



4.1 Industrial

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CEO Industrial

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- 1** Industrial at a glance
- 2** Focus on growth
- 3** Focus on resources
- 4** Conclusion



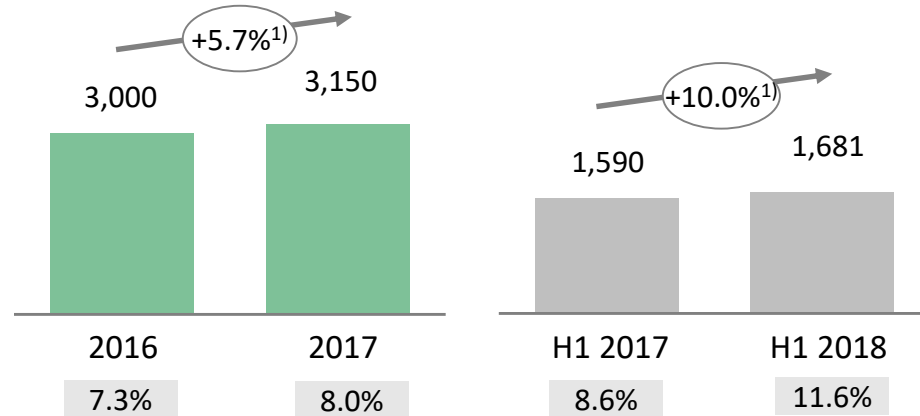
Dr. Stefan Spindler (57)

CEO Industrial

- ▶ 1986: Mechanical Engineer and Doctorate (1992) at the **Technical University in Munich**
- ▶ 1986 – 2002: Various positions at **MTU** and **Liebherr** in the industrial engine and power train business
- ▶ 2002 – 2010: Member of the Executive Board of **MAN Diesel SE**
- ▶ 2010 – 2014: Member of the Executive Board of **Bosch Rexroth AG**
- ▶ Since 2015: CEO Industrial and Member of the Executive Board of **Schaeffler AG**

Sales and EBIT margin

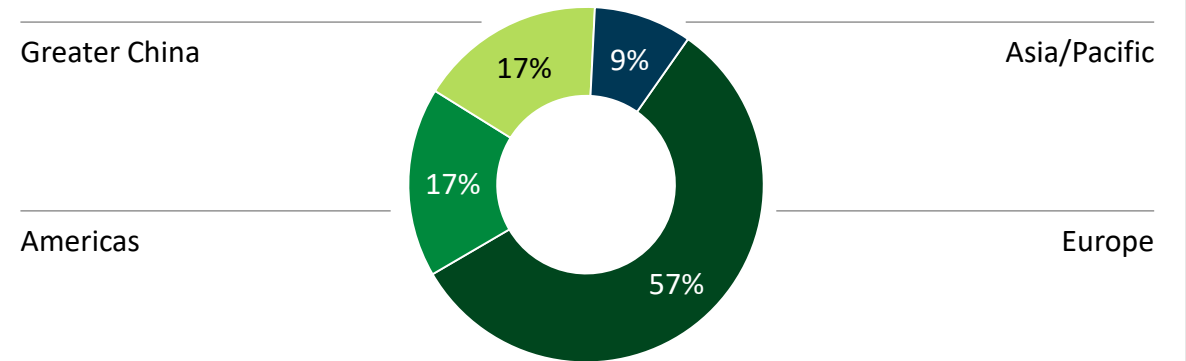
in EUR mn



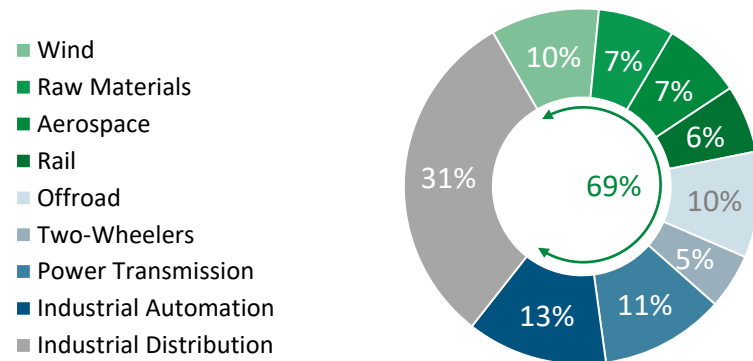
EBIT margin²⁾

¹⁾ FX adjusted ²⁾ adjusted & before one off effects

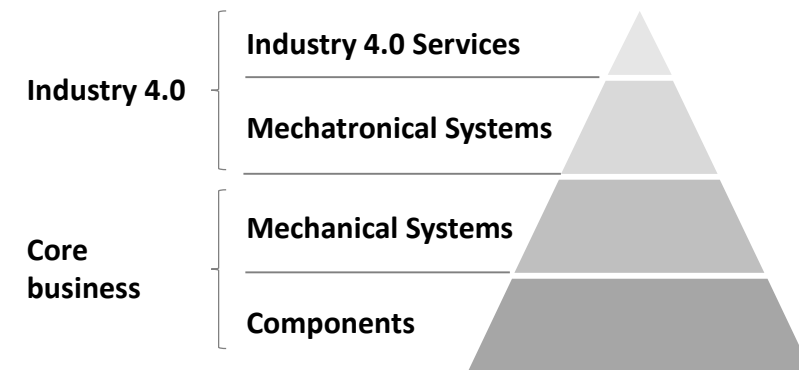
Industrial sales by region H1 2018

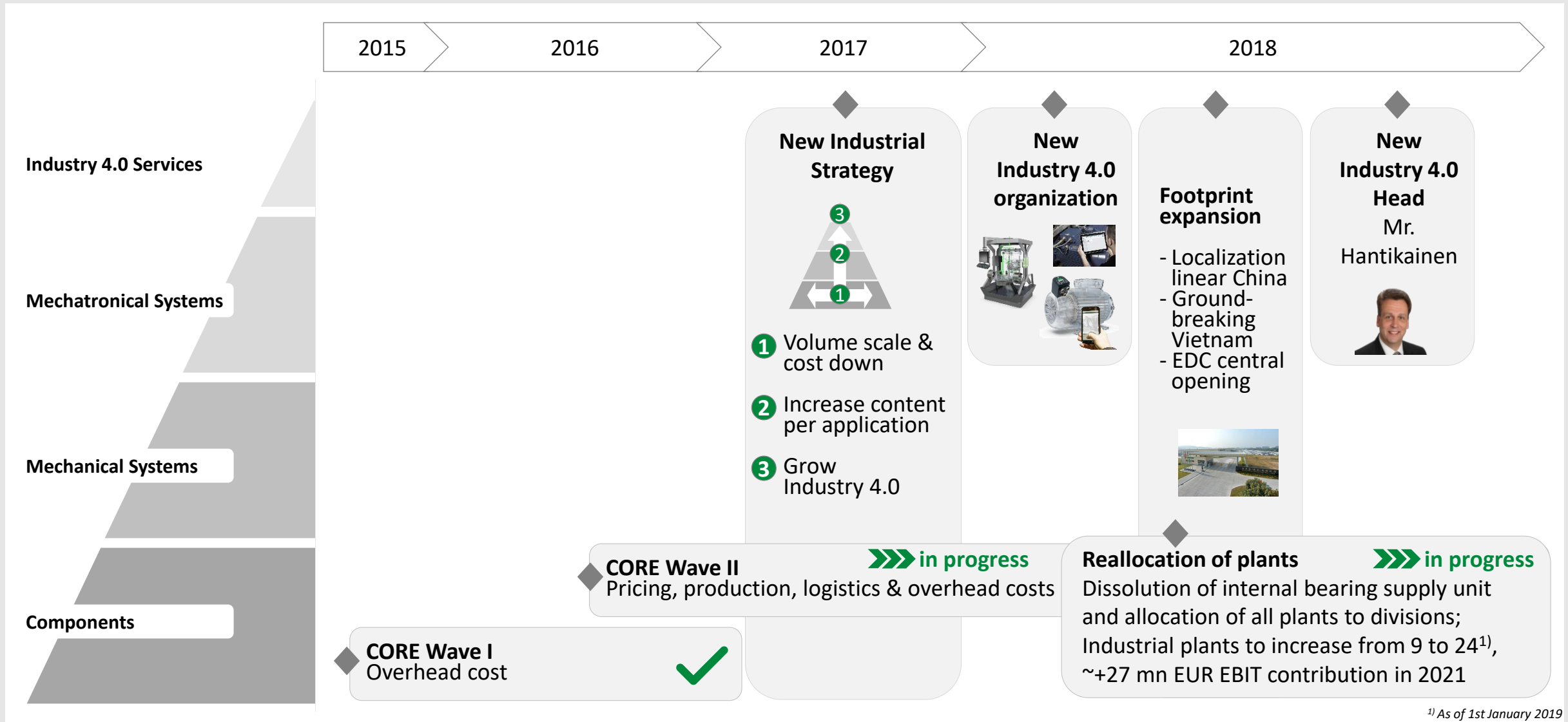


Industrial sales by sector cluster H1 2018



Industrial product structure

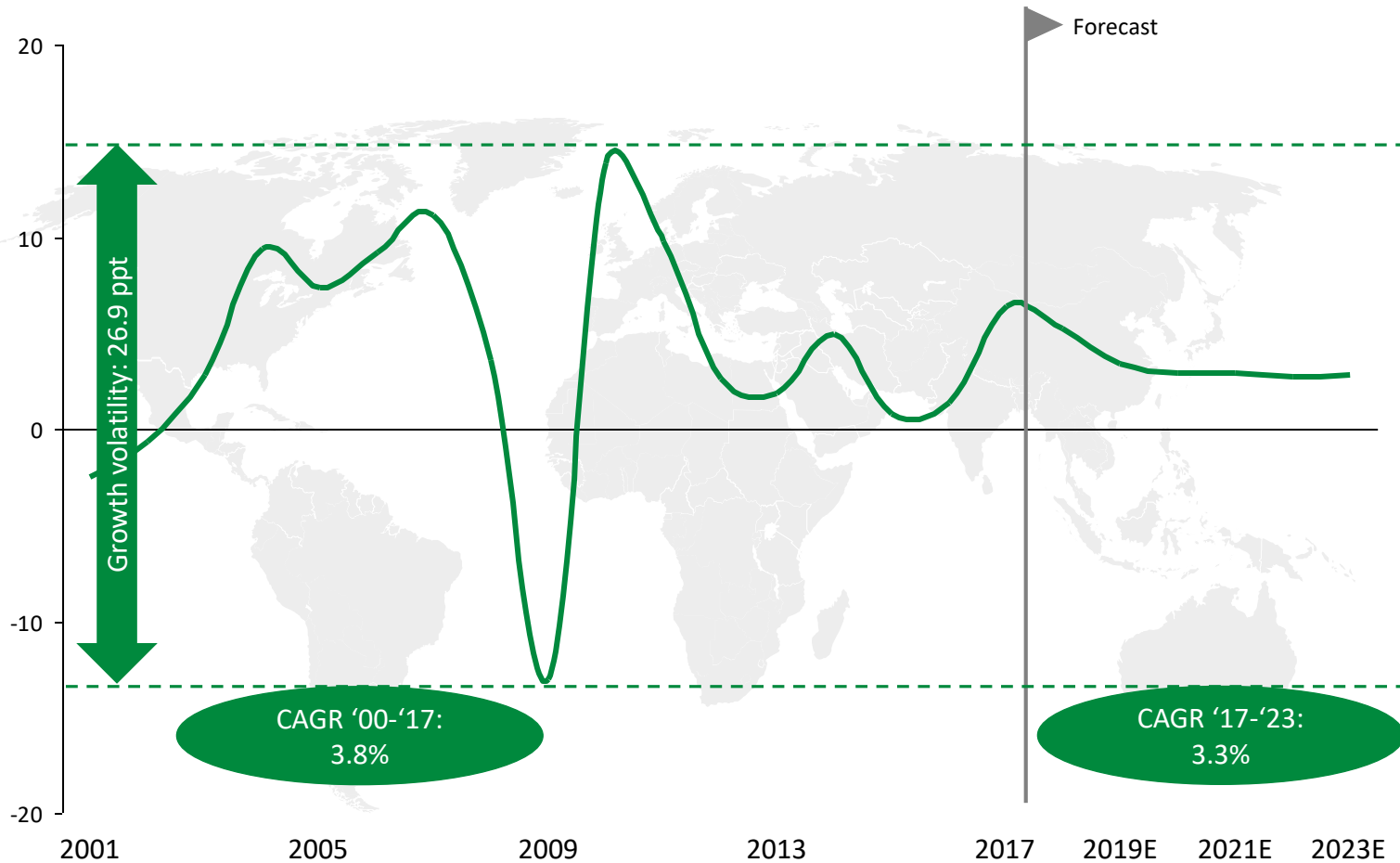




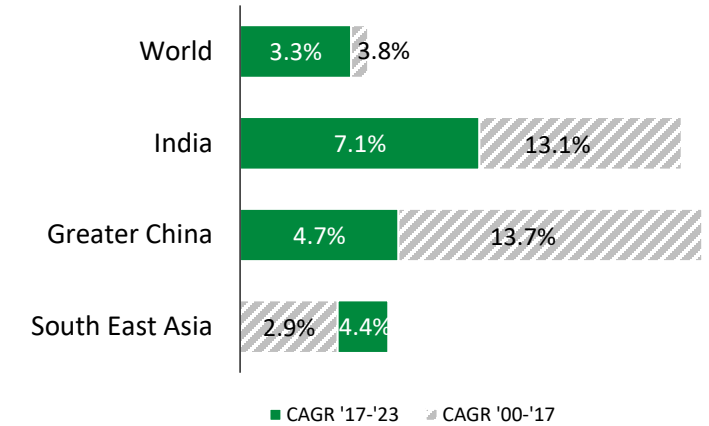
¹⁾ As of 1st January 2019

Leverage market growth in Asia and cope with market volatility

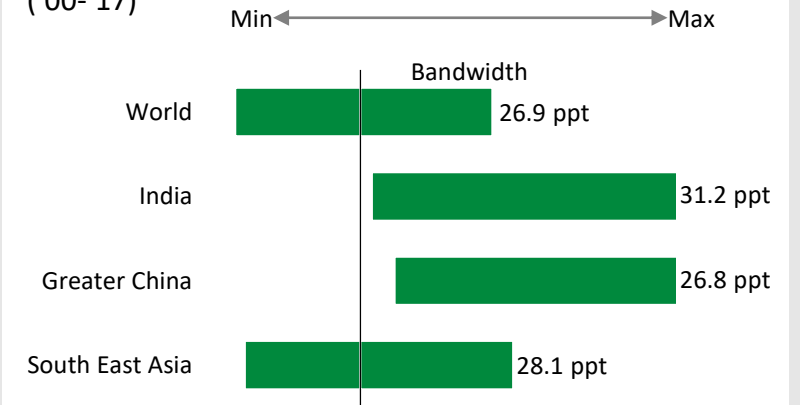
Industrial production¹⁾ growth rates 2001-2023E
(YOY in %)



Historic vs. future growth
(CAGR '17-'23 vs. '00-'17)

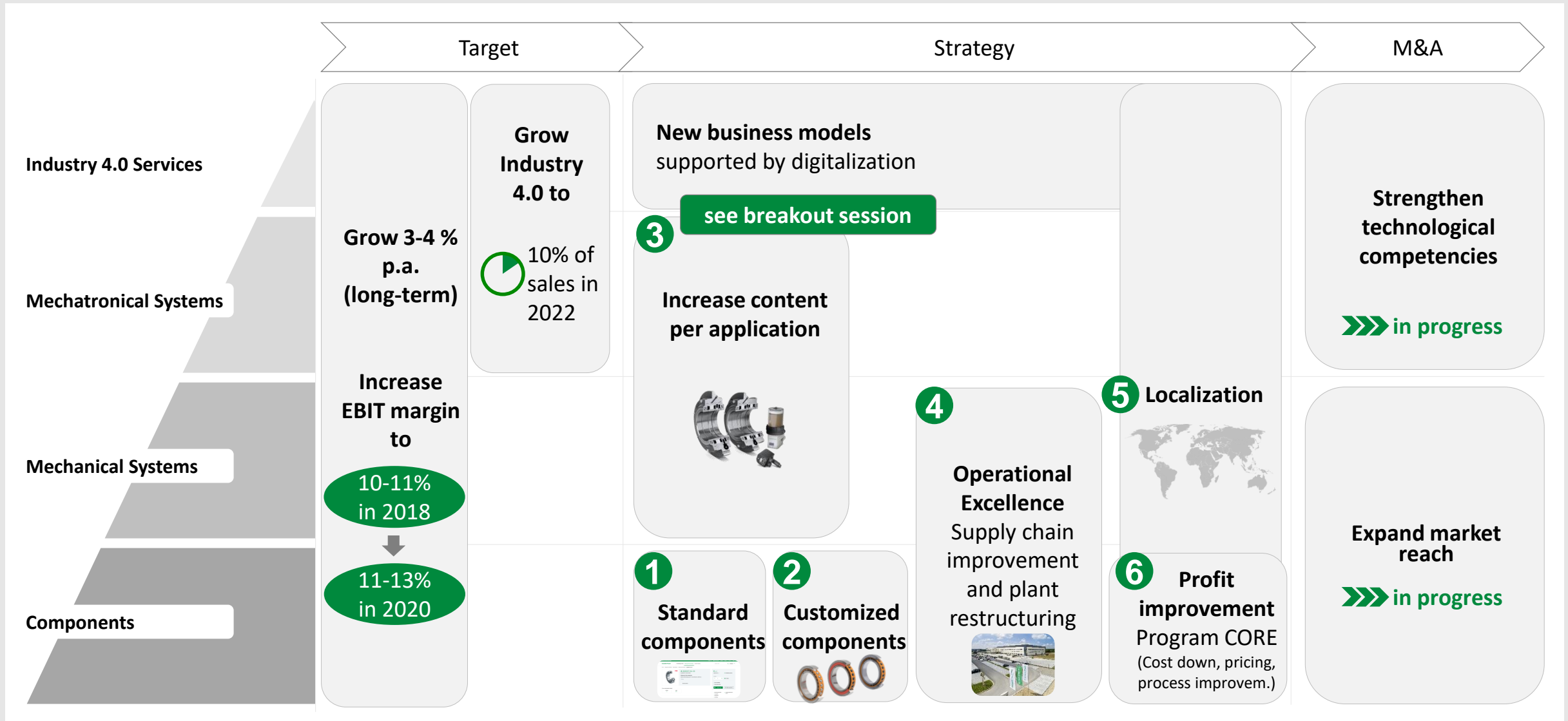


Growth volatility
('00-'17)

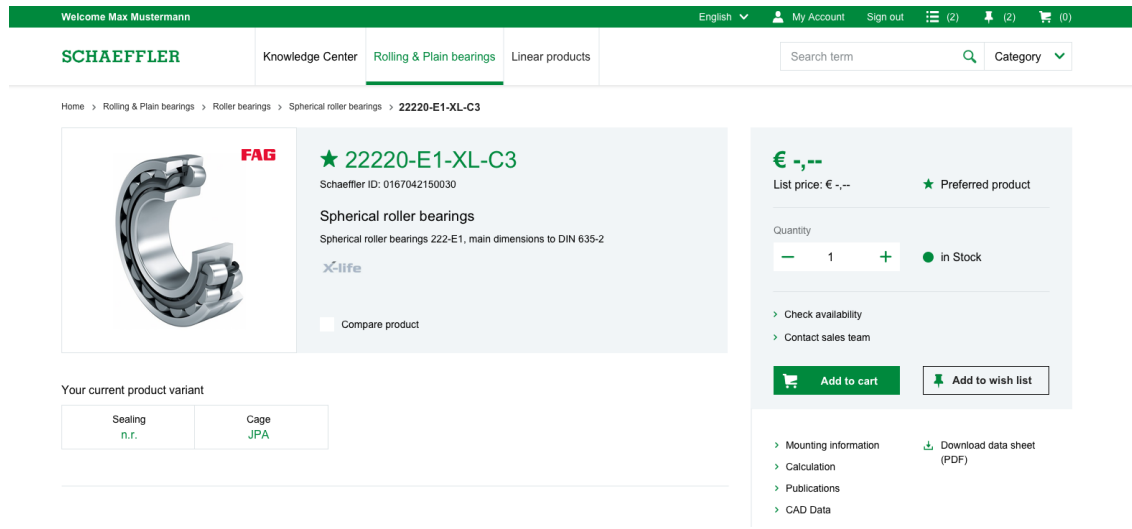


¹⁾Oxford Economics selected sectors: Air, space, rail, ships & other transport equipment (NACE rv2 30), Mechanical engineering (NACE rv2 28), Motors, generators & transformers (NACE rv2 27.1)

Balance Industry 4.0 growth with growth, profit improvement and restructuring of core business



New E-Commerce solution Industrial

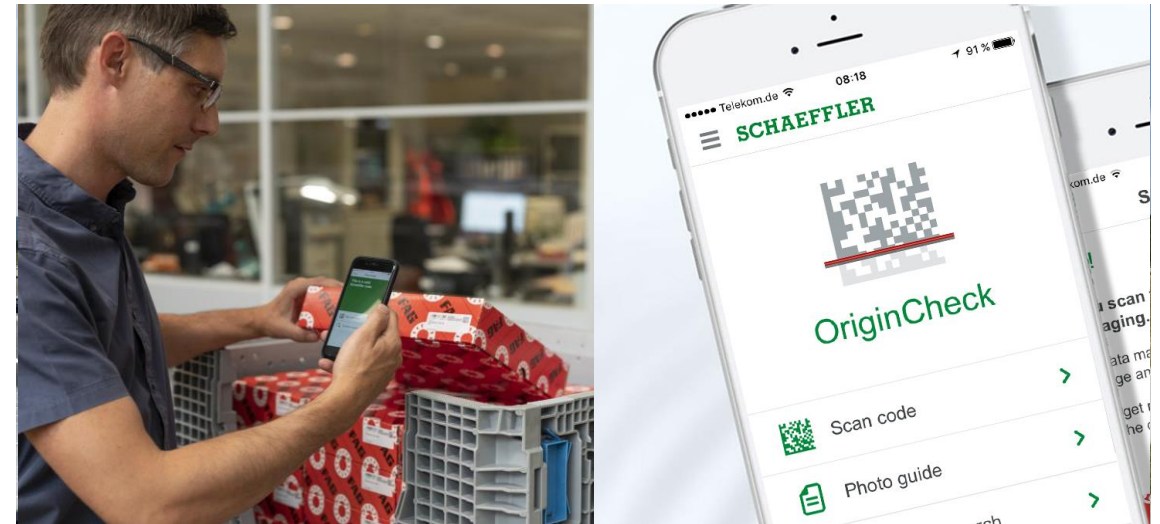


- ▶ State of the art e-commerce and support solution as central access point
- ▶ Broad range of our standard catalogue components (rotative and linear) can be purchased 24/7
- ▶ Customer is supported with high quality product information & consultancy



Handle standard product purchases in an efficient way

OriginCheck App



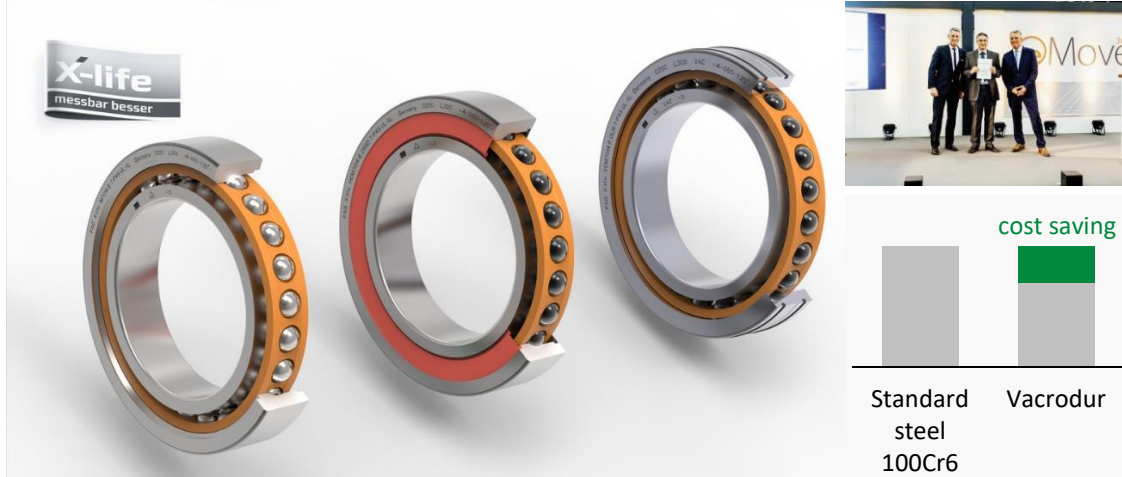
- ▶ Schaeffler’s digital solution simplifies checking of product authenticity
- ▶ Important step in the fight against product piracy
- ▶ In 2017 alone, more than 700 suspected cases of product counterfeiting were reported



Increase customer’s trust in Schaeffler’s product brands

2 Customized components – Improve Total Cost of Ownership (TCO)

High performance spindle bearings (Vacrodur steel)

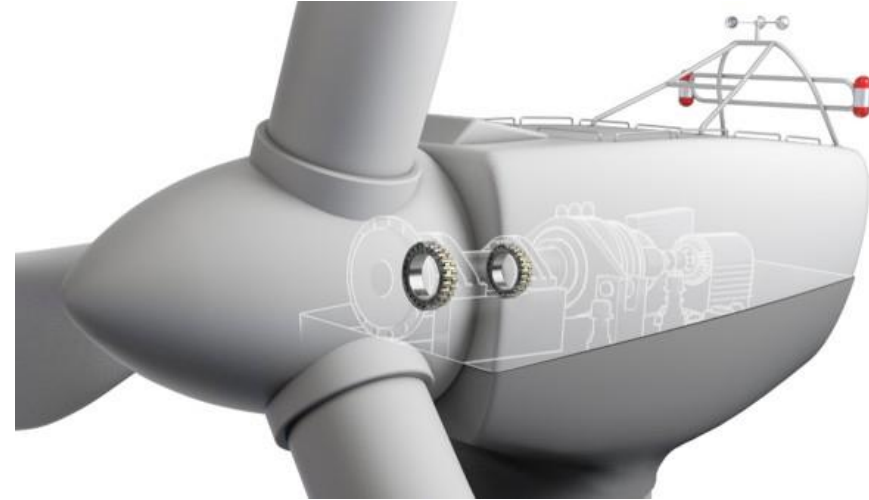


- ▶ Innovative bearing steel that increases the nominal operating life by up to 13 times (compared to standard steel 100Cr6)
- ▶ Higher cost efficiency for customers due to longer machine running times and higher availability. Application to other sectors ongoing
- ▶ Schaeffler was awarded the MATERIALICA Design + Technology Award of Munich Expo



Improve total cost of ownership (TCO)

Optimized support bearings for Wind applications



- ▶ Shaft and hub support bearings cope with highly-dynamic loads induced by wind
- ▶ Most efficient bearing support is selected based on operating conditions
- ▶ Partnership with ZF Friedrichshafen to provide precise analyses and prediction for gearbox conditions ("LifetimeAnalyzer" digital service)



Improve total cost of ownership (TCO)

3 Increase content per application – Improve Total Cost of Ownership (TCO)

Rotative bearing solution package incl. condition monitoring for electric motors



- ▶ Bearing system incl. condition monitoring and lubrication for increasing the bearing's operating life and avoiding bearing failure
- ▶ Ready-to-fit module that reduces customer efforts for design and production / logistics
- ▶ Higher output and lower maintenance costs for customers



Improve total cost of ownership (TCO)

Linear bearing solution package incl. condition monitoring for production machinery

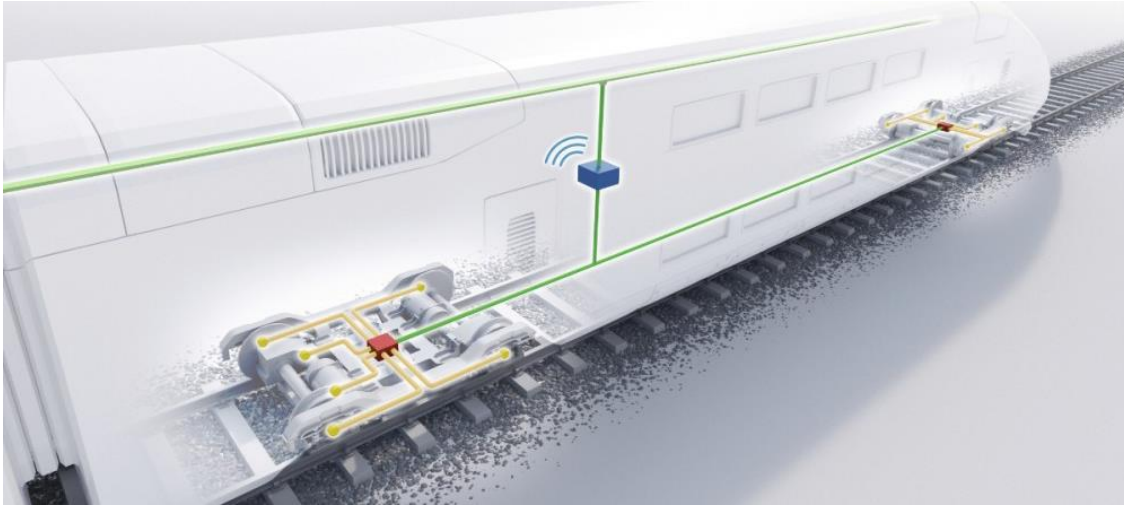


- ▶ Bearing system incl. condition monitoring and lubrication for increasing the bearing's operating life and avoiding bearing failure
- ▶ System prevents costly downtimes even for heavily interconnected systems and thus increases machine availability
- ▶ Higher output and lower maintenance costs for customers



Improve total cost of ownership (TCO)

Rail 4.0 – Condition-based maintenance

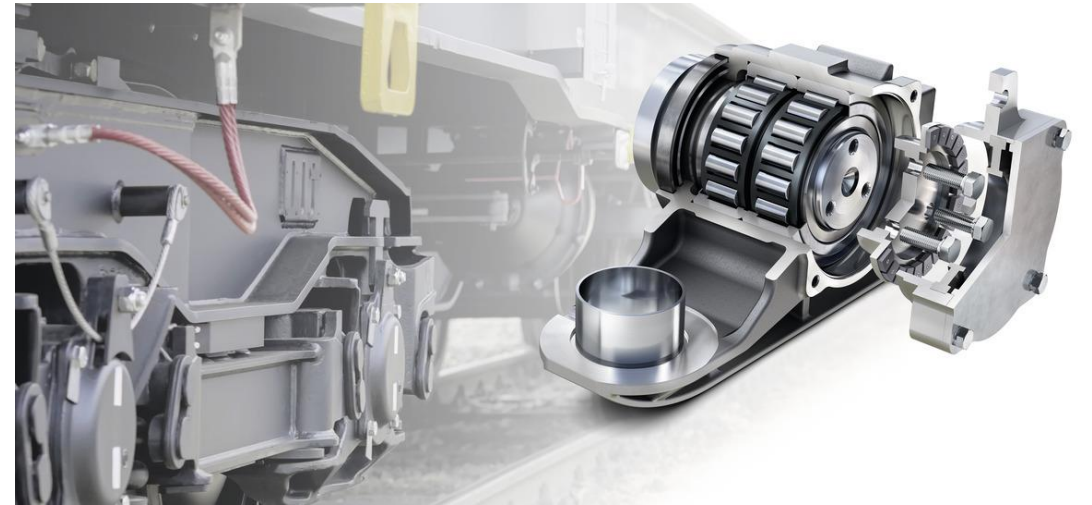


- ▶ Condition monitoring solution based on vibrations and other sensor signals
- ▶ Schaeffler Smart Ecosystem as IT infrastructure which provides analysis, digital services and customer / partner cloud communication
- ▶ Extension of maintenance intervals together with optimized TAROL tapered roller bearings



Improve safety and total cost of ownership (TCO)

Railway axlebox generator



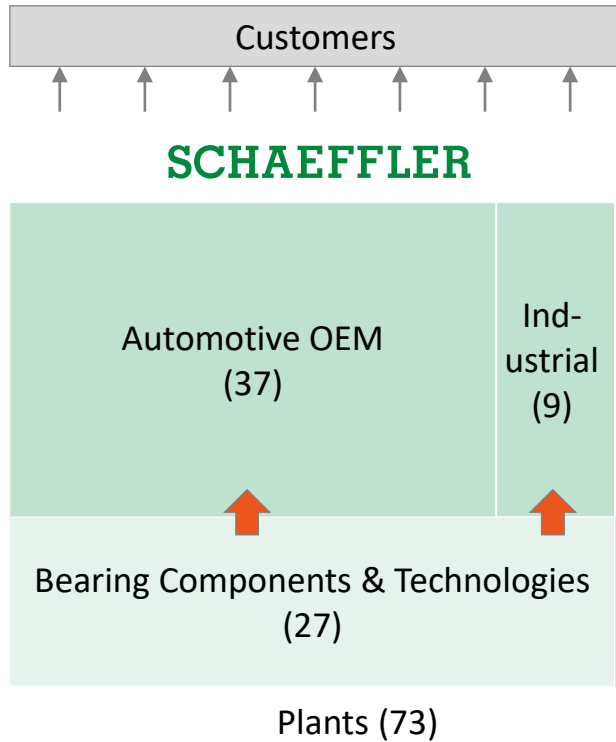
- ▶ Bearing system with electrical power generator
- ▶ Independent and reliable power supply for e.g. freight wagons to provide additional functions like GPS, condition monitoring, lighting, etc.
- ▶ System can be retrofitted to wagons already in use



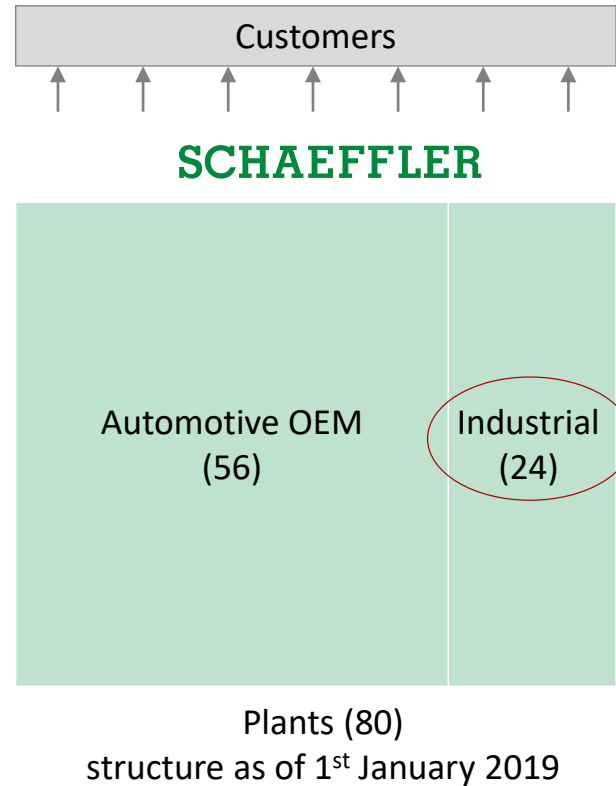
Provide new functions

4 Operational Excellence – Reallocation of plants for better customer focus and higher efficiency

Before reallocation



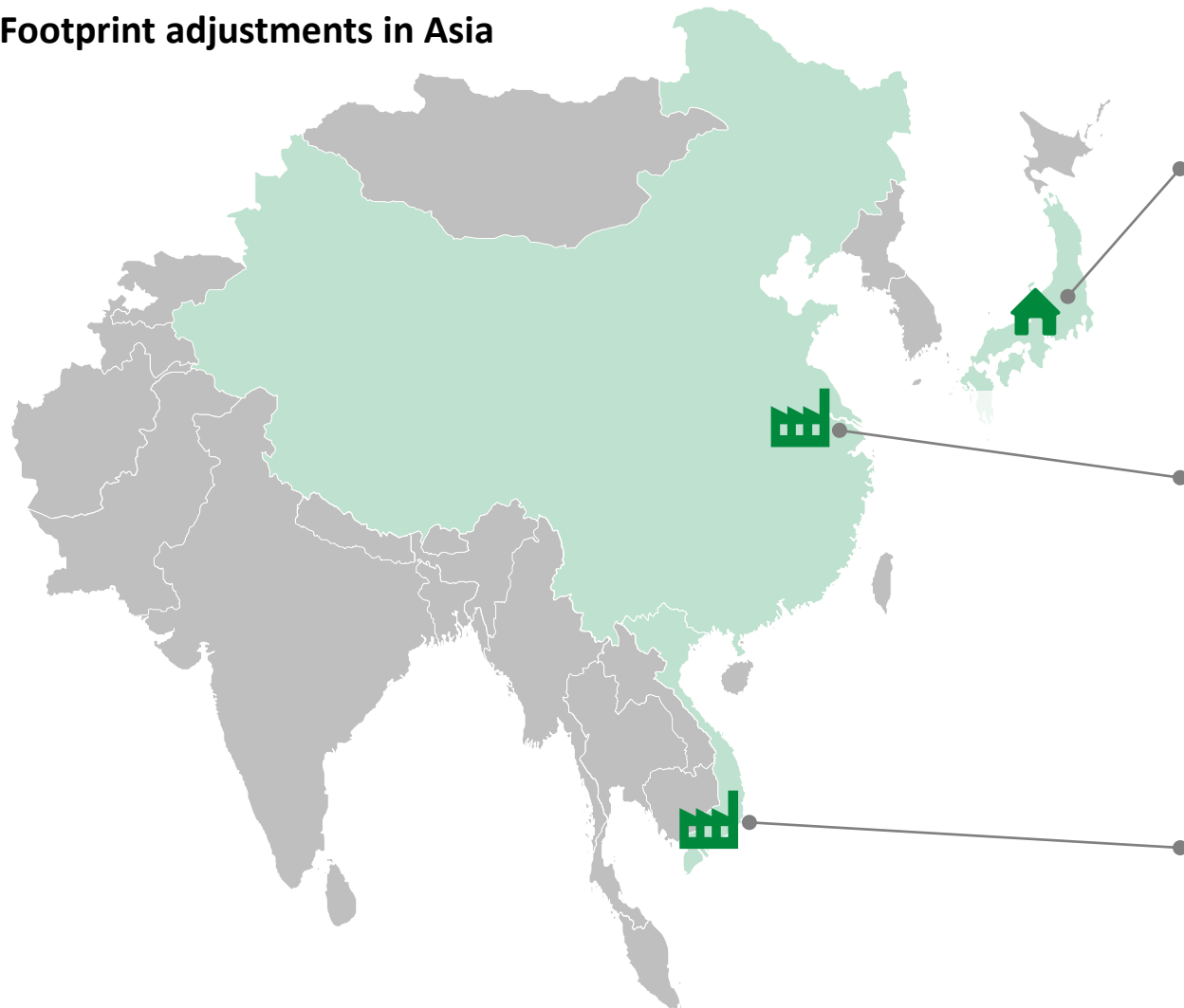
After reallocation: ~27 mn EUR cost savings for Industrial in 2021



- ▶ Increased customer orientation
- ▶ Reduction of Overhead cost
- ▶ 100% divisional accountability

5 Localization initiatives to grow in Asia and improve profitability

Footprint adjustments in Asia



R&D



Japan



Industrial Automation, Two Wheelers



Plant



China



Small size to large size bearings and linear products



Plant (under construction)



Vietnam

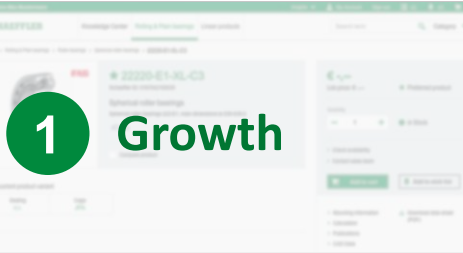


Small size bearings; 250 jobs to be created in Phase I by 2019

6 Profit improvement – Program CORE to ensure 11-13% EBIT margin in 2020

Agenda 4+1 initiative

Program CORE



1 Growth

- ▶ Leveraging pricing opportunities
- ▶ Digitalization of sales processes



2 Cost of Goods Sold

- ▶ Restructuring
- ▶ Relocation
- ▶ Productivity improvement



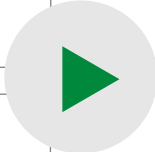
3 Overhead

- ▶ HCO reduction



4 Supply Chain Management

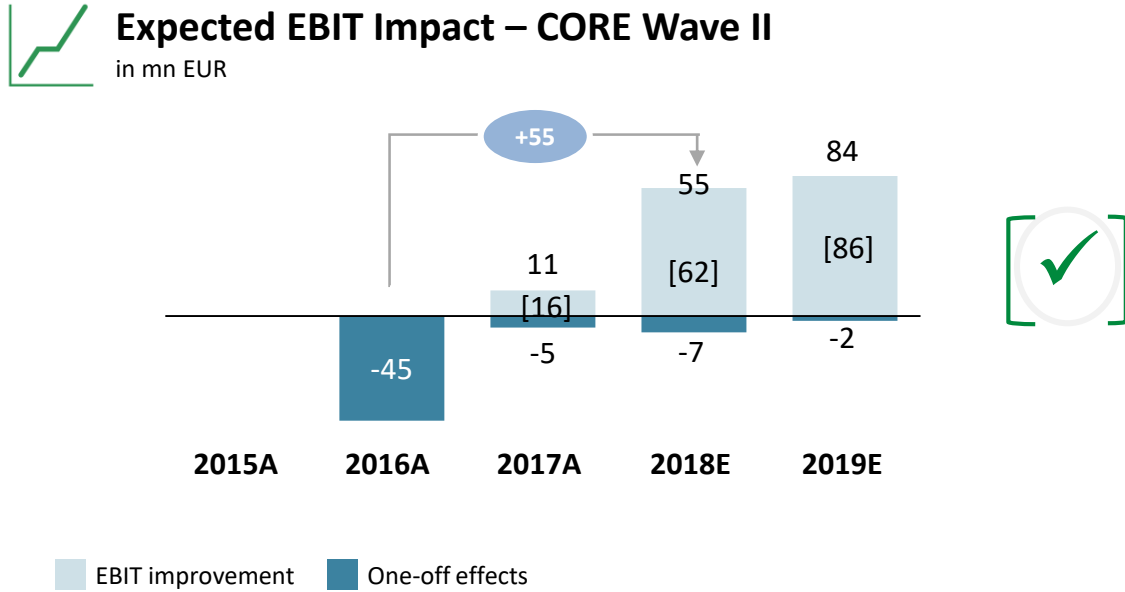
- ▶ Logistics cost reduction



11-13% EBIT margin in 2020

6 Profit improvement – Program CORE to ensure 11-13% EBIT margin in 2020

Agenda 4+1 initiative



Key aspects

- ▶ Program „CORE“ established in 2015 to revitalize the Industrial Division and regain profitability
- ▶ CORE Wave I successfully completed in 2017. The agreed HCO reduction targets were achieved
- ▶ CORE Wave II initiated in 2016 to focus on cost reduction, growth initiatives and measures to increase process efficiency

Impact analysis

- ▶ Financial impact: Improve EBIT margin to 10-11% by 2018
- ▶ Completion status: **On Schedule**

- ▶ Reduction of 400 HCO in Germany, Europe & other regions
- ▶ Pricing, relocation and structural overhead cost improvements as key drivers to achieve profit targets

Opportunities and Headwinds (until 2025)

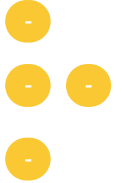
Top Line Drivers

1. Industry 4.0 with a sales share of 10% in 2022
2. Market growth >4% in India, China and South East Asia
3. Better availability due to localization and optimized Supply Chain (e.g. EDC, localization China/Vietnam)



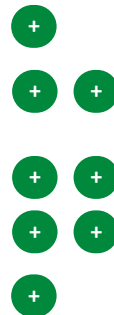
Top Line Challenges

1. Increased competitive pressure in standard business
2. Moderate market growth with high probability of an economic downturn in the next years
3. Geopolitical tensions (e.g. Iran-Embargo)



EBIT Margin Drivers

1. Program CORE
 - a. Price adjustments
 - b. Footprint-optimization incl. reduction of freight cost and duties
 - c. Fix cost reduction, especially in Overhead areas
2. Plant network restructuring
3. Mix improvement due to Industry 4.0 and product and customer portfolio optimization



EBIT Margin Challenges

1. Ramp-up cost EDC Central
2. Increased competitive pressure in standard business
3. Increased raw material cost, especially with regard to macroeconomic risks (e.g. protectionism)
4. Cost for ramp-up of Industry 4.0 business (e.g. personnel and infrastructure)

