



# Schaeffler AG

## German Investment Seminar 2017

January 11, 2017  
New York

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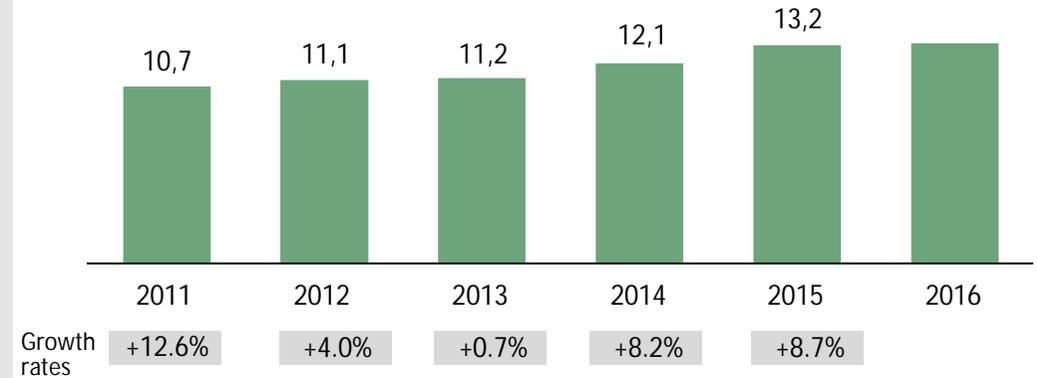
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- 1 Schaeffler at a glance
- 2 Strategy "Mobility for tomorrow"
- 3 Investment Highlights
- 4 Summary

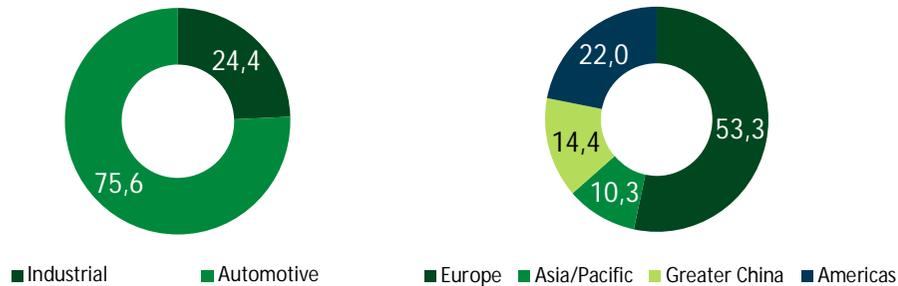
### Schaeffler at a glance

- ▶ Leading automotive and industrial supplier of high-precision components and systems
- ▶ Global footprint with around 85,000 employees at about 170 locations in more than 50 countries
- ▶ Balanced business portfolio across sectors, geographies and diversified customer base with leading market positions
- ▶ Sizeable aftermarket exposure contributes to stable financial performance
- ▶ Highly attractive profitability and cash returns

### Sales growth 2012-2016 (in EUR bn)



### Sales by division and region (9M 2016) (in %)



EUROPE: Incl. Germany, Western, Southern and Eastern Europe, Middle East, Africa, Russia and India

### Global footprint

	#Plants	#R&D Centers
Europe	48	9
Americas	14	5
Greater China	8	1
Asia / Pacific	5	2
<b>Total</b>	<b>75</b>	<b>17</b>

## 2 Strategy "Mobility for tomorrow" Strategy "Mobility for tomorrow" – 4 key elements

**SCHAEFFLER**

### 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

### Mobility for tomorrow

#### Interurban mobility

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



#### Energy chain

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

### 8 Strategic pillars

- 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.

### 16 Strategic initiatives

#### Agenda 4 plus One



#### Initiatives

Initiatives	Sponsor
1 Customer Excellence	Prof. Pleus / Dr. Spindler Prof. Gutzmer Dr. Spindler
2 E-Mobility	
3 Industry 4.0	
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

## Financial Ambitions 2020

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

## Market assumptions

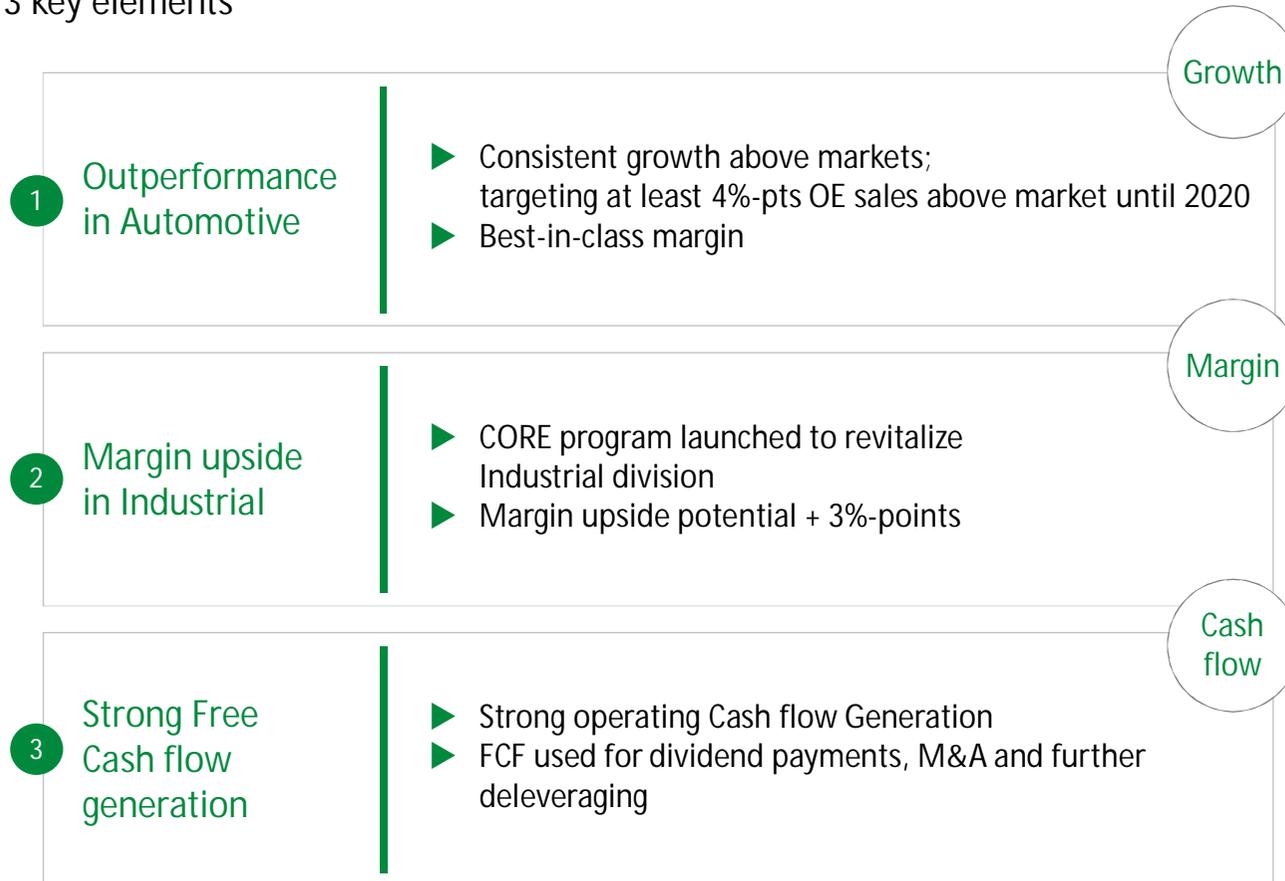
- ▶ Automotive: Growth of global passenger car production around 2%
- ▶ Industrial: Low single-digit growth of industrial production

1) Net-debt to equity ratio (excluding pensions), see Backup

2) Payout ratio based on Net income

3) Investment Grade Rating shall be maintained

## 3 key elements

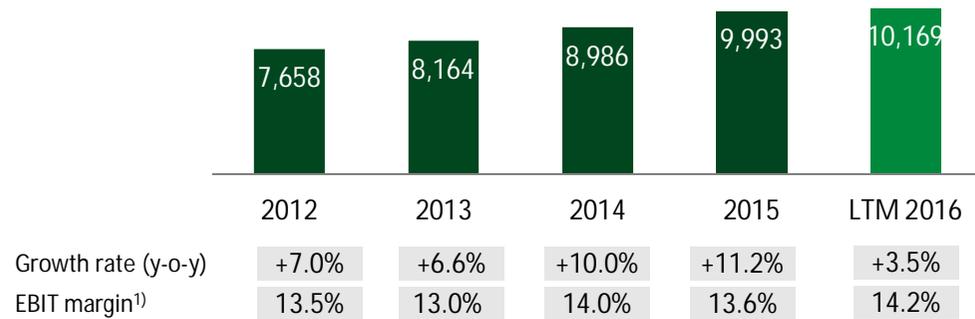


## Key objectives

Profitable growth and sustainable value creation

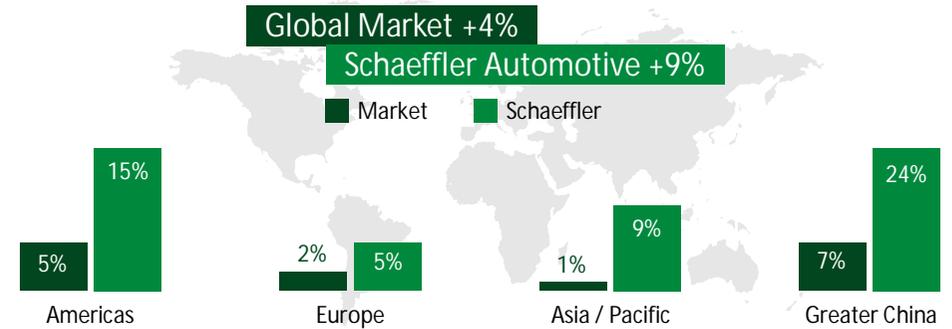
1 Schaeffler Automotive – Strong track record of above market growth

Sales and EBIT margin



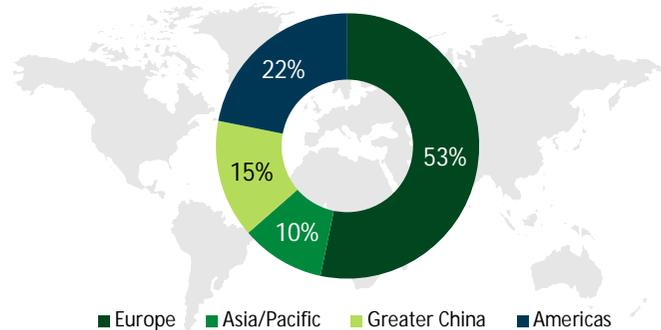
<sup>1)</sup> Before one-off effects

Out-performance in all regions<sup>1)</sup>



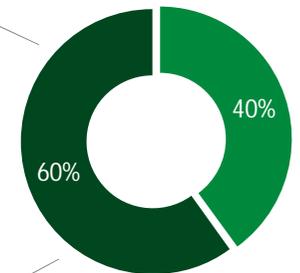
<sup>1)</sup> Schaeffler Automotive CAGR 2010 – 2015 excluding Aftermarket and FX

Sales by region



Broad customer mix

Top 10 customers



■ Top 10 automotive customers  
■ Other customers

1 Outperformance Automotive – Four main growth drivers

Growth drivers

- 1 Growth from new technologies / products
- 2 Growth from higher systems share
- 3 Growth from new customers and markets
- 4 Growth from Aftermarket business



Current examples

Finger follower (not switchable)



~ 4 x more content<sup>1)</sup>



Finger follower (switchable)

Conventional clutch



~ 10 x more content<sup>1)</sup>



Double clutch with actuation and control unit

+15% pts installation rate<sup>2)</sup>



Ball screw drive for electric brake China

Dual mass flywheel (single parts)



> 4 x faster growth<sup>3)</sup>



RepSet dual mass flywheel

<sup>1)</sup> based on unit price; <sup>2)</sup> installation rate 10% in 2015, 25% in 2020; <sup>3)</sup> Sales CAGR 2015 – 2020

1 Outperformance to increase again in 2017 – 4%-pts OE sales growth above market targeted <sup>1)</sup>

Outperformance YTD September 2016:

- ▶ Trucks effect:  
Truck sales is part of our total Automotive sales, weak markets dampening growth
- ▶ Phase out effect:  
Phase-out of two projects affecting growth rate negatively in 2016
- ▶ Americas mix effect:  
OEM stopped production of two small sedans as market was shifting to SUVs and light trucks

2016  
outperformance YTD 09:  
~ 2%

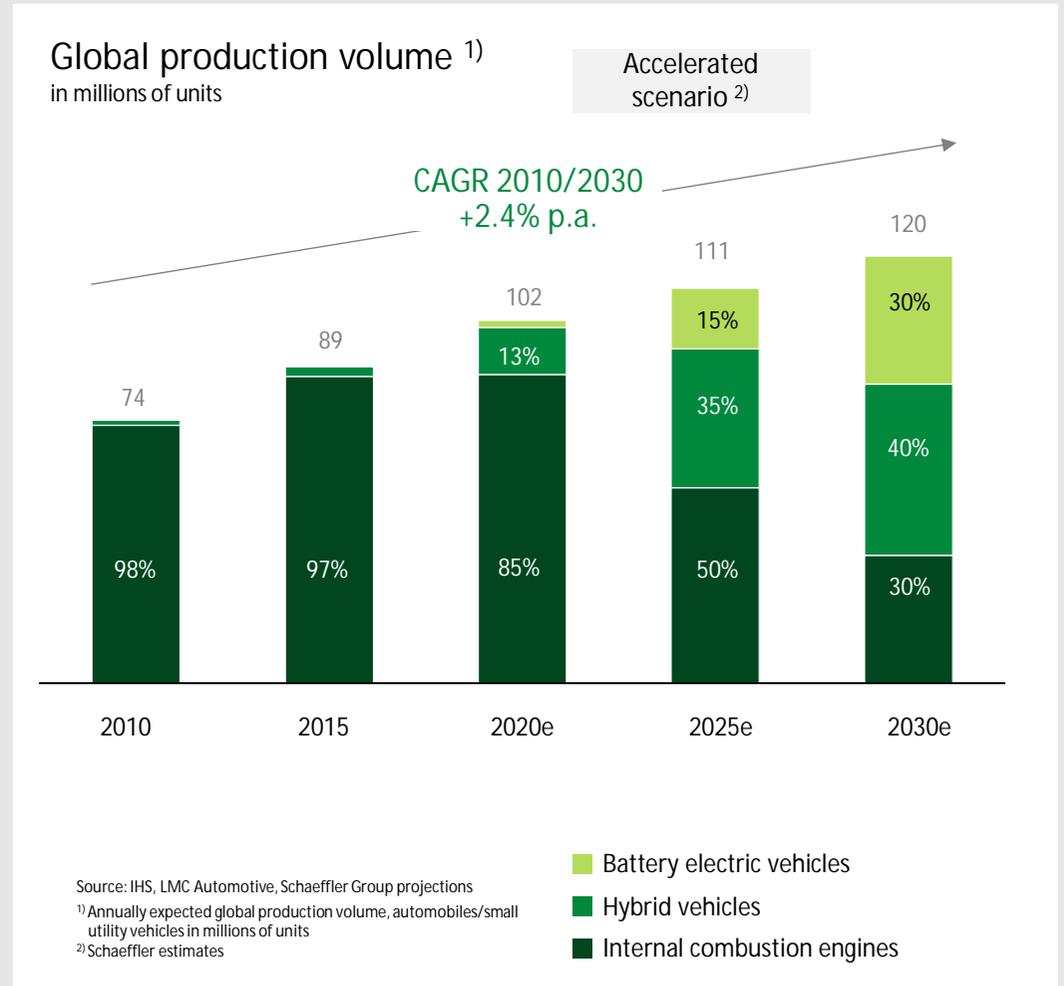
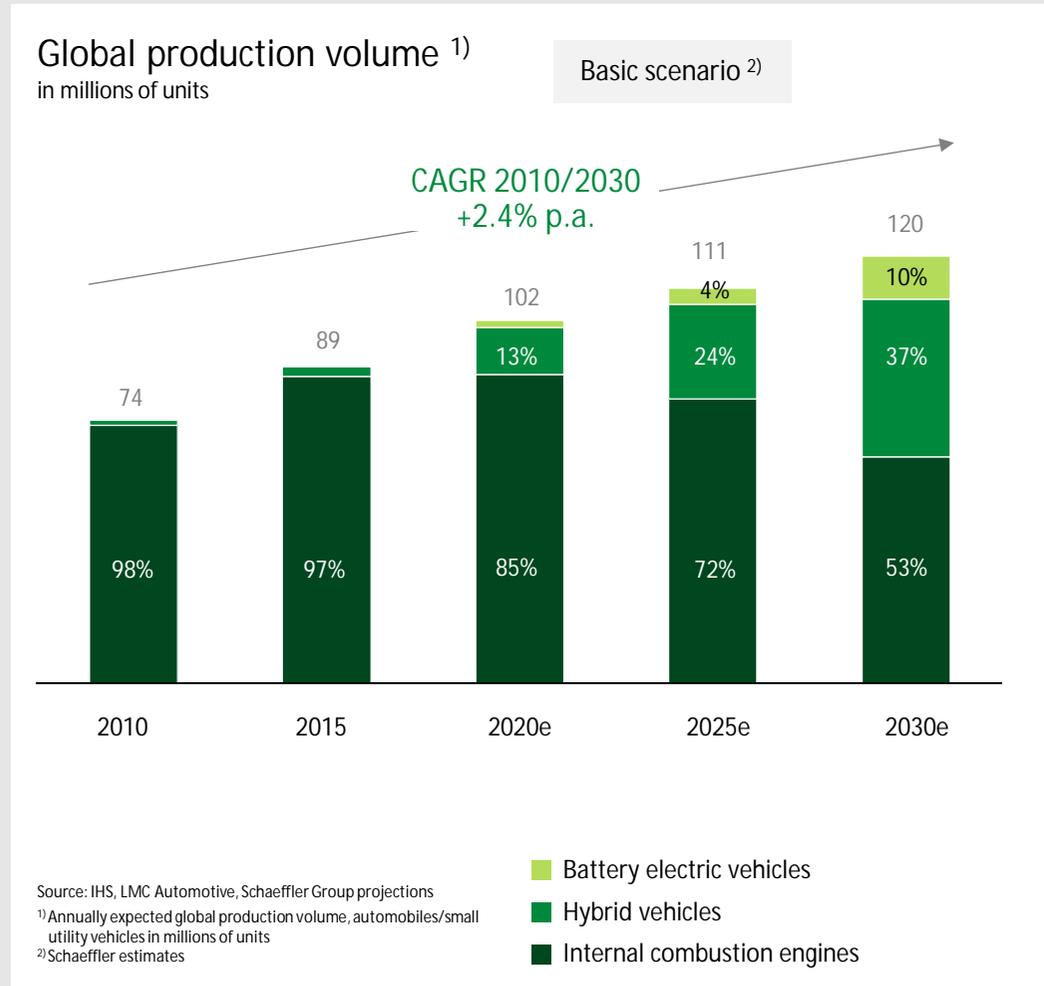
<sup>1)</sup> At constant currency

Targeted outperformance 2017

- ▶ Order book shows strong growth potential in all regions and business divisions
- ▶ Growth from existing technologies/products:  
Torque converters in the US, new DCT projects in China, new contract with UniAir system
- ▶ Growth from new technologies/products:  
Innovative thermal management module, electro mechanical cam phasing system, new e-clutch
- ▶ Growth from new customers/markets:  
Strong growth in China with non Chinese OEMs as well as Chinese OEMs (dual clutch dry/wet, dual mass flywheel, clutch release system)

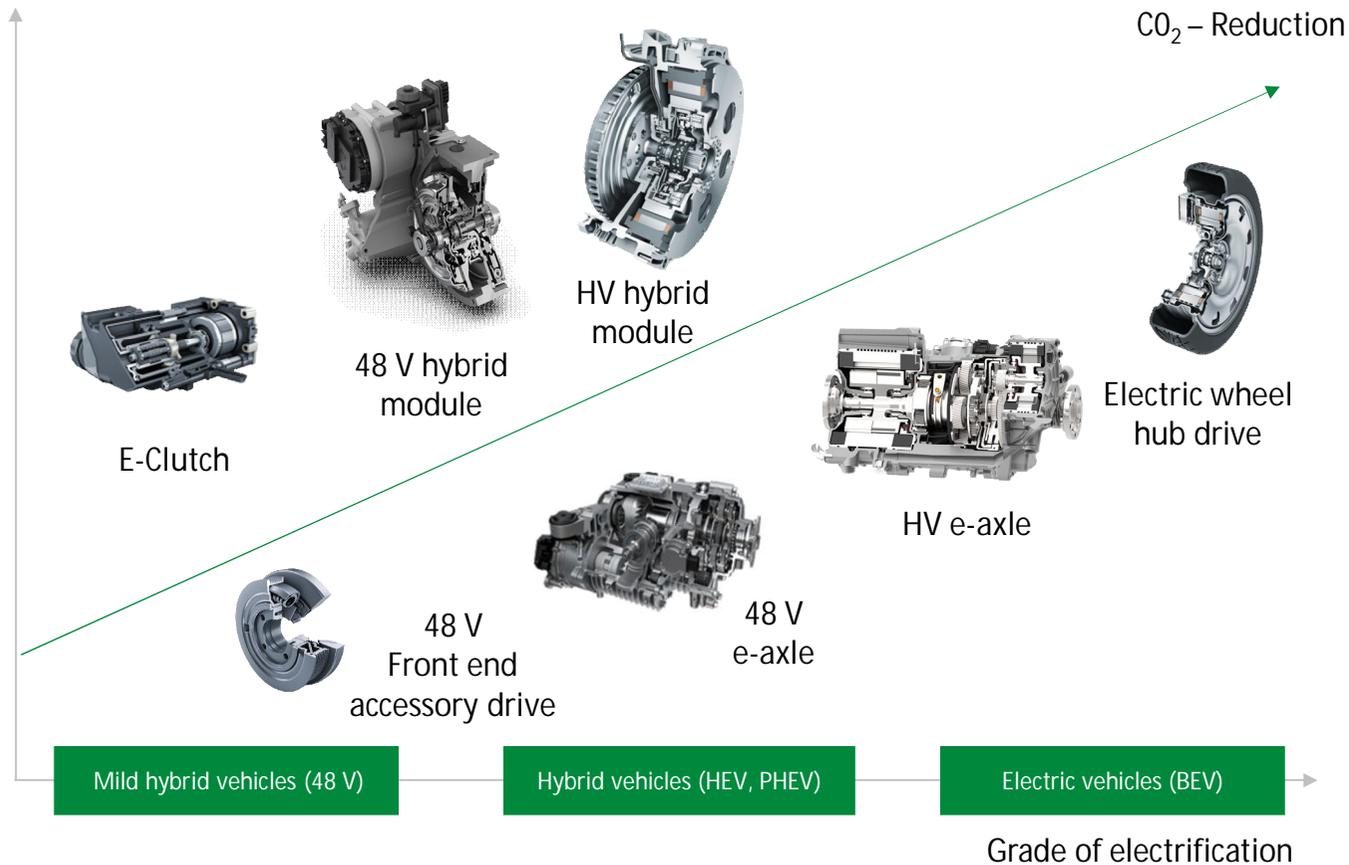
2017  
outperformance target:  
~ 4%

1 Market growth based on increasing production of hybrid and electric vehicles – Two scenarios



**1** Strong starting position in e-mobility – Six series contracts for hybrid modules and e-axes

Product portfolio



Key aspects

1999

1<sup>st</sup> Schaeffler E-Mobility symposium

2002

1<sup>st</sup> E-Mobility concept car

2005

1<sup>st</sup> serial production of components for hybrid modules

2016

- ▶ 500 Million Euro investment to date<sup>1)</sup>, 1,200 employees globally
- ▶ More than 20 customer projects
- ▶ 6 series contracts for hybrid modules and e-axes

2020

- ▶ Further 500 Million Euro investment<sup>1)</sup>
- ▶ Doubling of employees in R&D and manufacturing

<sup>1)</sup>Including R&D

### 48V transmission driven accessories



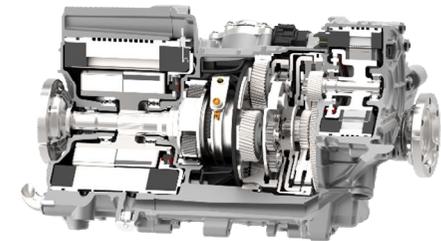
- ▶ Mild hybrid system invented and developed in US
- ▶ 12 KW
- ▶ Direct energy recovery results in fuel economy levels equivalent or greater than a P2 hybrid for the cost of a Belt Starter Alternator

### Hybrid module



- ▶ Expertise in components saved >50mm when integrated into a system
- ▶ Can be utilized as a full hybrid or plug-in hybrid
- ▶ SOP 2018

### HV E-Axle



- ▶ R&D in-place in the region
- ▶ Engaged in 7 E-Axle projects
- ▶ Component expertise yields smaller, lighter packages

# 1 Compact Dynamics acquired – Broadening competence and scope

## 1 System and Powertrain Competence



- ▶ 500 Million Euro investment to date<sup>1)</sup>, 1,200 employees globally
- ▶ More than 20 customer projects
- ▶ 6 series contracts for hybrid modules and e-axles

## 2 Acquisition

**Compact Dynamics**

- ▶ Schaeffler acquires a 51% stake in Compact Dynamics GmbH from SEMIKRON International GmbH.
- ▶ Closing expected in Q1 2017; call option for remaining 49% stake until June 2018.
- ▶ Compact Dynamics is a development specialist in the field of innovative, electric drive concepts

## 3 Cooperation

**SEMIKRON**

- ▶ At the same time, SEMIKRON and Schaeffler establish a cooperation to develop power electronic solutions for alternative drive concepts
- ▶ SEMIKRON is a worldwide leader for innovative power electronics
- ▶ Schaeffler is significantly expanding its expertise in e-motors and power electronics

**SCHAEFFLER**



HV E-Axle

Preferred  
Mobility Solutions Partner

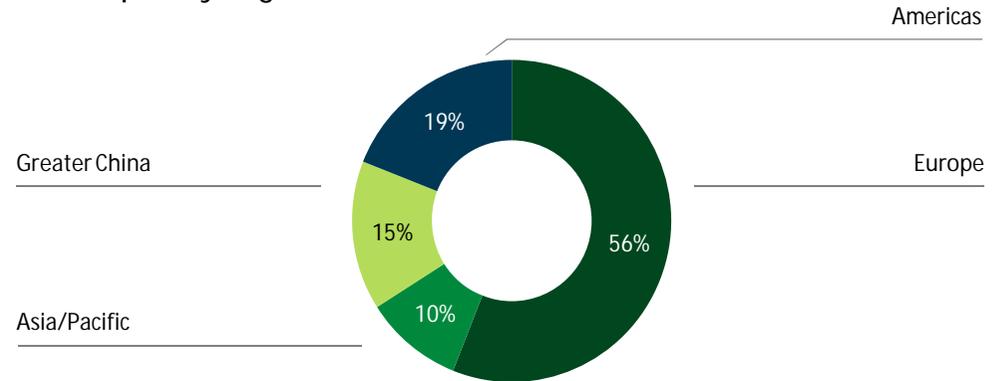
2 Schaeffler Industrial – Bearing solutions for 8 sector clusters and distribution

Sales development 2012 – 2015

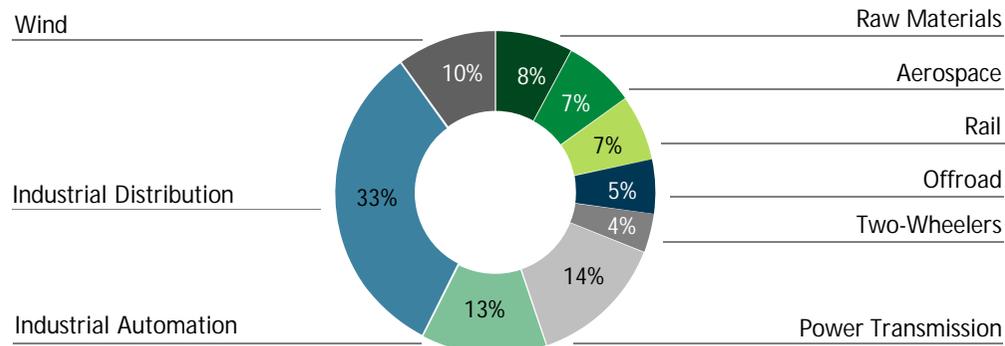


<sup>1)</sup> Before one-off effects

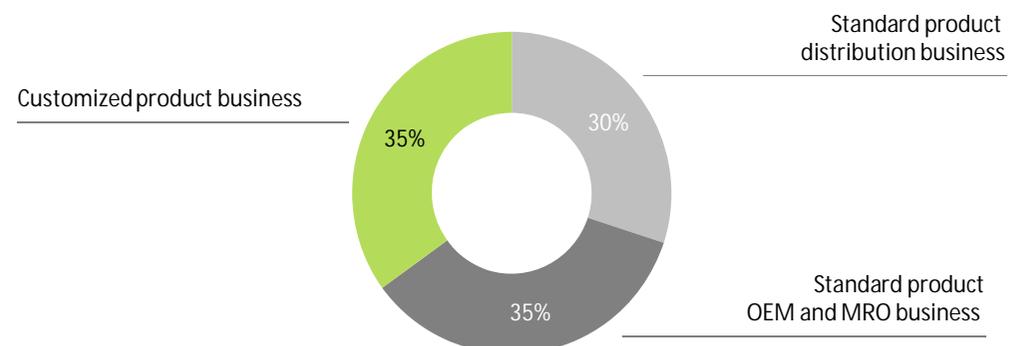
Sales split by region 2015



Sales split by sector cluster & distribution channel 2015

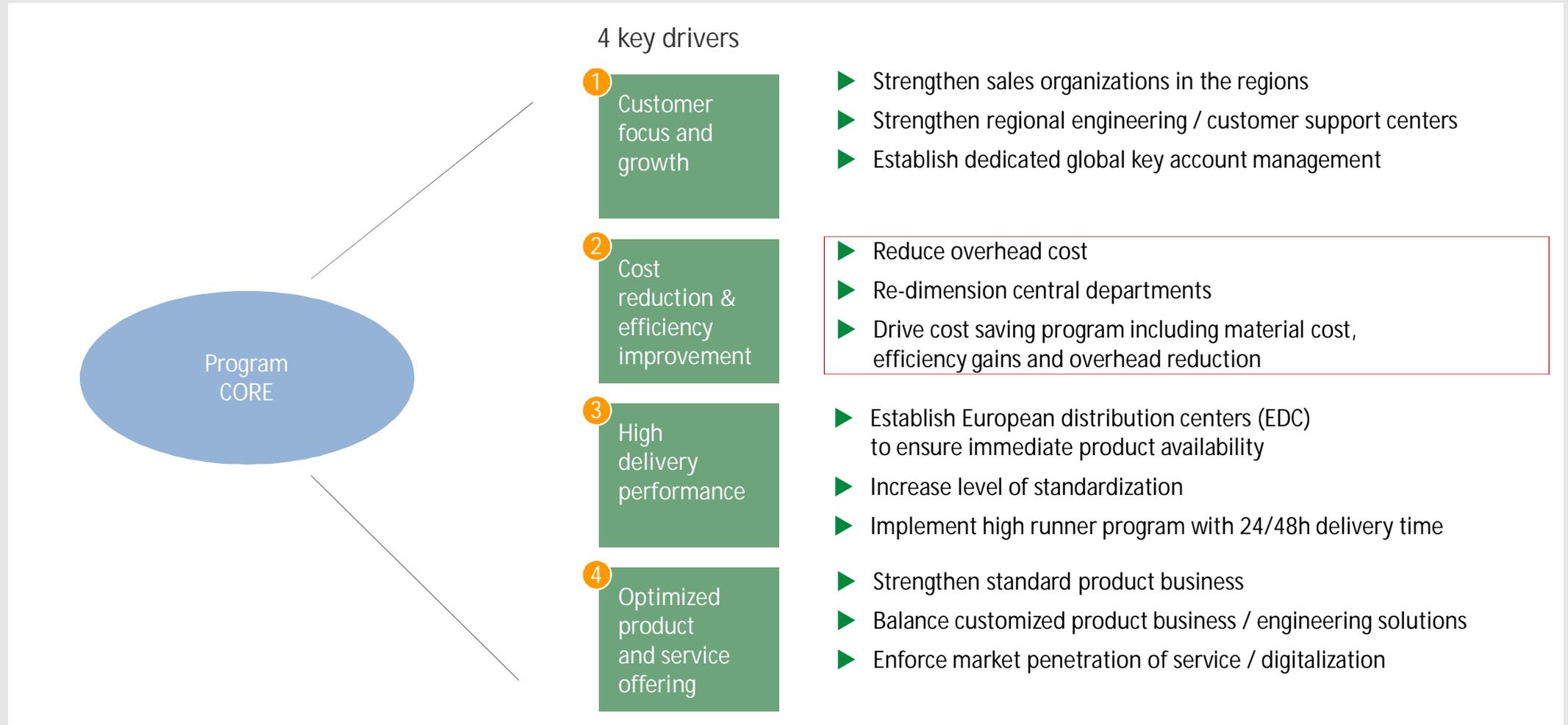


Sales split by business model 2015<sup>1)</sup>



<sup>1)</sup> Including service business

## 2 Program CORE – Revitalizing the Industrial division



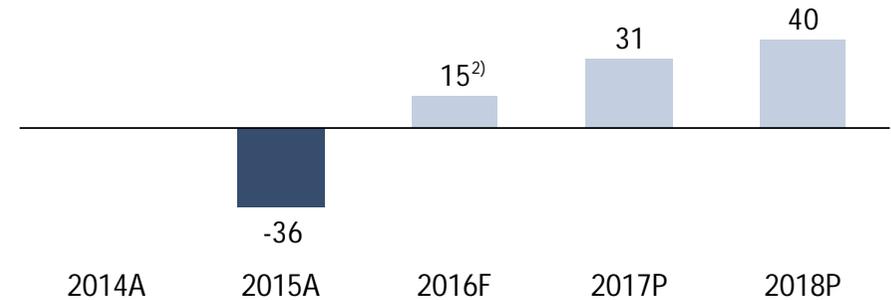
**2** Cost reduction and efficiency improvements – First wave mostly completed

Key aspects

- ▶ First wave announced in August 2015
- ▶ Cost savings through HCO reduction in overhead functions of the Industrial Division
- ▶ Reduction of 500 HCO mainly in Germany until 12/2017
- ▶ Approximately 40 EUR mn overhead cost savings (full run rate 2018)
- ▶ 36 EUR mn restructuring provisions (booked in Q IV 2015)

Indicative Financial Impact

Δ EBIT in EUR mn



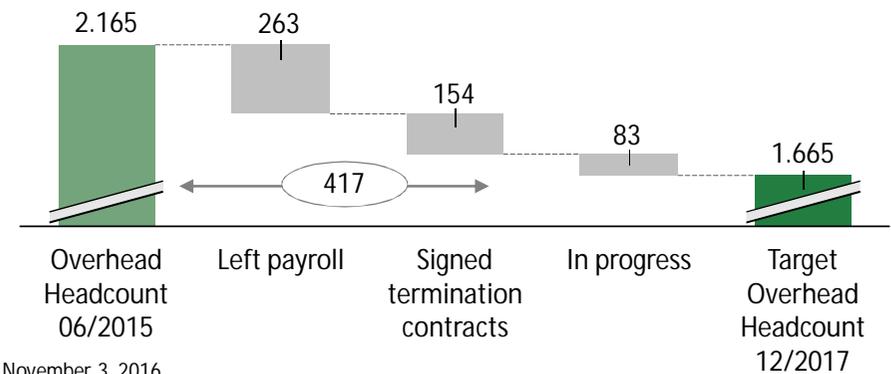
<sup>1)</sup> Financial impact in specific year

<sup>2)</sup> thereof 9 mn Euro YTD September 2016

EBIT Improvement (light blue) One-off effects (dark blue)

HCO reduction Overhead

Completion Ratio 83 % <sup>3)</sup>



<sup>3)</sup> as of November 3, 2016

2 Cost reduction and efficiency improvements – Second wave initiated

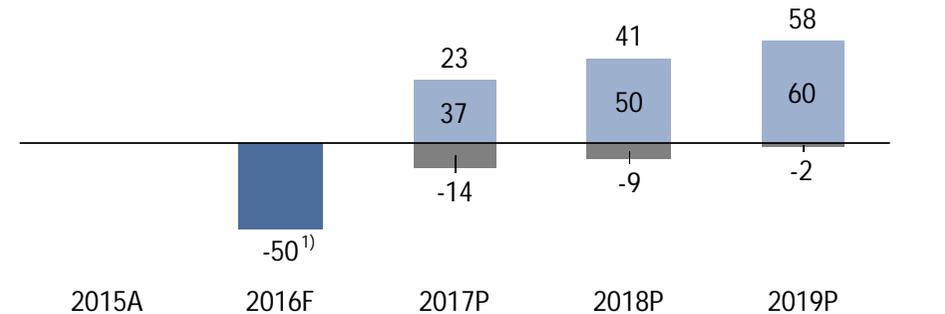
Key aspects

- ▶ Second wave announced in November 2016
- ▶ Cost savings through consolidation of plants in Europe and Americas and HCO reduction in overhead functions also outside the Industrial division
- ▶ Reduction of 500 HCO in Germany<sup>1)</sup>, Europe and other regions targeted
- ▶ Approximately 60 EUR mn improvement from Gross Profit optimization and Overhead cost reduction until 2019 planned
- ▶ Around 75 EUR mn one-off-cost until 2019 of which approximately 50 EUR mn shall be booked as restructuring provisions as of year end 2016

<sup>1)</sup> Subject to negotiation with working council

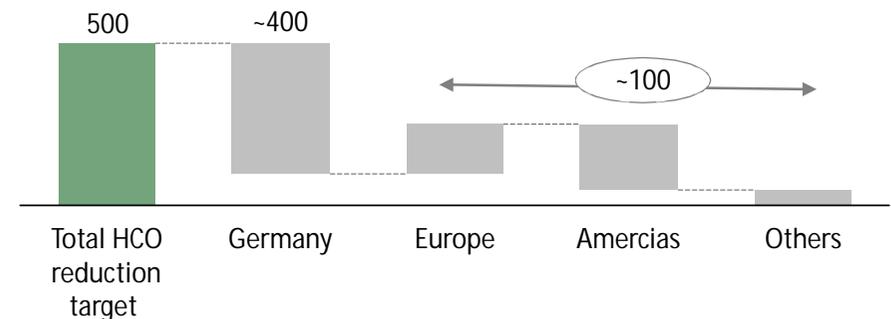
Indicative Financial Impact

Δ EBIT in EUR mn



<sup>1)</sup> 2016-2019 in total 75 mn Euro, thereof 50 mn Euro booked as restructuring provision

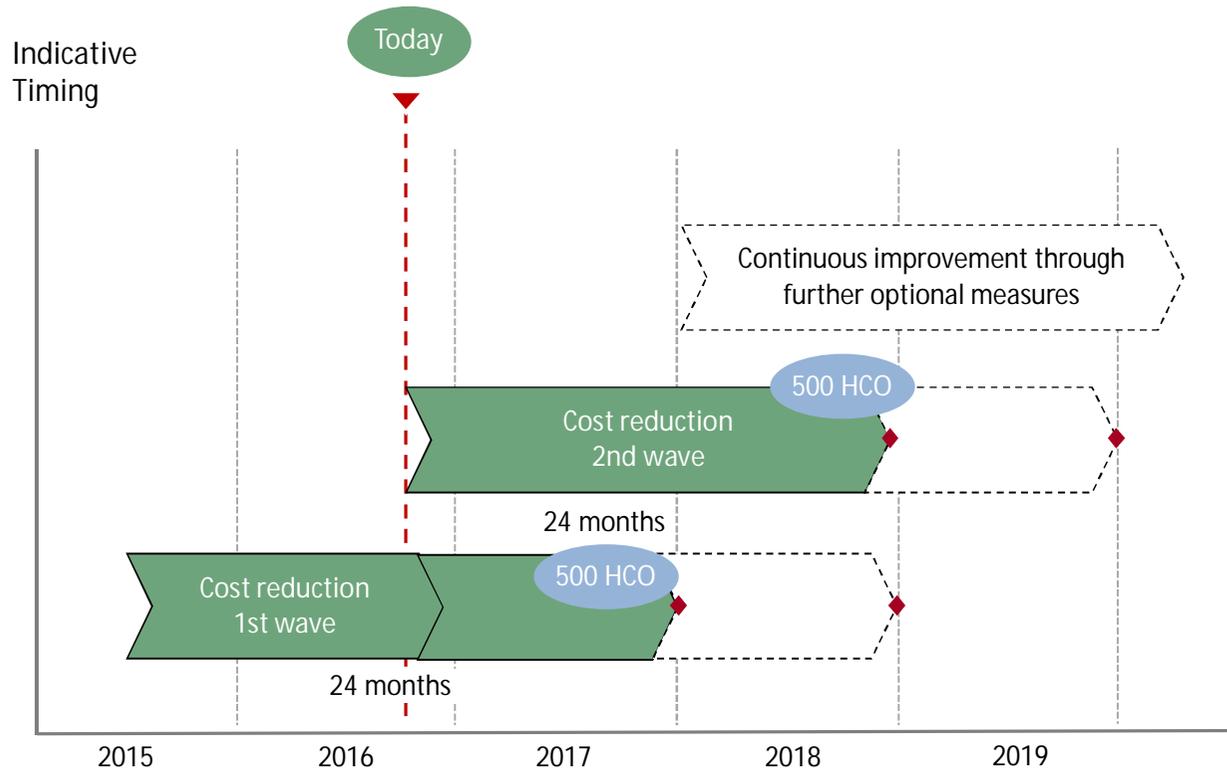
HCO reduction Plants/Overhead



Indicative figures

2 Program CORE – Overall target remains in place

Successful implementation



Financial ambitions

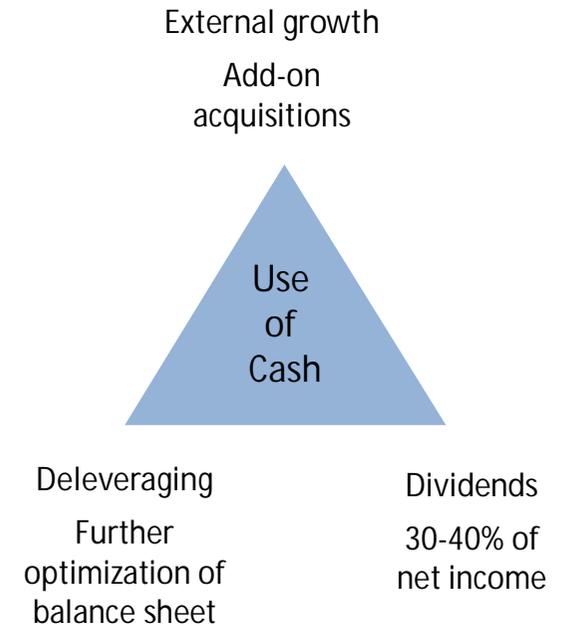


### 3 Use of cash – M&A strategy based on selected add-on acquisitions

#### M&A strategy

Approach	<ul style="list-style-type: none"><li>▶ Focus on technological competence to maintain our strong position as technology and innovation leader</li><li>▶ Focus on smaller add-on acquisitions that contribute to a sustainable value creation</li></ul>
Acquisition Criteria	<ul style="list-style-type: none"><li>▶ Strategic and cultural fit, technological excellence and value contribution as the most important acquisition criteria</li><li>▶ Possible acquisitions will be in the three-digit million range</li></ul>
Automotive & Industrial	<ul style="list-style-type: none"><li>▶ Attractive pipeline of potential acquisition targets for both divisions</li><li>▶ Focus in Automotive and Industrial is on technology and on strengthening market positions</li></ul>

#### Use of cash



- 1 Schaeffler is a leading global automotive and industrial supplier with superior technologies
- 2 Strategy "Mobility for tomorrow" implemented; Financial Ambitions 2020 with focus on sales growth, EBIT margin, FCF generation, EPS, gearing ratio and dividend payout ratio
- 3 Returning to historic outperformance levels in Automotive targeted as of 2017; move into e-Mobility offer significant growth potential (leveraged via recent M&A activity)
- 4 Program CORE to revitalize the Industrial division extended; second wave of efficiency measures initiated
- 5 Strong cash flow generation allow for selected technological add-on acquisitions

Mobility for  
tomorrow



Investor Relations

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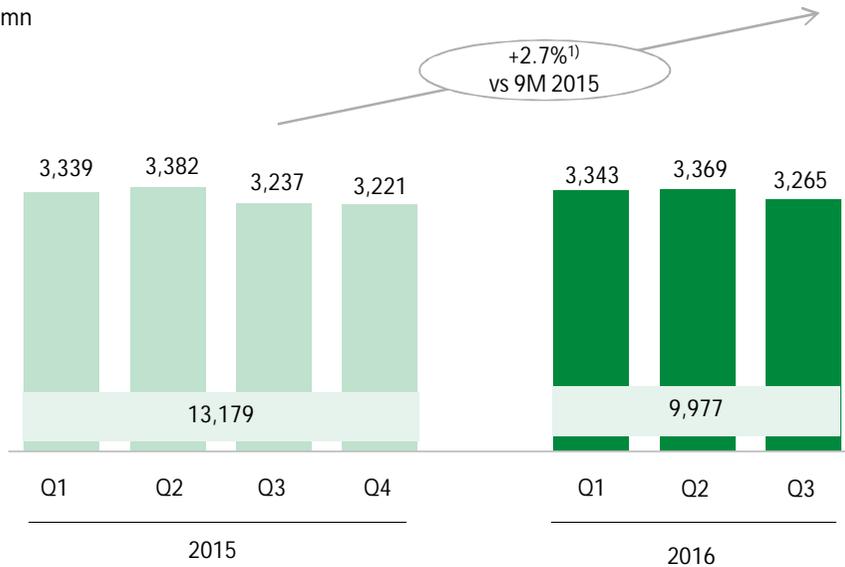
Financial Calendar

FY 2016 results:	March 8, 2017
Q1 2017 results:	May 11, 2017
H1 2017 results:	August 8, 2017
9M 2017 results:	November 8, 2017

# Sales growth 9M 2016 2.7% (FX-adjusted)

## Sales

in EUR mn



FX-adjusted sales growth in %

Year	Q1	Q2	Q3	Q4	9M Total
2015	5.3	4.5	2.9	1.3	3.5
2016	2.4	3.3	2.3	-	2.7

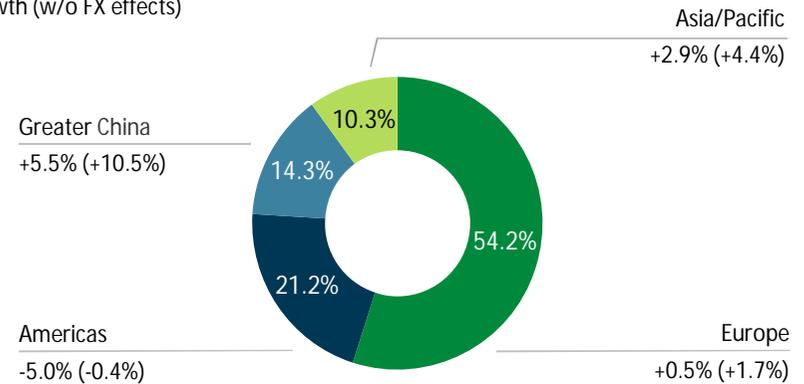
EBIT margin<sup>2)</sup> in %

Year	Q1	Q2	Q3	Q4	9M Total
2015	13.2	11.4	13.4	13.0	12.3
2016	12.6	13.0	12.8	-	12.8

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

## Sales by region 9M 2016

y-o-y growth (w/o FX effects)



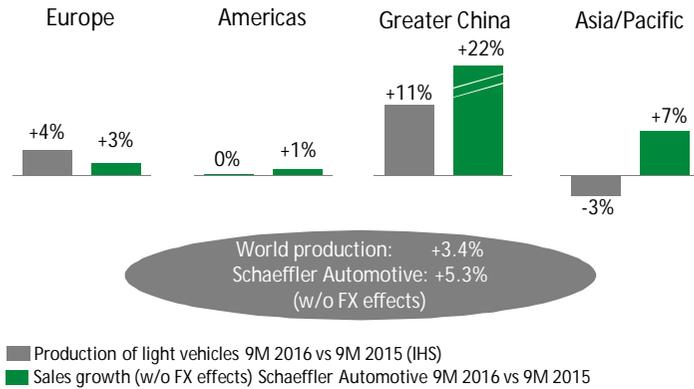
## Sales by division

Y-o-y growth (w/o FX effects)

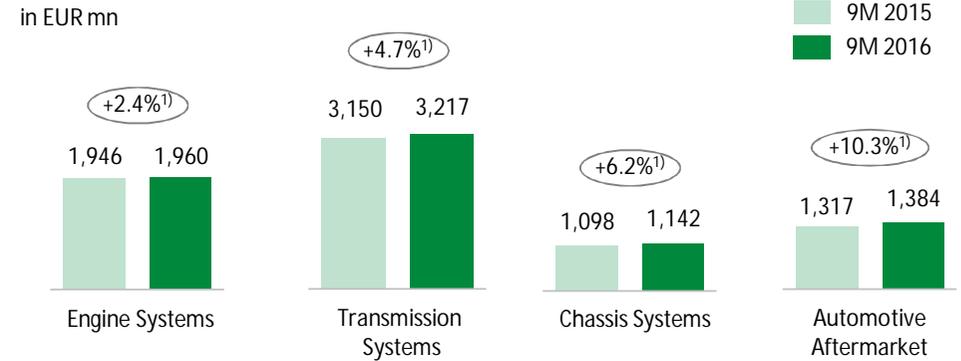
	9M15	9M 16	Δ (w/o FX effects)	Q3 15	Q3 16	Δ (w/o FX effects)
Auto-motive	7,511	7,703	+5.3%	2,442	2,524	+5.1%
Industrial	2,447	2,274	-5.3%	795	741	-6.2%
Total	9,958	9,977	+2.7%	3,237	3,265	+2.3%

# Automotive – Strong growth in Greater China

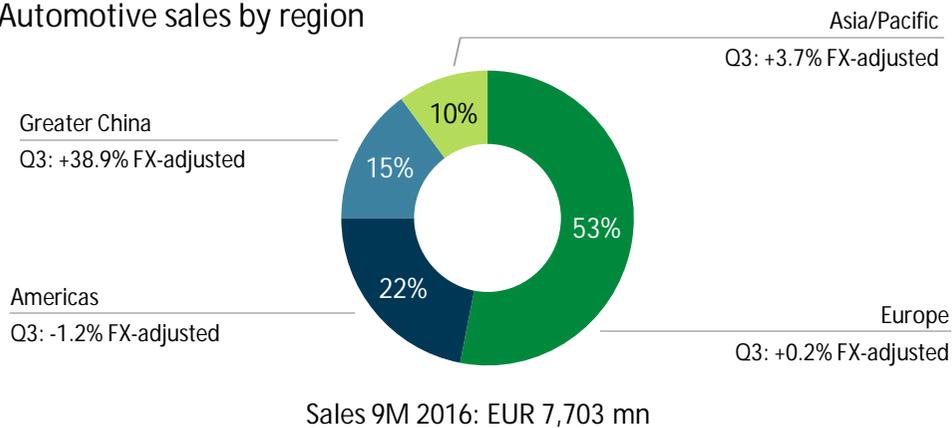
## Automotive sales and market development 9M



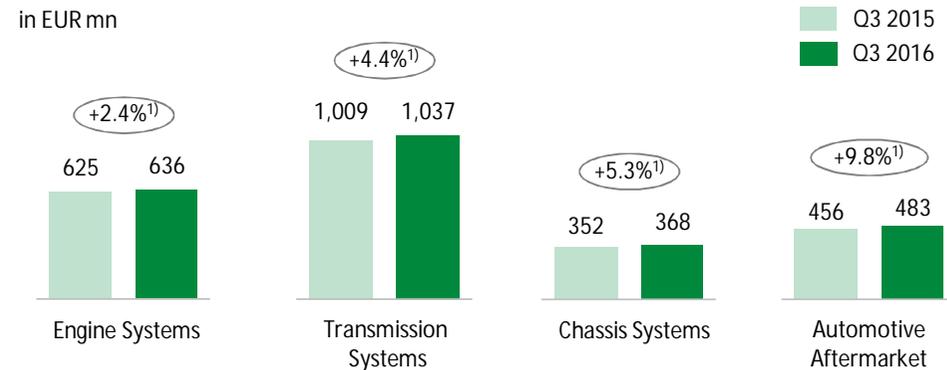
## Automotive sales by division 9M



## Automotive sales by region

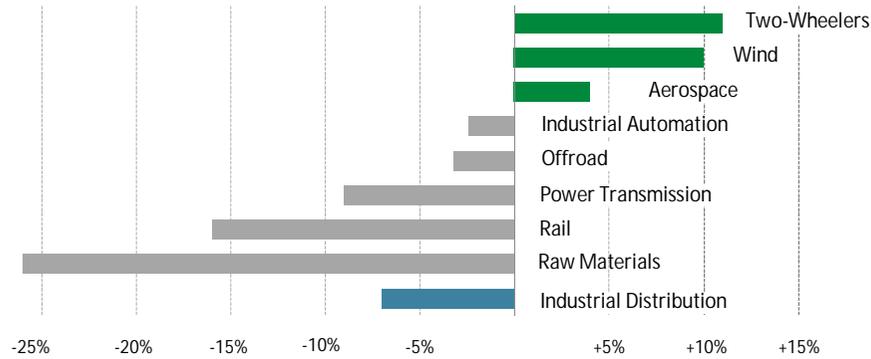


## Automotive sales by division Q3

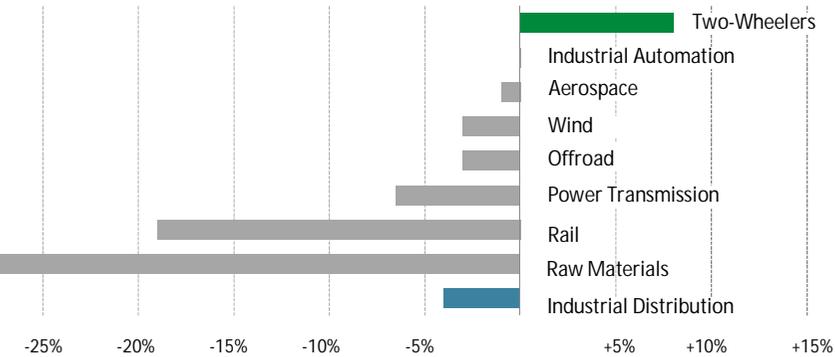


1) Growth rates FX-adjusted

Industrial sales by sector cluster 9M<sup>1)</sup>



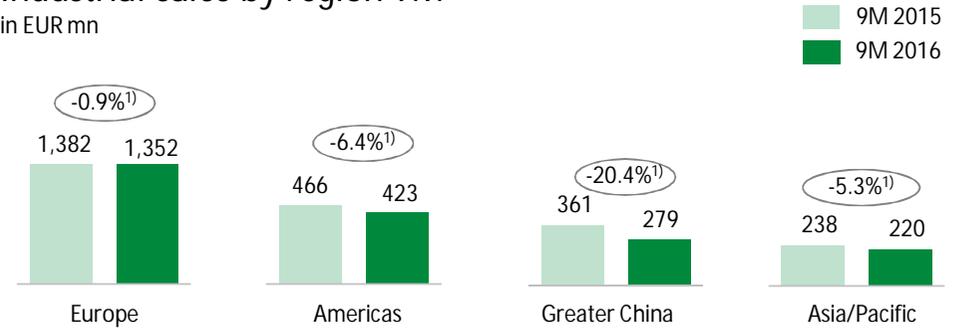
Industrial sales by sector cluster Q3<sup>1)</sup>



1) FX-adjusted

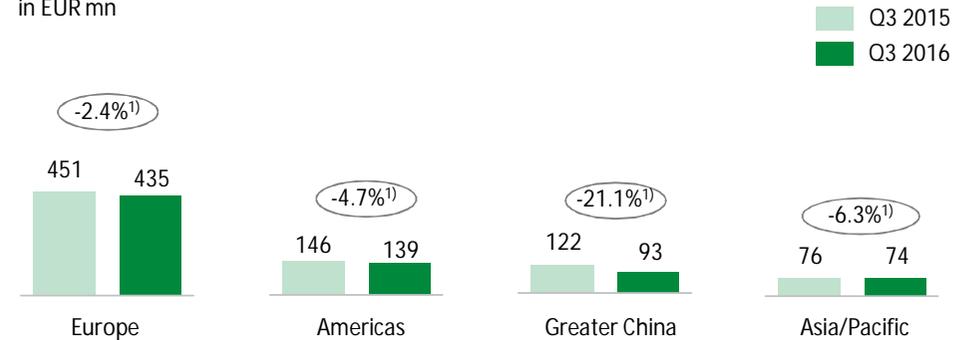
Industrial sales by region 9M

in EUR mn



Industrial sales by region Q3

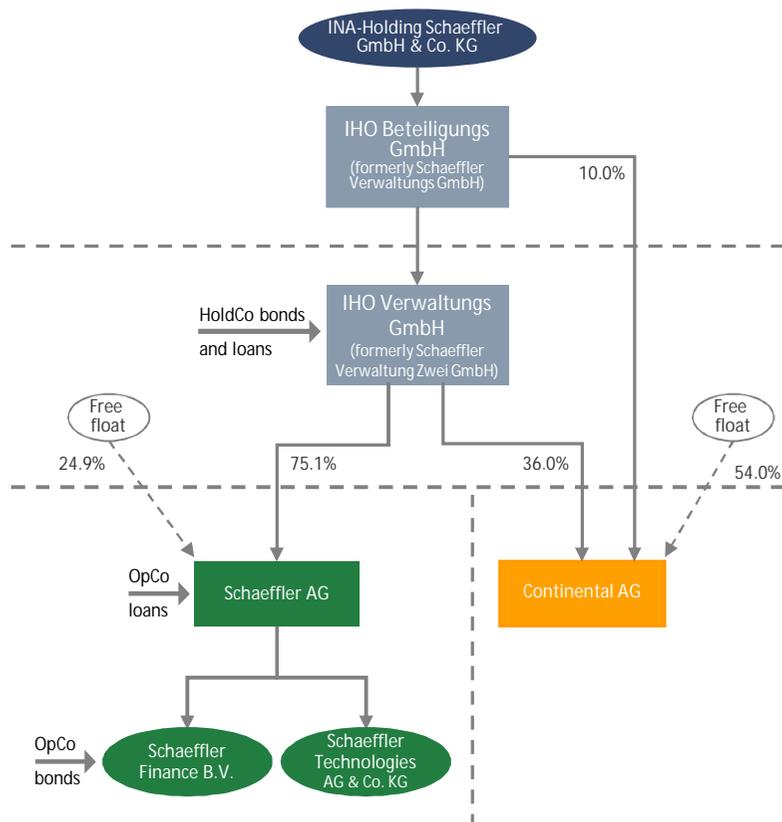
in EUR mn



1) Growth rates FX-adjusted

Corporate Structure (simplified)

as of October 14, 2016



Financing Structure

as of October 14, 2016

IHO Verwaltungs GmbH (HoldCo)

Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating
<b>Loans</b>					
Term loan (EUR)	-	425 <sup>1)</sup>	E+2.75%	Sep-21	not rated
RCF (EUR 200 mn)	-	-	E+2.75%	Sep-21	not rated
<b>Bonds</b>					
2.75% SSNs 2021 (EUR) <sup>2)</sup>	-	750	2.75%	Sep-21	Ba1/BB-
4.125% SSNs 2021 (USD) <sup>2)</sup>	500	455 <sup>3)</sup>	4.125%	Sep-21	Ba1/BB-
3.25% SSNs 2023 (EUR) <sup>2)</sup>	-	750	3.25%	Sep-23	Ba1/BB-
4.50% SSNs 2023 (USD) <sup>2)</sup>	500	455 <sup>3)</sup>	4.50%	Sep-23	Ba1/BB-
3.75% SSNs 2026 (EUR) <sup>2)</sup>	-	750	3.75%	Sep-26	Ba1/BB-
4.75% SSNs 2026 (USD) <sup>2)</sup>	500	455 <sup>3)</sup>	4.75%	Sep-26	Ba1/BB-
<b>Total</b>		<b>4,040</b>			

Schaeffler Group (OpCo)

Debt instrument	Nominal (USD mn)	Nominal (EUR mn)	Interest	Maturity	Rating
<b>Loans</b>					
Term loan (EUR)	-	1,000	E+1.45%	Jul-21	not rated
RCF (EUR 1,300 mn)	-	-	E+1.05%	Jul-21	not rated
<b>Bonds</b>					
2.50% SSNs 2020 (EUR)	-	400	2.50%	May-20	Baa3/BB+
4.25% SSNs 2021 (USD)	700	636 <sup>3)</sup>	4.25%	May-21	Baa3/BB+
3.50% SSNs 2022 (EUR)	-	500	3.50%	May-22	Baa3/BB+
4.75% SSNs 2023 (USD)	600	545 <sup>3)</sup>	4.75%	May-23	Baa3/BB+
3.25% SSNs 2025 (EUR)	-	600	3.25%	May-25	Baa3/BB+
<b>Total</b>		<b>3,681</b>			

1) Up to EUR 600 mn.  
 2) Senior Secured PIK Toggle Notes.  
 3) EUR/USD = 1.10 as of October 14, 2016.