division (11%) agnostic to evolving powertrain mix

EBIT<sup>1)</sup> H1 2018

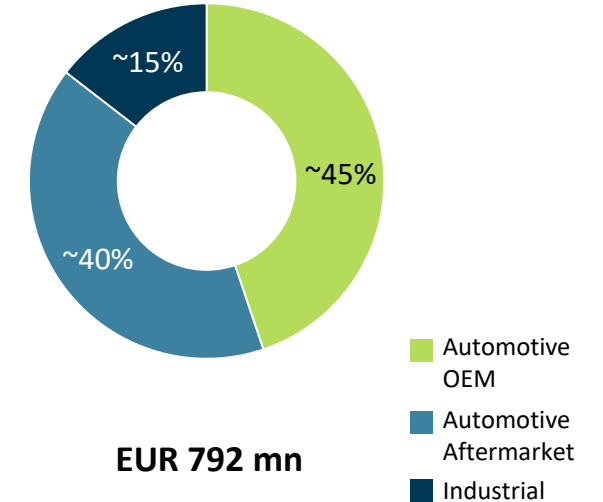


- ▶ Industrial and Automotive Aftermarket contribute nearly 50% of Group EBIT<sup>1)</sup>
- ▶ Resilient high margin Aftermarket business and improving profitability in Industrial

1) Before special items  
2) Including one-off in Q2 2018

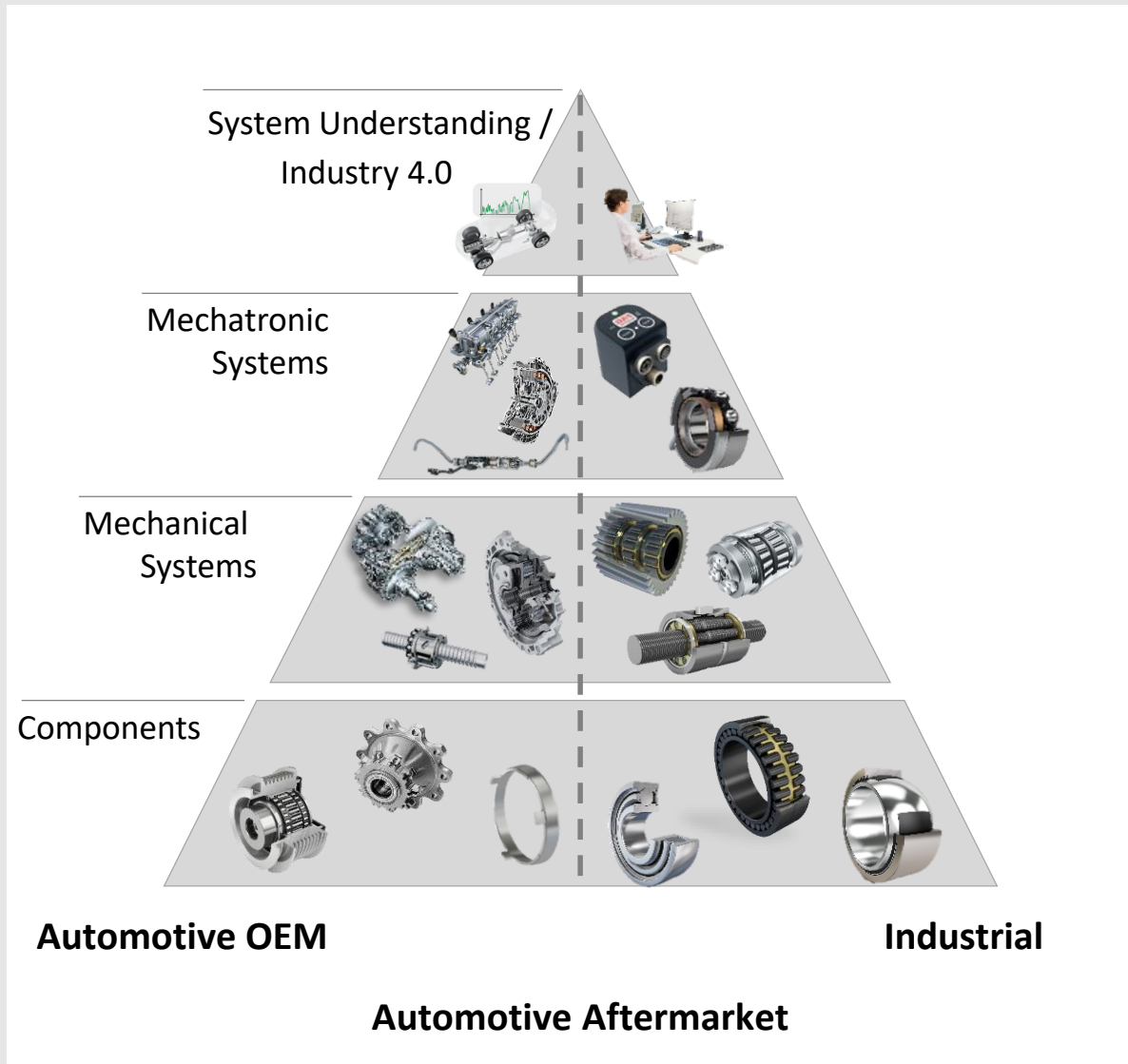
SVA<sup>3)</sup> LTM June 2018

Pro Forma –  
For illustration purposes



- ▶ Schaeffler manages its business primarily by Schaeffler Value Added (SVA<sup>3)</sup>)
- ▶ Automotive Aftermarket contributes around 36% of Group SVA<sup>3)</sup> reflecting its significance

3) Defined as LTM EBIT before special items minus Cost of Capital (10% \* Ø Capital Employed); Goodwill allocated to Automotive OEM (Indicative calculation)



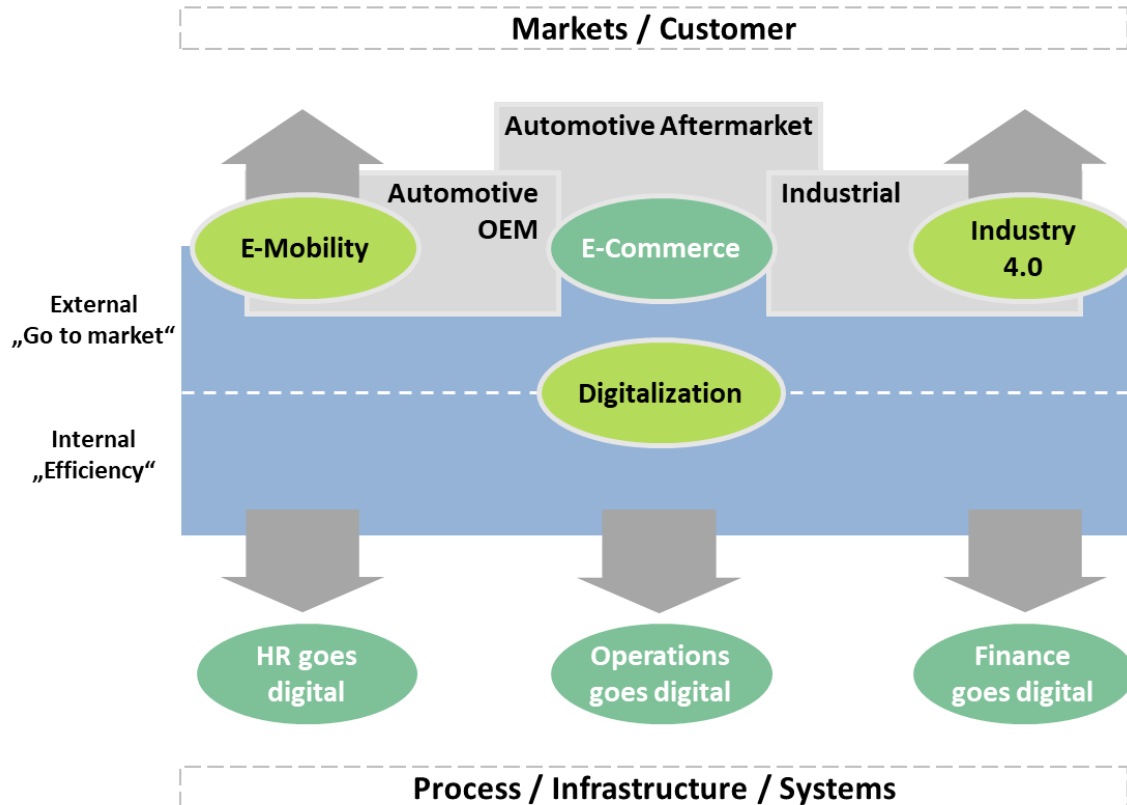
### Key aspects

- ▶ Long-standing experience in development and manufacturing of best-in-class mechanical components
- ▶ Proven system-level understanding enabling integration of components into powerful mechatronic systems
- ▶ Ability to combine systems know-how across all three divisions into new innovative product and service offerings

Systems understanding as a key success driver



**Business logic**



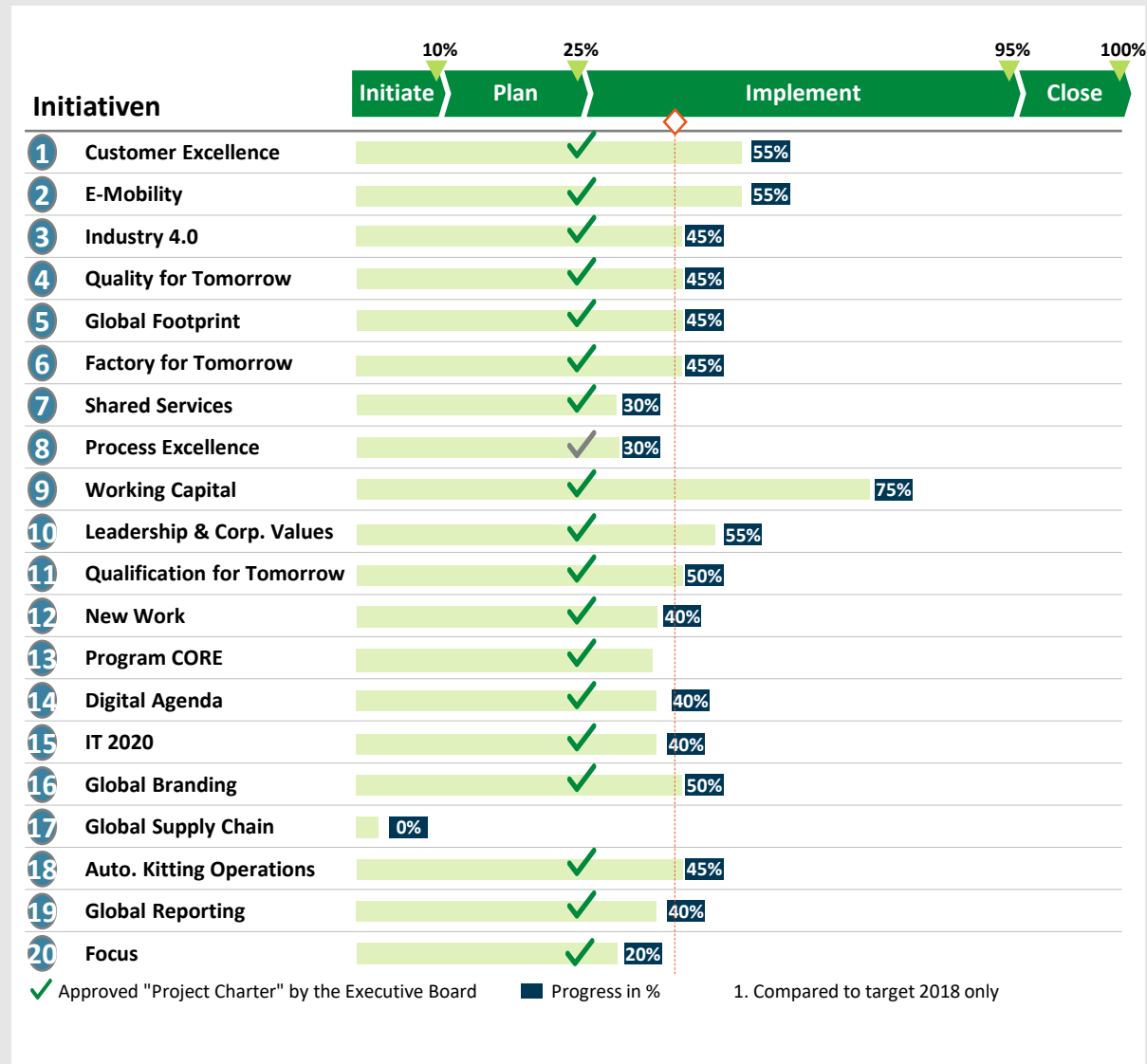
**Key aspects**

- ▶ E-Mobility, Industry 4.0 and Digitalization as key growth opportunities for the long-term future
- ▶ E-Mobility, Industry 4.0 and Digitalization are 3 key initiatives of our Agenda 4 plus One
- ▶ Digitalization relevant for external "Go to market", but in particular for optimizing our internal efficiency



Excellence Program  
„Agenda 4 plus One“

# Excellence program "Agenda 4 Plus One" – Making Schaeffler a better company

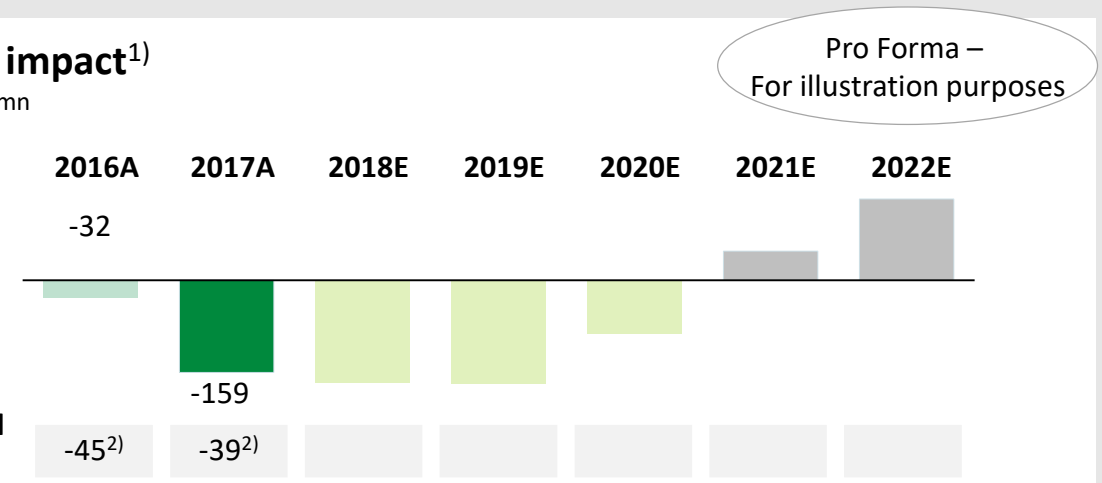


## Key aspects

- ▶ Comprehensive program with 20 initiatives started in Q2 2016
- ▶ All initiatives in implementation, overall Completion ratio of 45% as of August 2018
- ▶ EUR 300 mn profitability improvement target until 2022 (improvement compared to FY 2017)

## EBIT impact<sup>1)</sup>

in EUR mn



## Special items

in EUR mn

1) Before special items

2) Provision for CORE II of EUR 45m in 2016, provision for Shared Services provision of EUR 39m in 2017

# Rigorous execution of efficiency initiatives – Continuously improving our performance

For more details see  
Part 5: CFO presentation

## Overview initiatives

	Start Date	Cost Efficiency Target	HCO <sup>1)</sup> Reduction Target	Restructuring Cost	Full Financial Impact	Focus	Completion Ratio	
1	CORE I	10/2015	~ EUR 40 mn	-500	EUR 36 mn booked in 2015	12/2018	Industrial	100%
2	CORE II	10/2016	~ EUR 80 mn	-400	EUR 45 mn booked in 2016	12/2019	Industrial	>50%
3	Shared Services	10/2017	~ EUR 25 mn	-100	EUR 39 mn booked in 2017	12/2022	Group	35%
4	BCT <sup>2)</sup>	5/2018	~ EUR 60 mn	-1,000	EUR [50] mn <sup>3)</sup>	12/2021	Auto OEM/ Industrial	5%
		<b>FCF Improvement Target</b>						
5	Working Capital <sup>4)</sup>	4/2016	~ EUR 350 mn	-	-	12/2020	Group	75%
6	Supply Chain <sup>5)</sup>	8/2018	New to come	-	-	12/2021	Group	0%

1) HCO = Headcount

3) Best estimate for 2018

2) On-top initiatives outside of Agenda 4 plus One

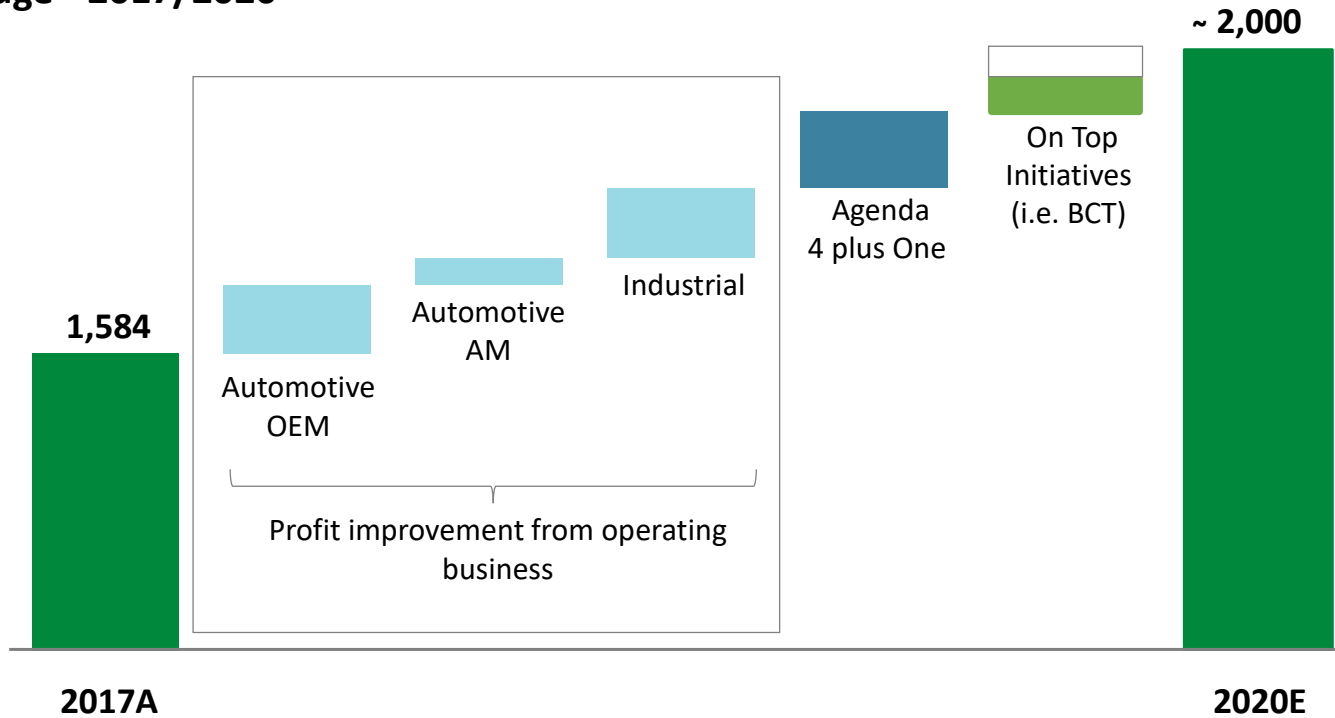
4) Focused on Trade Payables and Receivables

5) Focused on delivery performance and inventories

# Financial Ambitions 2020 – Levers to increase EBIT margin

## EBIT Bridge<sup>1)</sup> 2017/2020

in EUR mn



EBIT margin<sup>2)</sup> 11.3%

12-13%<sup>2)</sup>

Sales

~14,000

~5% p.a.

~ 16,000

1) For illustration purposes  
 2) Financial Ambitions 2020 with EBIT before special items margin range of 12-13%  
 3) Key assumptions / prerequisite: stable / positive market development

## Key aspects

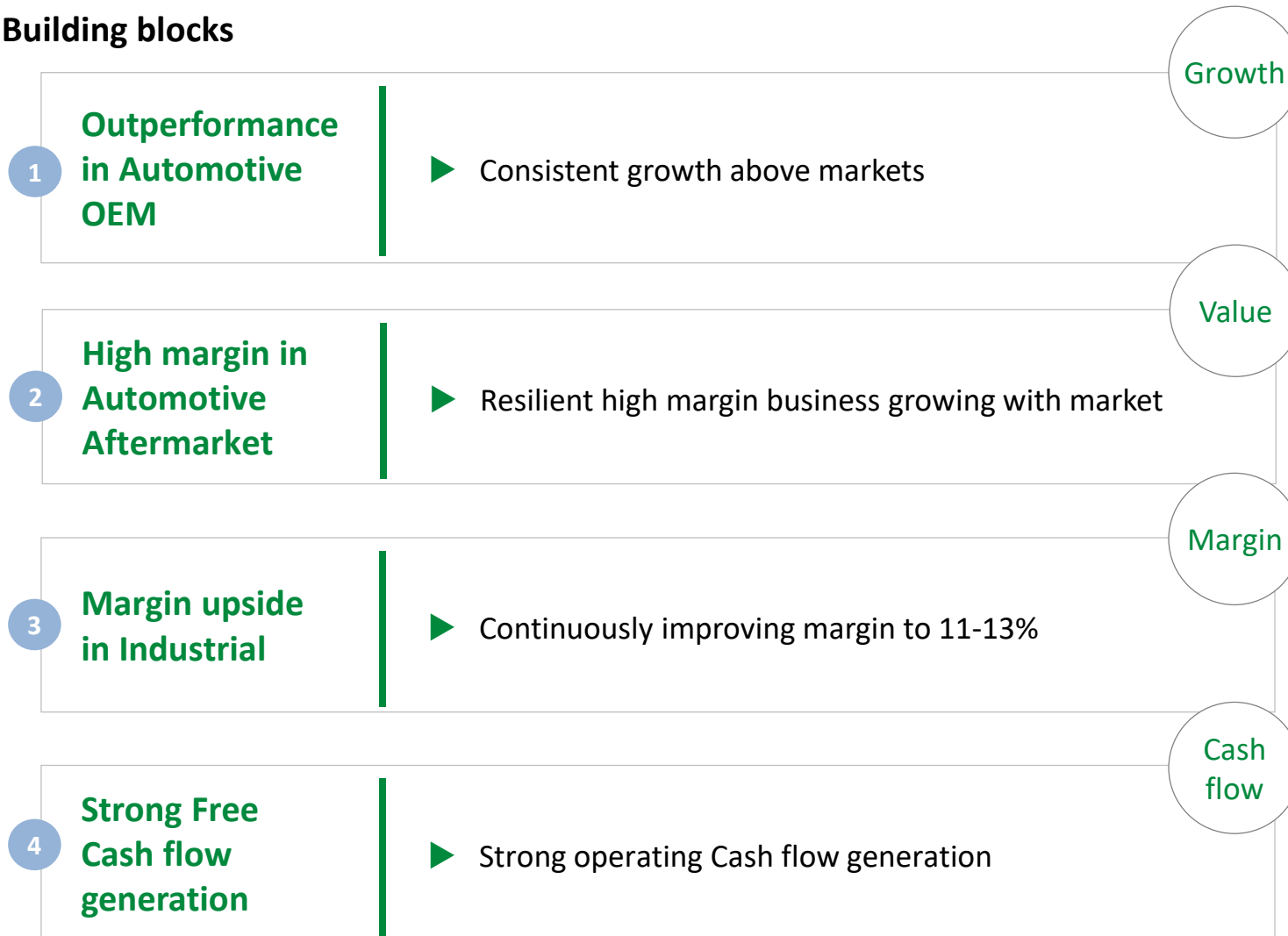
- ▶ Profit improvement from operating business<sup>3)</sup> to be realized by continued growth in all three divisions and margin recovery in Industrial
- ▶ Successful realization of Agenda 4 plus One as a key driver to achieve mid-term targets
- ▶ Additional On-top initiatives put in place (i.e. BCT), more to come if necessary



**Financial ambitions 2020 remain in place**

# Long-term value creation – Four main building blocks

## Building blocks



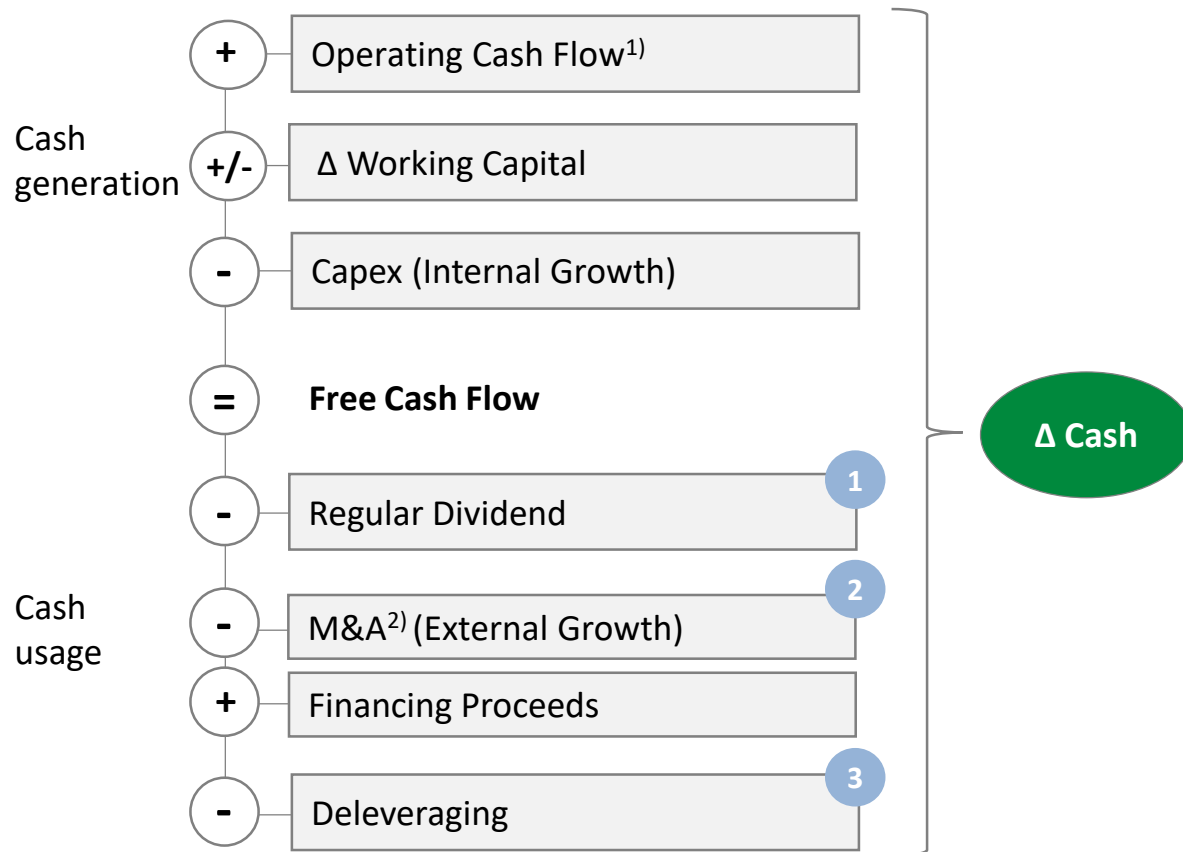
## Key aspects

- ▶ 3 divisions with different business characteristics and value drivers
- ▶ Resilient Aftermarket business compensates for Automotive OEM and Industrial business
- ▶ Strong Free Cash Flow generation as a key management focus



**Profitable growth and sustainable value creation**

**Our Cash Flow formula**



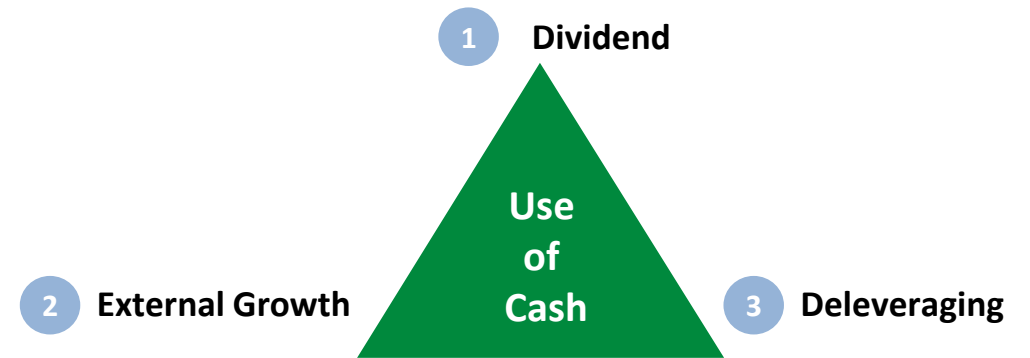
<sup>1)</sup> Before Δ Working Capital

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

<sup>3)</sup> Adjusted for one-offs

**Key aspects**

- ▶ Strong cash flow generation from operating business and 3 main uses of cash:

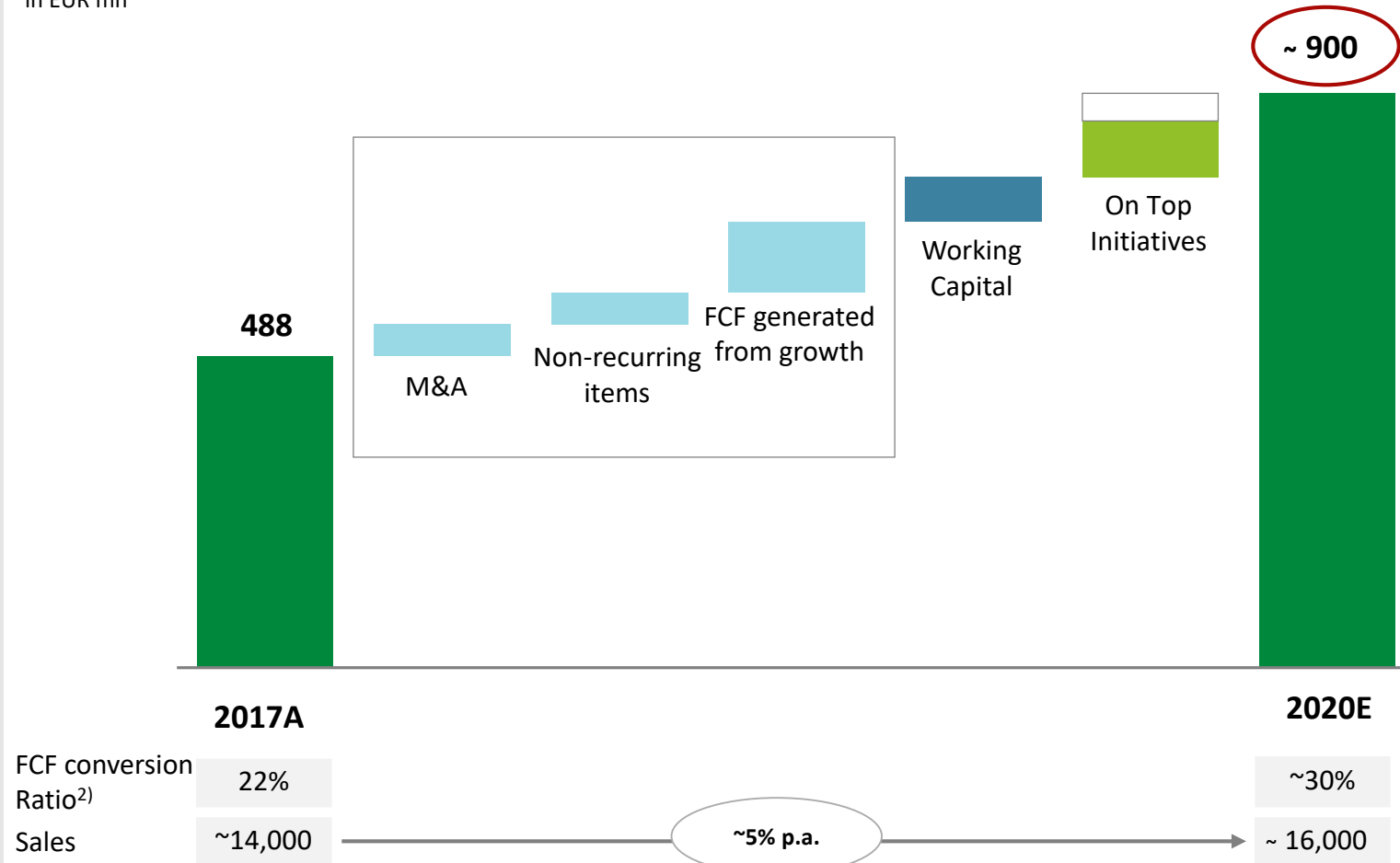


- ▶ Above average annual dividend pay-out (30-40% of net income<sup>3)</sup>)
- ▶ Internal growth financed from operating cash-flow, external growth primarily by debt
- ▶ Sound balance sheet, sufficient financing headroom to target external growth

# Financial Ambitions – Levers to increase Free Cash Flow

## Free Cash Flow<sup>1)</sup> 2017 / 2020

in EUR mn

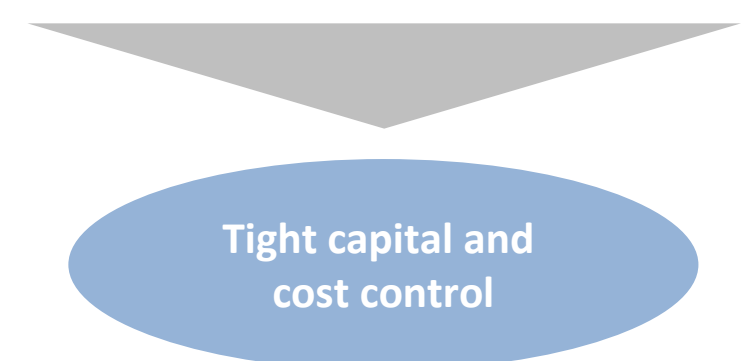


1) For illustration purposes  
 2) FCF before M&A to EBITDA before special items

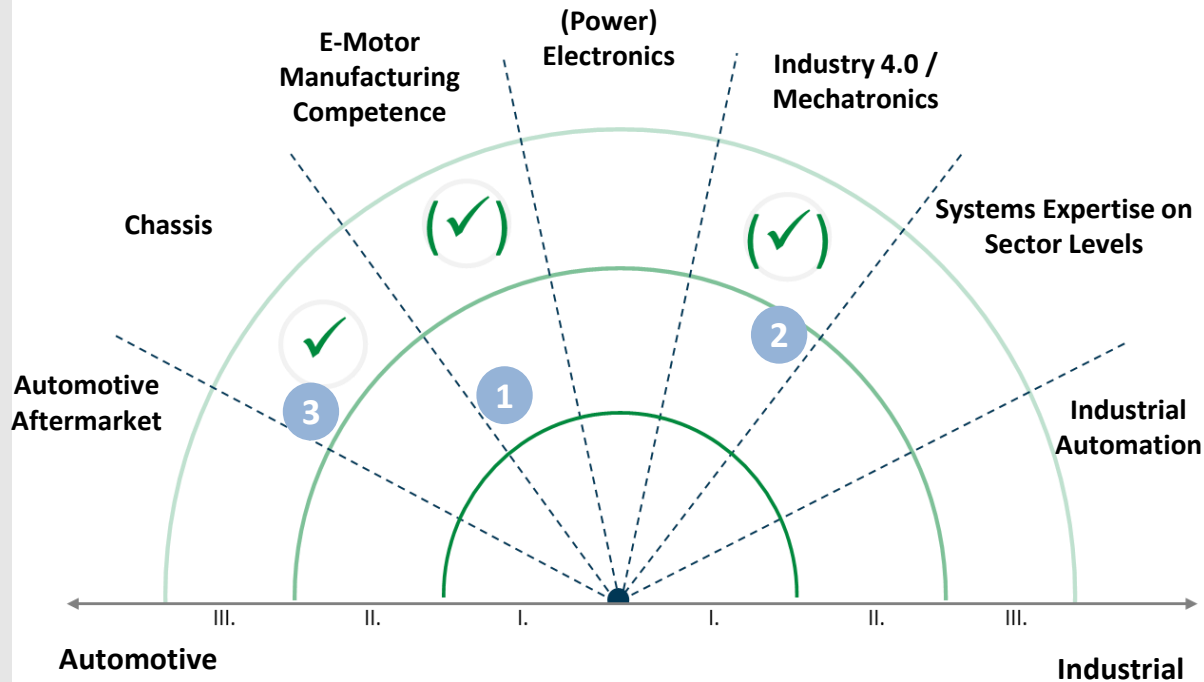
3) 80% growth / 20% maintenance Capex  
 4) Including strict adherence to minimum hurdle rates, tighter approval level, RoI prioritization of projects

## Key aspects

- ▶ Capital allocation approach strengthened, Capex-to-sales-ratio to be brought back to 6-8% p.a. perspective<sup>3)</sup>
- ▶ More focus on tighter working capital management and capital deployment discipline<sup>4)</sup>
- ▶ Securing our investment grade ratings and further optimizing our financing structure



**7 Search fields**



**M&A transactions made until September 20, 2018:**

<p>1</p> <p><b>Compact Dynamics</b></p> <p>12/2016</p>	<p>2</p> <p><b>autinity systems</b></p> <p>10/2017</p>	<p>3</p> <p><b>PARAVAN</b></p> <p>8/2018</p>
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**Key aspects**

- ▶ Clearly defined M&A strategy based on 7 search fields with focus on technology, innovation and smaller add-on acquisitions
- ▶ Target transaction sizes to vary between EUR 100 – EUR 500 mn, strategic/cultural fit and value contribution as most important acquisition criteria
- ▶ 3 acquisitions made so far, growing M&A pipeline, disciplined execution is key to success



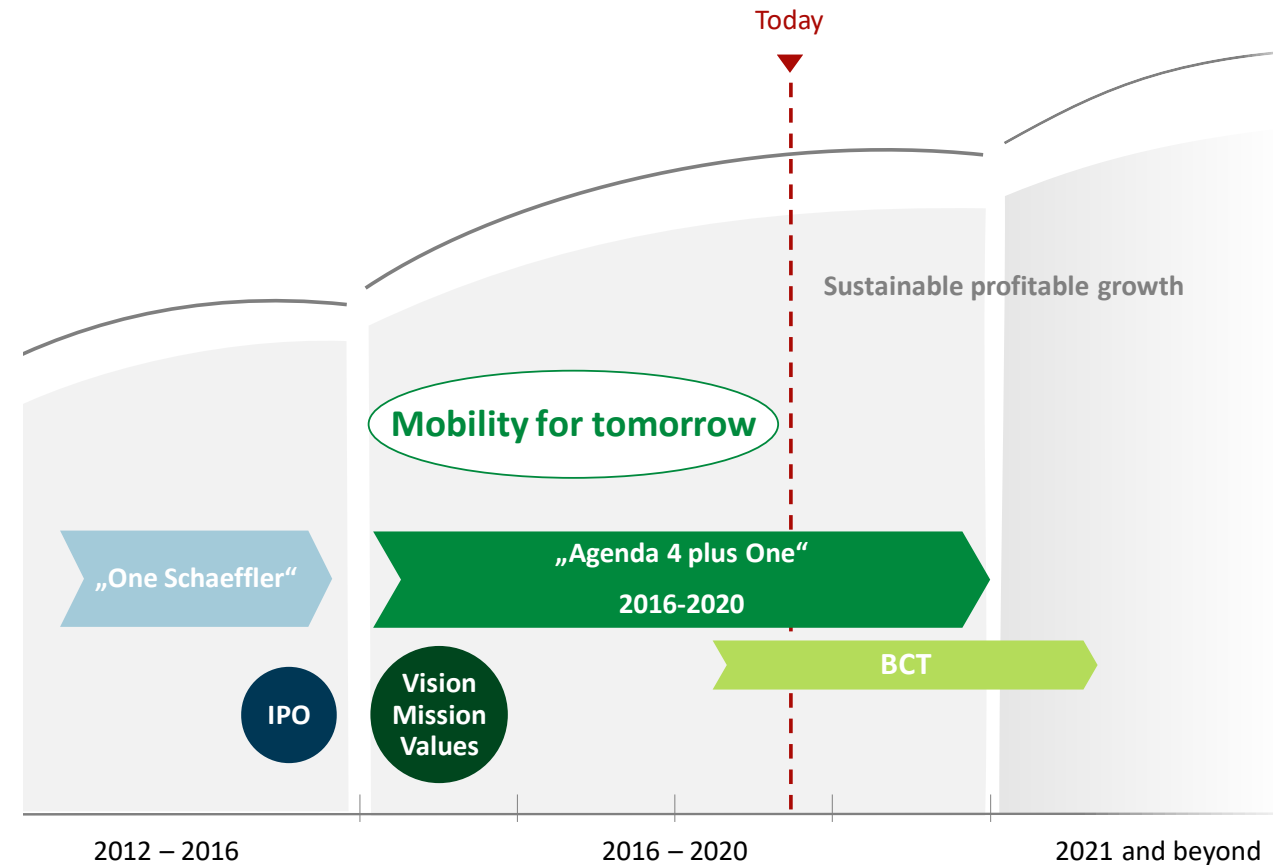
**Focus on technology and execution**



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 <sup>1)</sup>	<75% in 2020
Dividend	30-40% of Net income

Roadmap Schaeffler Group



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

## Key messages

- 1 Dynamic and fast changing environment requires continued transformation of Schaeffler Group and proactive management
- 2 Transformation driven by Excellence program “Agenda 4 plus One” based on 8 strategic pillars
- 3 Above market growth in Automotive OEM, margin resilience in Automotive Aftermarket, margin upside in Industrial to drive value creation
- 4 Capital allocation framework strengthened; More focus on tight working capital management and capital deployment discipline
- 5 M&A strategy based on 7 search fields with focus on technology, innovation and value creation; M&A pipeline grows
- 6 Group Guidance for 2018 confirmed, Financial Ambitions 2020 reiterated



**We are executing**