



Schaeffler AG

Capital Markets Presentation

January 24, 2017
Analyst and Investor Conference Call
Pre-release FY2016 Results and Update Equity Story

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- 1 Overview
- 2 Strategy "Mobility for tomorrow"
- 3 Investment Highlights
- 4 Outlook and Summary

Chronology of events



New Co-CEO Automotive Matthias Zink



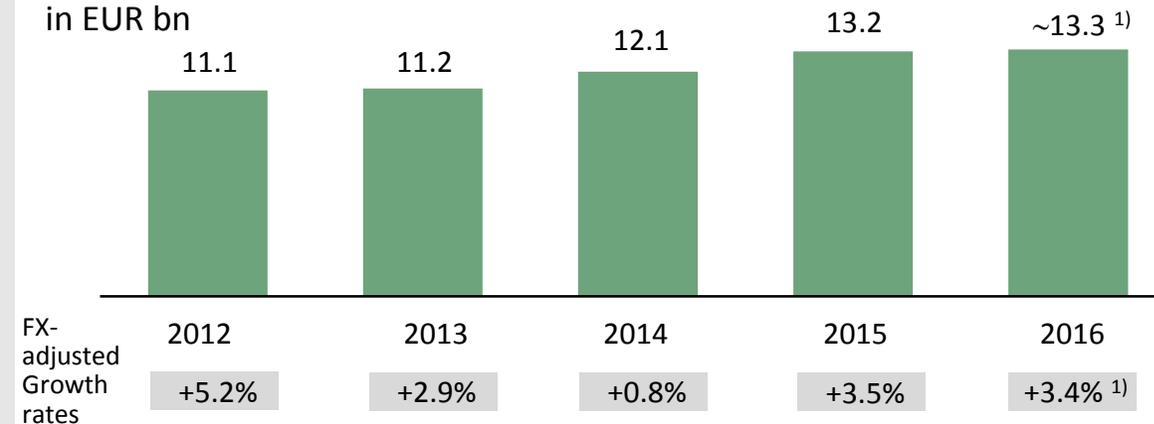
- ▶ Since 1994 with Schaeffler Group
- ▶ Until 2012 various leadership positions within Transmission Systems Unit
- ▶ Head of Schaeffler Automotive Asia/Pacific from 2012 until 2014
- ▶ Head of Transmission Systems Business Division from 2014 until 2016
- ▶ Since January 1, 2017 Member of the Executive Board of Schaeffler AG

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

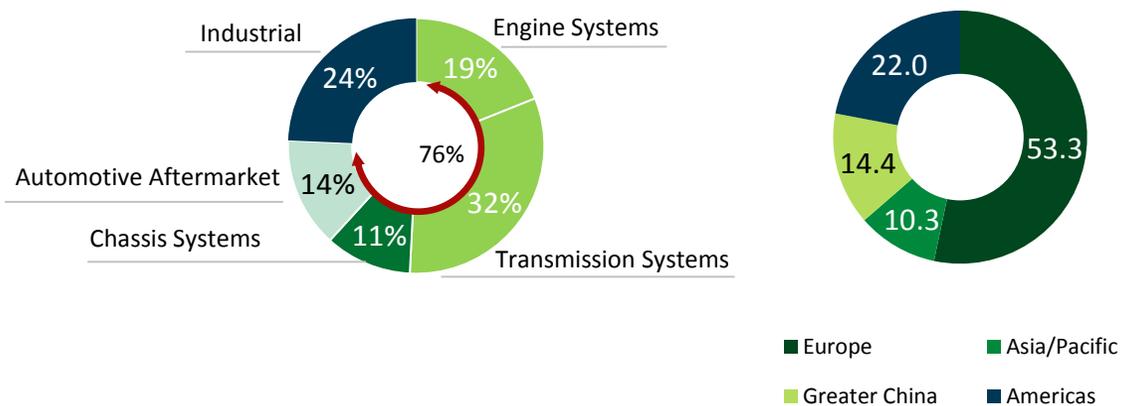
Sales growth 2012 – 2016

in EUR bn



1) Preliminary figures

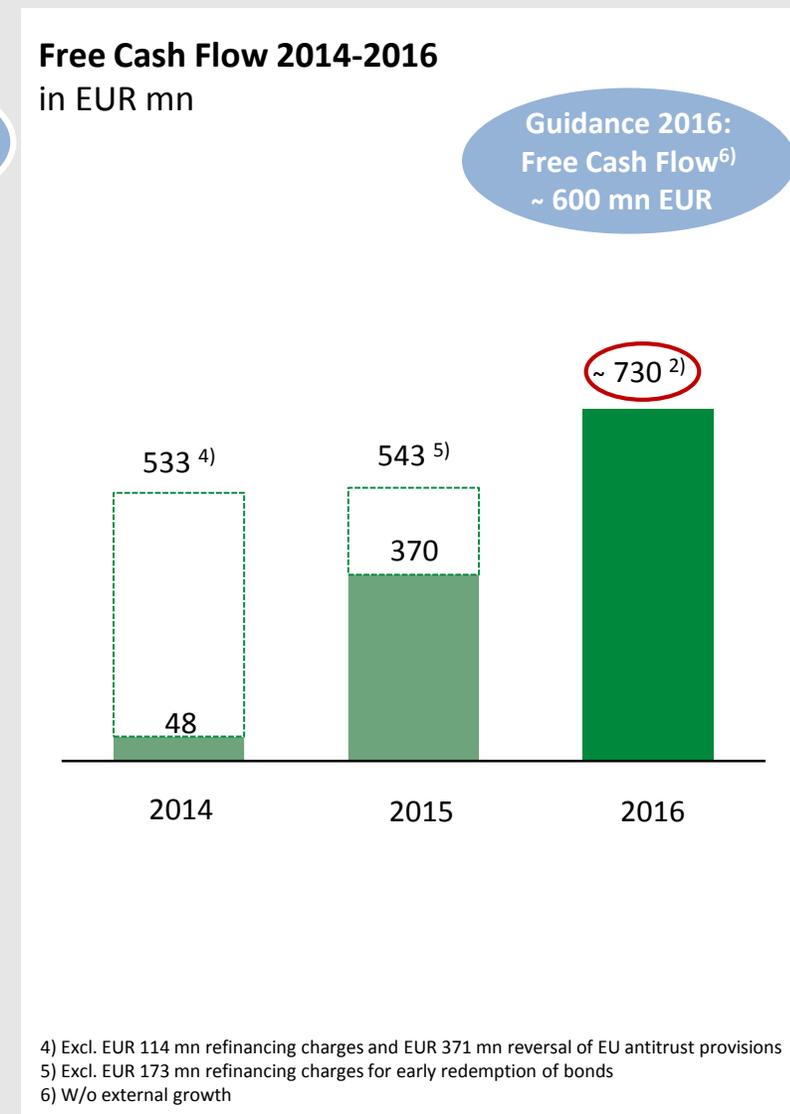
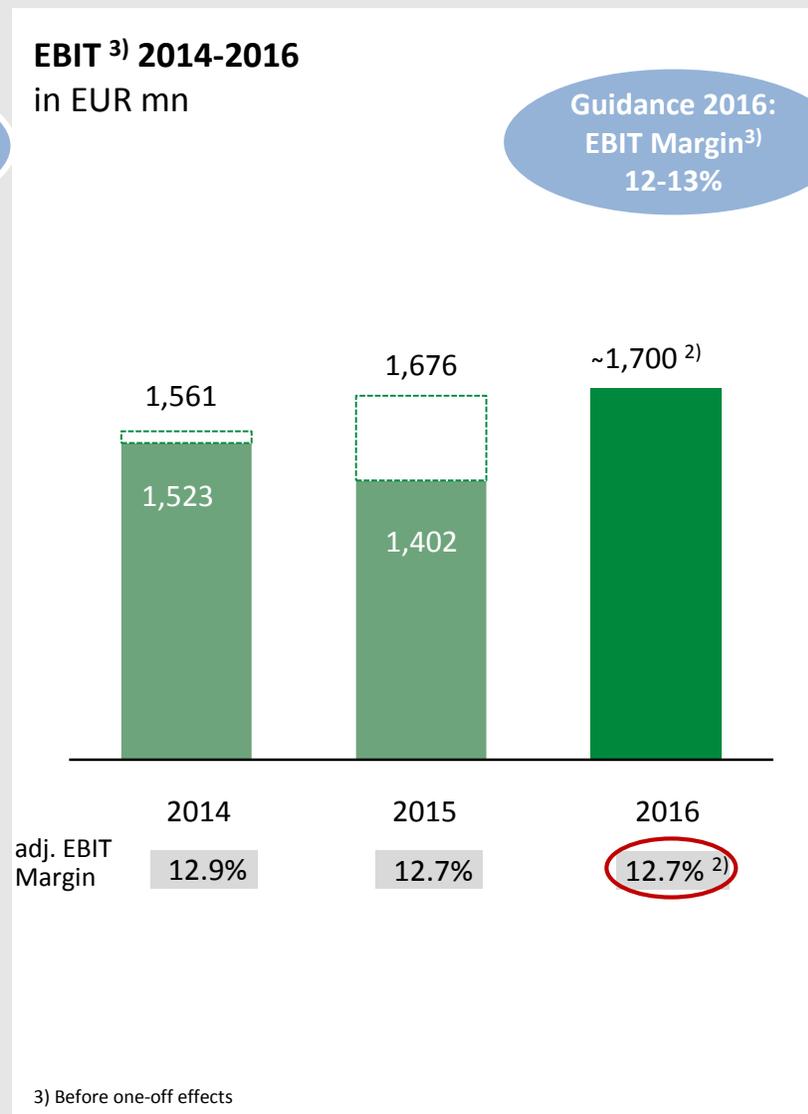
Sales by division and region (9M 2016)



Global footprint

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

Preliminary Results for 2016 – Guidance 2016 comfortably achieved



Strategy "Mobility for tomorrow" – 4 key elements

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
<ol style="list-style-type: none"> Customer Excellence E-Mobility Industry 4.0 	Prof. Pleus / Dr. Spindler Prof. Gutzmer Dr. Spindler
<ol style="list-style-type: none"> Quality for Tomorrow Global Footprint Factory for Tomorrow Shared Services Process Excellence 	Rosenfeld Rosenfeld Jung Dr. Hauck Rosenfeld
<ol style="list-style-type: none"> Working Capital 	Dr. Hauck
<ol style="list-style-type: none"> Leadership & Corporate Values Qualification for Tomorrow New Work 	Schittenhelm Schittenhelm Schittenhelm
<ol style="list-style-type: none"> Program CORE Digital Agenda IT 2020 Global Branding 	Dr. Spindler Prof. Gutzmer Prof. Gutzmer Rosenfeld

Financial Ambitions 2020

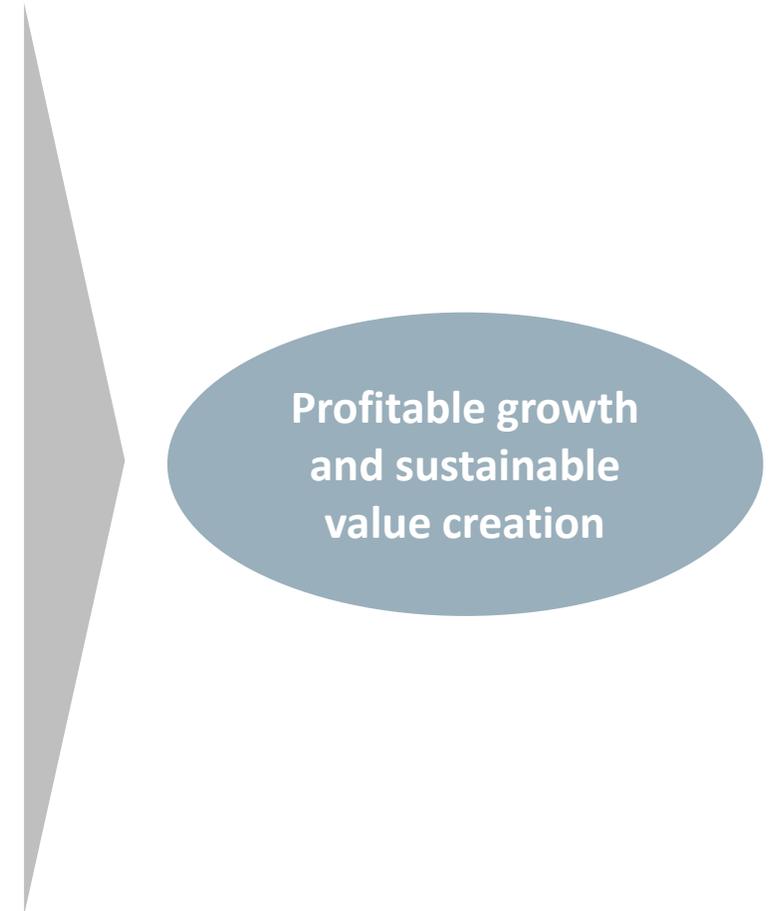
Sales Growth	Ø 4-6% p.a. w/o external growth, FX-adjusted
EBIT Margin	12-13% p.a. Before one-off effects, w/o external growth
Free Cash flow	~€ 900M in 2020 w/o external growth
Earnings per Share	~€ 2.00 per share in 2020 w/o external growth
Gearing ratio ¹⁾	<75% in 2020
Dividend ²⁾	30-40% of Net income

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)

2) Payout ratio based on Net income



Equity Story – 3 key elements

Automotive growth above market



Margin upside in Industrial



Strong Free cash flow generation

4 key questions

1 What is your expectation regarding outperformance in Automotive for 2017?

2 What does e-mobility mean for Schaeffler?

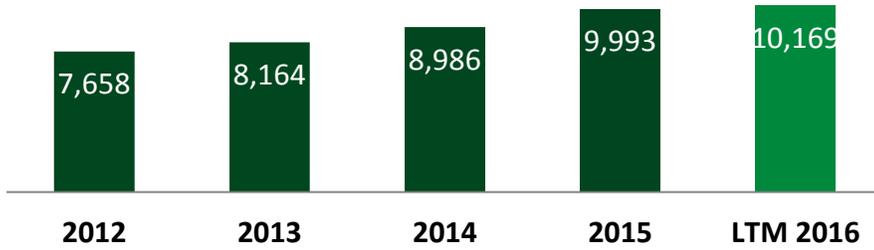
3 When do you think the Industrial margin will pick up again?

4 What are your priorities with regard to "use of cash"?

Schaeffler Automotive at a glance

Sales and EBIT margin 2012 – LTM 9M 2016

in EUR mn

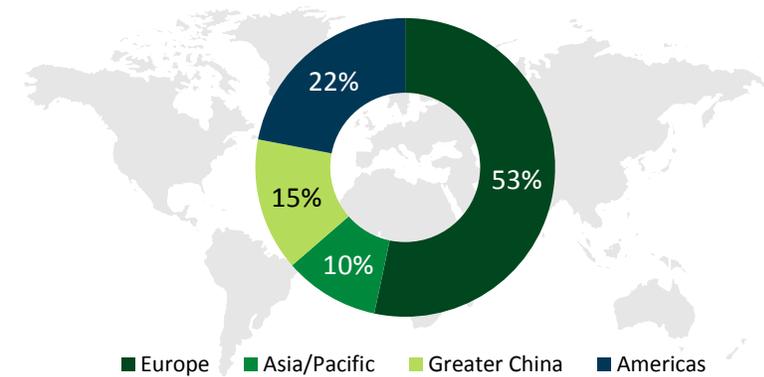


	2012	2013	2014	2015	LTM 2016
Growth rate (y-o-y) ¹⁾	+5.1%	+8.6%	+10.7%	+5.8%	+5.3%
EBIT margin ²⁾	13.5%	13.0%	14.0%	13.6%	14.4%

¹⁾ Before FX effects

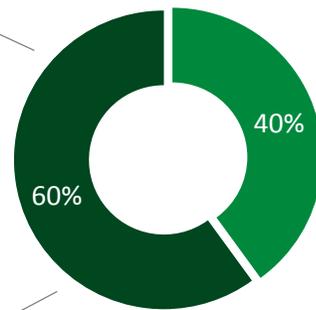
²⁾ Before one-off effects

Sales by region 2015



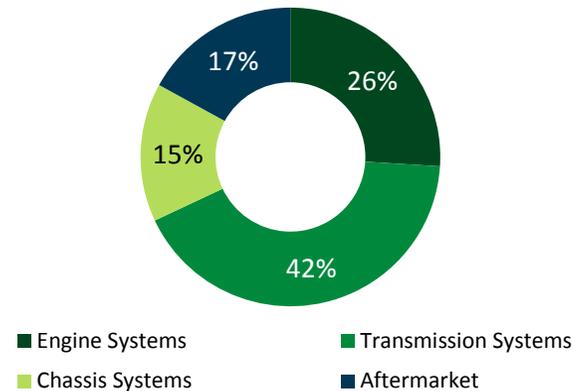
Broad customer mix

Top 10 customers



■ Top 10 automotive customers
■ Other customers

Sales by business 2015

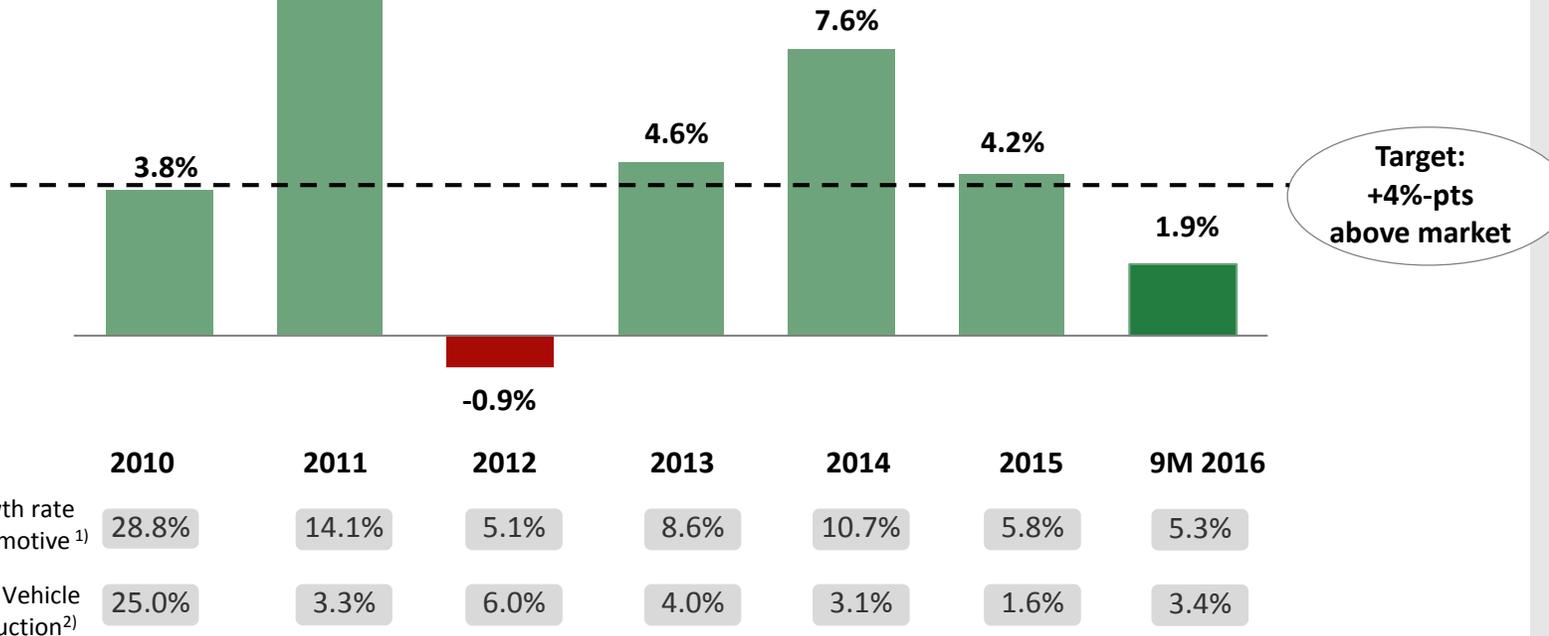


1 Outperformance Automotive 2016 – Below average

Indicative figures for illustration purposes

Outperformance 2010 – 9M 2016

	Q1 2016	Q2 2016	Q3 2016	9M 2016	Q4 2016	FY 2016
Growth rate Automotive ¹⁾	5.0%	5.8%	5.1%	5.3%	to come	to come
Light Vehicle Production ²⁾	0.9%	2.8%	5.1%	3.4%	5.8%	4.4%
Outperformance	4.1%	3.0%	0.0%	1.9%		



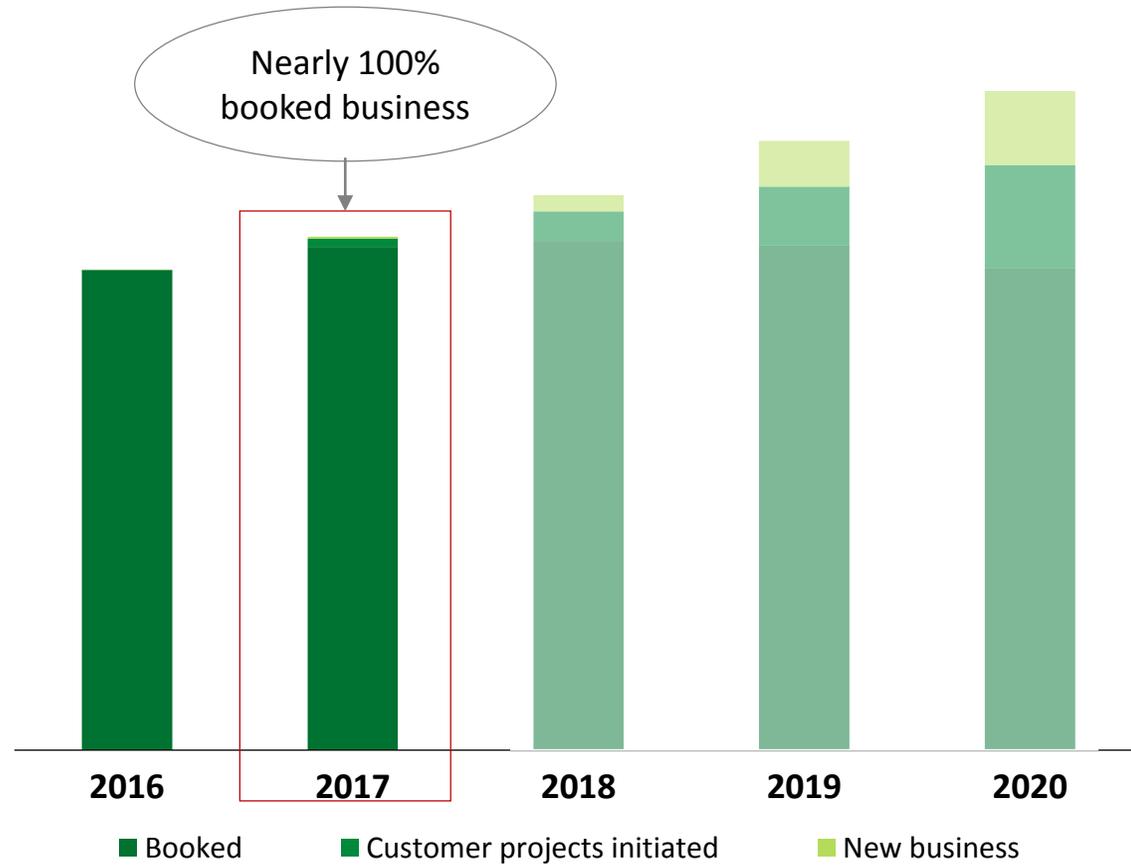
¹⁾ Before FX effects
²⁾ Source: IHS

Key aspects

- ▶ Historical outperformance 2010 – 9M 2016 above internal benchmark of plus 4%-pts
- ▶ Above vehicle production in 2016 with strong 4th quarter
- ▶ Schaeffler outperformance 9M 2016 1.9% due to:
 - 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

1 Outperformance Automotive 2017 – Back to plus 4%-pts above-market

Sales development



¹⁾ At constant currency

Key aspects

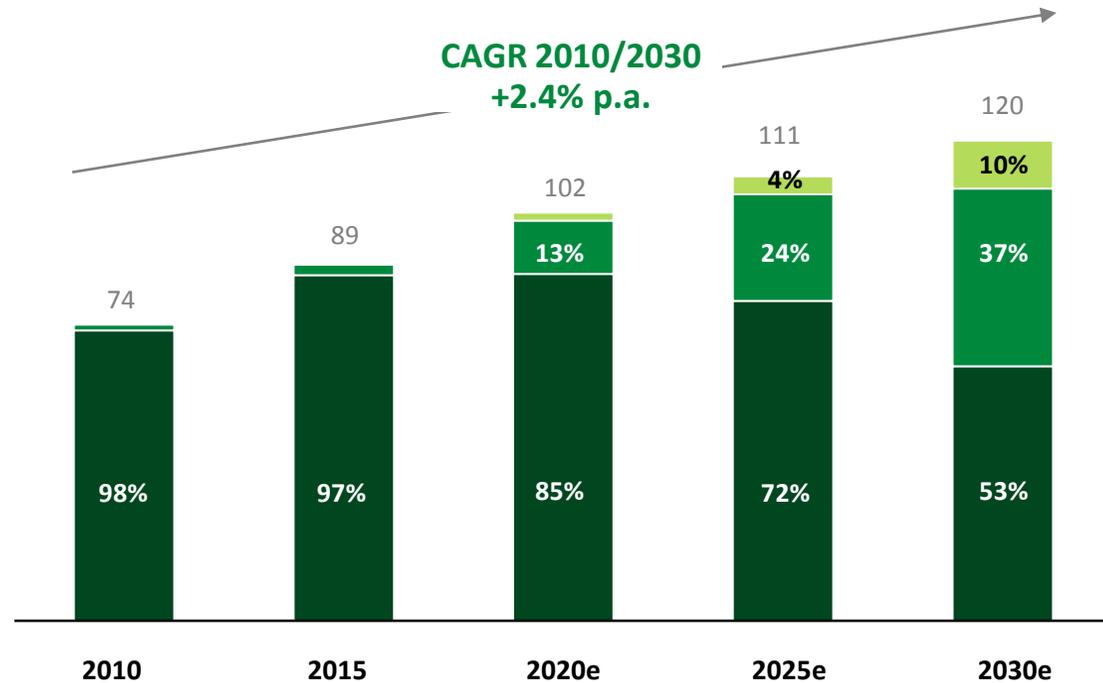
- ▶ Expected global light vehicle production growth of around 1.5% for 2017
- ▶ Sales growth Schaeffler 2017 supported by strong orderbook (nearly 100% booked business)
- ▶ Several high-volume launches and above-average content per vehicle
 - UniAir system (Europe)
 - Electromechanical camphaser (Europe)
 - Torque converter (US)
 - Dual-clutch transmission (China)

4%-pts outperformance in 2017

2 E-Mobility – Accelerated scenario becomes more realistic

Global production volume ¹⁾
in millions of units

Basic scenario ²⁾



CAGR 2010/2030
+2.4% p.a.

Source: IHS, LMC Automotive, Schaeffler Group projections

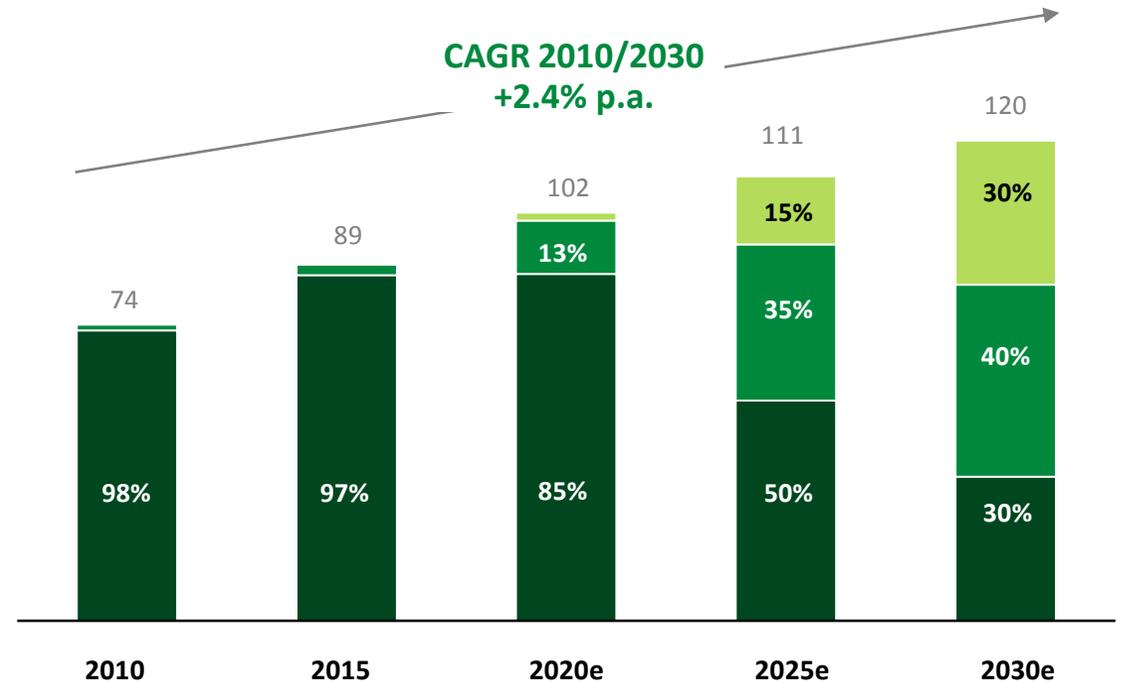
¹⁾ Annually expected global production volume, automobiles/small utility vehicles in millions of units

²⁾ Schaeffler estimates

- Battery electric vehicles
- Hybrid vehicles
- Internal combustion engines

Global production volume ¹⁾
in millions of units

Accelerated scenario ²⁾



CAGR 2010/2030
+2.4% p.a.

Source: IHS, LMC Automotive, Schaeffler Group projections

¹⁾ Annually expected global production volume, automobiles/small utility vehicles in millions of units

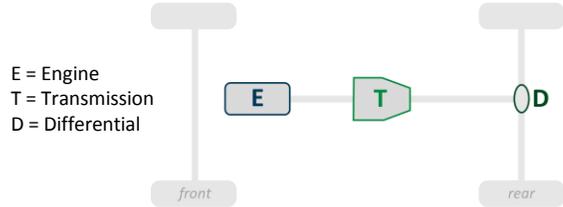
²⁾ Schaeffler estimates

- Battery electric vehicles
- Hybrid vehicles
- Internal combustion engines

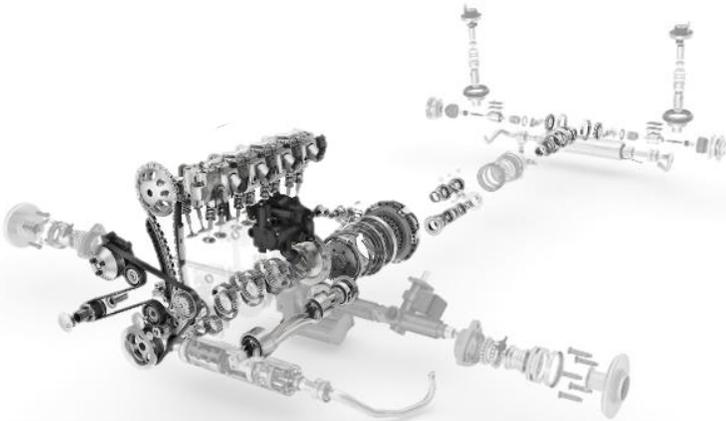
2 E-Mobility – 3 main powertrain structures

1 Internal combustion engines

► Powertrain structure



► Powertrain portfolio



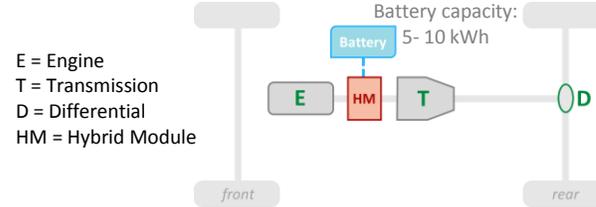
Existing Schaeffler portfolio

Est. Content per Vehicle
50 – 500 Euro

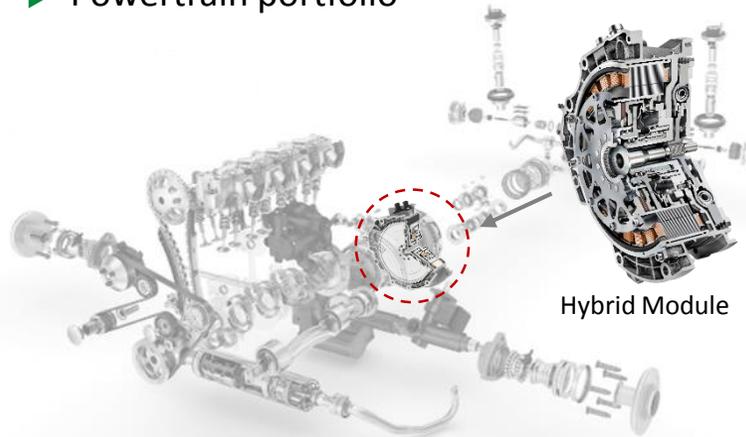
¹⁾ Bearings; Planetary Gears

2 Hybrid vehicles

► Powertrain structure



► Powertrain portfolio

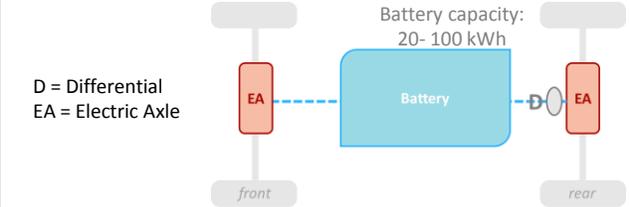


Existing Schaeffler portfolio + Hybrid Module

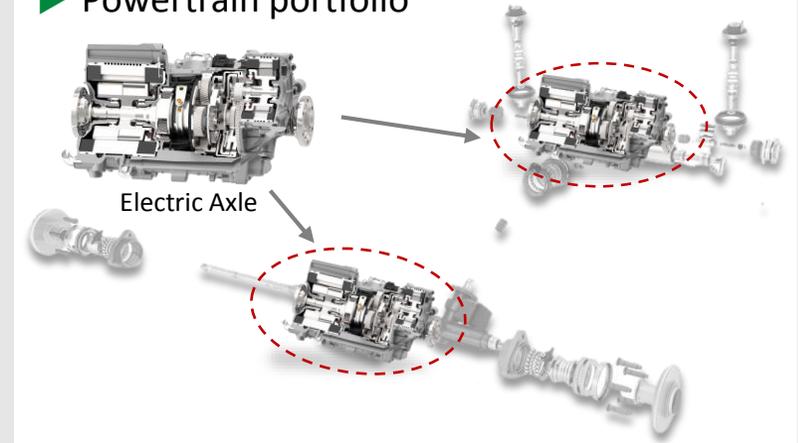
Est. Content per Vehicle₂₀₂₀
200 – 1,000 Euro

3 Battery electric vehicles

► Powertrain structure



► Powertrain portfolio

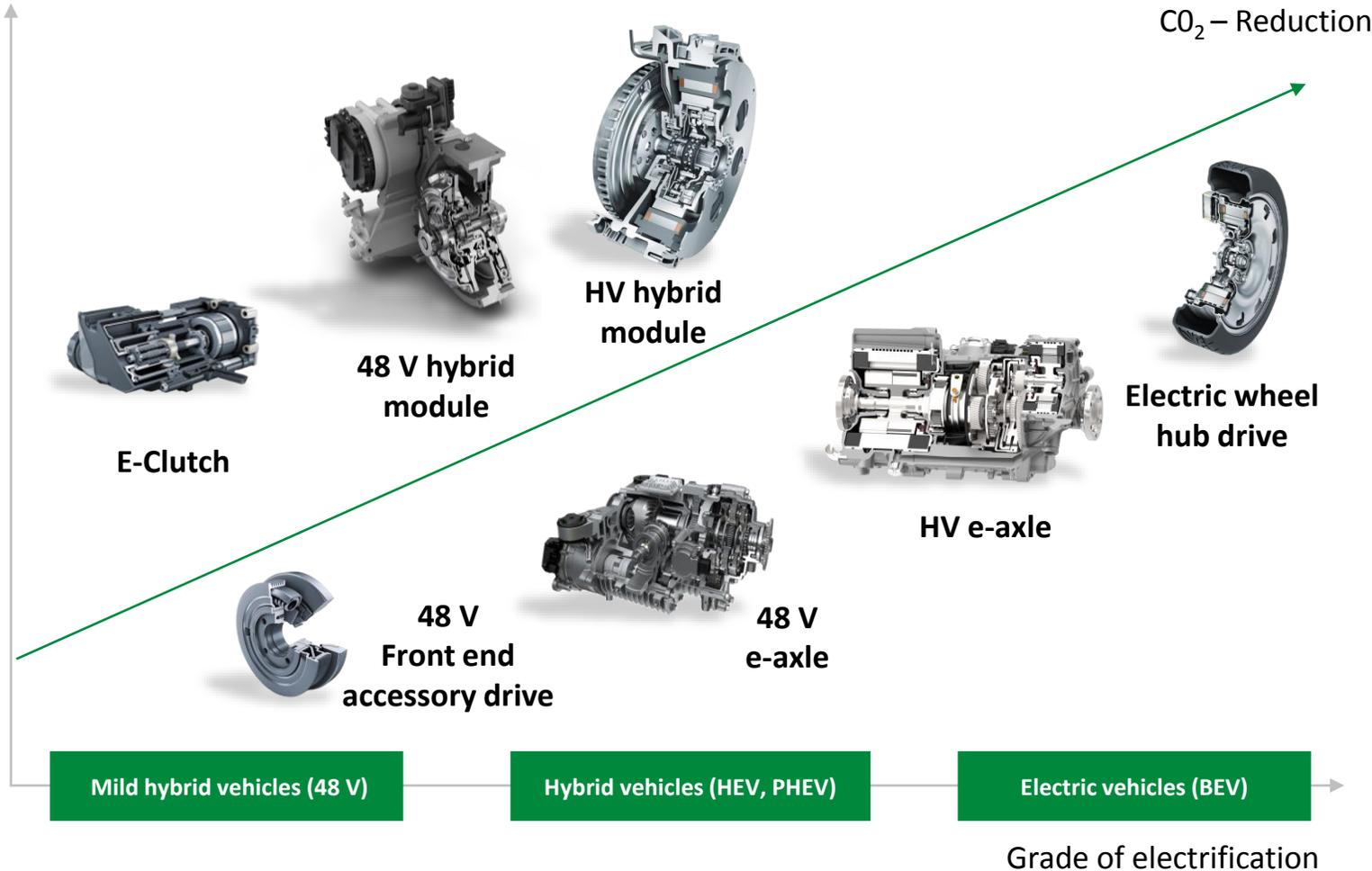


Selected components¹ + Electric Axles

Est. Content per Vehicle₂₀₂₀
25 – 1,250 Euro

2 Strong starting position in e-mobility – Broad portfolio of solutions

Product portfolio



Key aspects

1999

1st Schaeffler E-Mobility symposium

2002

1st E-Mobility concept car

2005

1st serial production of components for hybrid modules

2016

- ▶ 500 Million Euro investment to date¹⁾, 1,200 employees globally
- ▶ More than 20 customer projects
- ▶ 6 series contracts for hybrid modules and e-Axles

2020

- ▶ Further 500 Million Euro investment¹⁾
- ▶ Doubling of employees in R&D and manufacturing

¹⁾Including R&D

2 More than 20 customer projects – 6 series contracts

Americas

Hybrid Module with Integrated Torque Converter
Tier 1
SOP Q4/2018

Europe

1-Gear Electric Axle
Front + Rear
Tier 1
SOP Q3/2018

1-Gear Electric Axle
Front
Tier 1
SOP Q3/2019

China

Hybrid Module
Tier 1
SOP Q1/2018

2-Gear Electric Axle
Rear
Tier 1
SOP Q4/2017

Hybrid Modules	E-Axles
<ul style="list-style-type: none">▶ 2 series contracts received▶ More than 10 customer projects ongoing	<ul style="list-style-type: none">▶ 4 series contracts received▶ More than 10 customer project ongoing

2 Compact Dynamics acquired – Broadening competence and scope

1 System and Powertrain Competence



- ▶ 500 Million Euro investment to date¹⁾, 1,200 employees globally
- ▶ More than 20 customer projects
- ▶ 6 series contracts for hybrid modules and e-axes

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 expending its expertise in e-motors and power electronics

SCHAEFFLER



HV E-Axle

**Quality,
Technology and
Innovation**

Schaeffler Industrial at a glance

Sales and EBIT margin 2012 – LTM 9M 2016

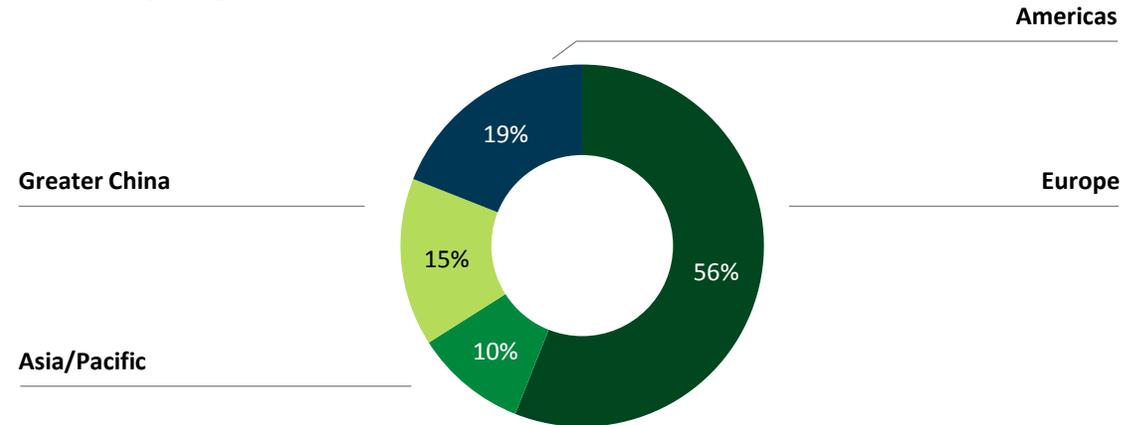
in EUR mn



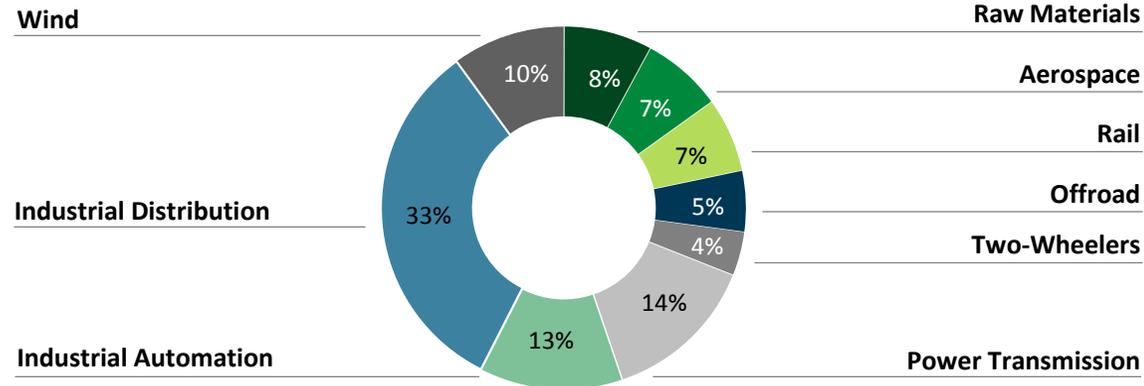
¹⁾ Before FX effects

²⁾ Before one-off effects

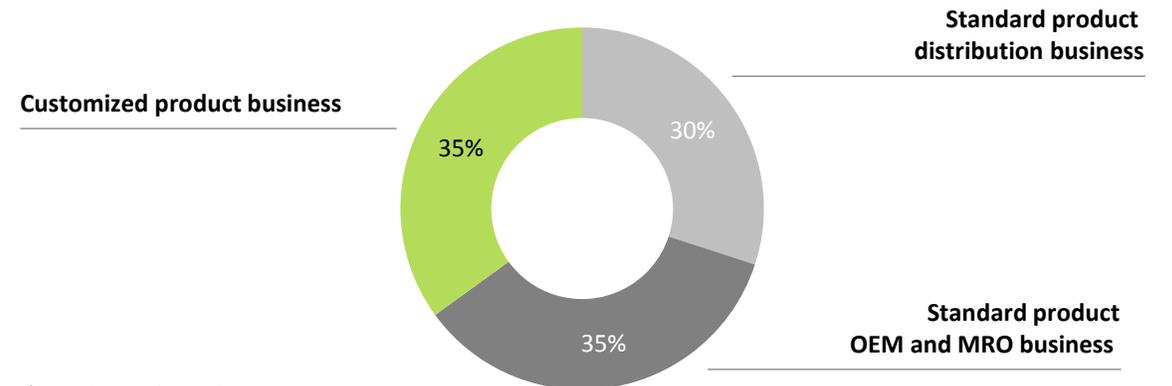
Sales by region 2015



Sales split by sector cluster & distribution channel 2015



Sales by business model 2015¹⁾



¹⁾ Including service business

3 Revitalizing the Industrial division – Program CORE



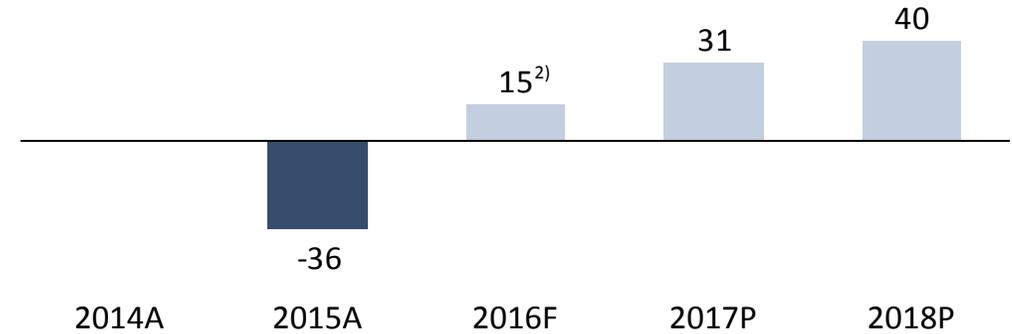
3 Cost reduction and efficiency improvements – First wave mostly completed in 2016

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



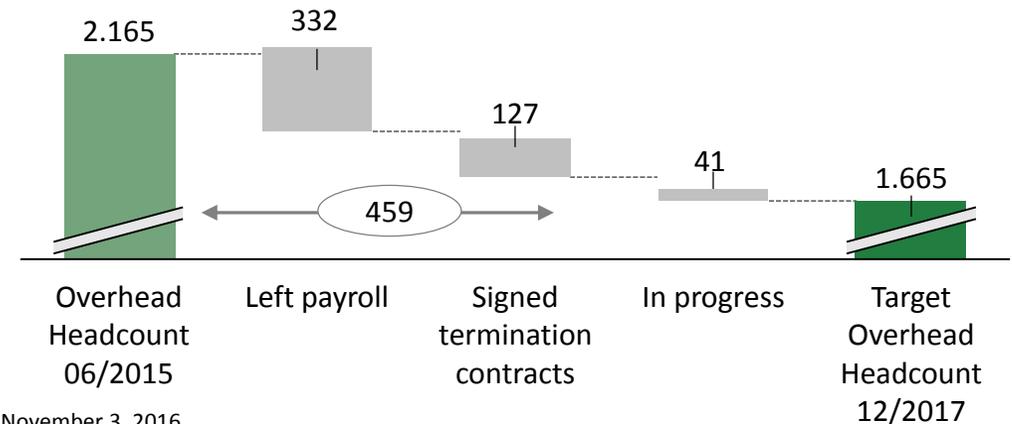
¹⁾ Financial impact in specific year

²⁾ thereof 9 mn Euro YTD September 2016

EBIT Improvement One-off effects

HCO reduction Overhead

Completion Ratio ~90% ³⁾



³⁾ as of November 3, 2016

3 Cost reduction and efficiency improvements – Second wave initiated in 2016

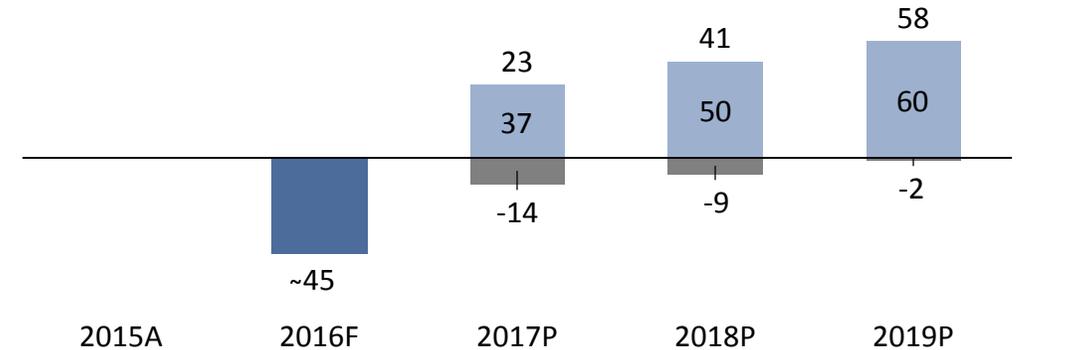
Key aspects

- ▶ 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 Germany¹⁾, Europe and other regions targeted
- ▶ Approximately 60 EUR mn improvement from Gross Profit optimization and Overhead cost reduction until 2019 planned
- ▶ Around 70 EUR mn one-off effects until 2019 of which approximately 45 EUR mn will be booked as restructuring cost as of year end 2016

¹⁾ Subject to negotiation with working council

Indicative Financial Impact²⁾

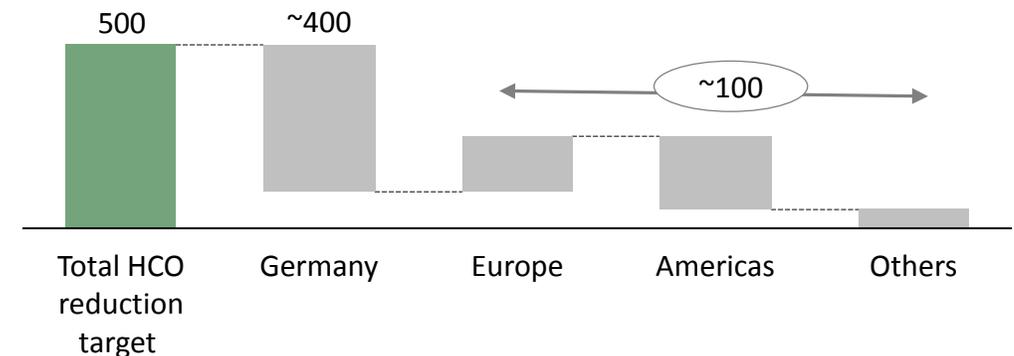
Δ EBIT in EUR mn



²⁾ 2016-2019 in total 70 mn Euro one-off effects, thereof 45 mn Euro booked as restructuring cost

■ EBIT Improvement ■ One-off costs

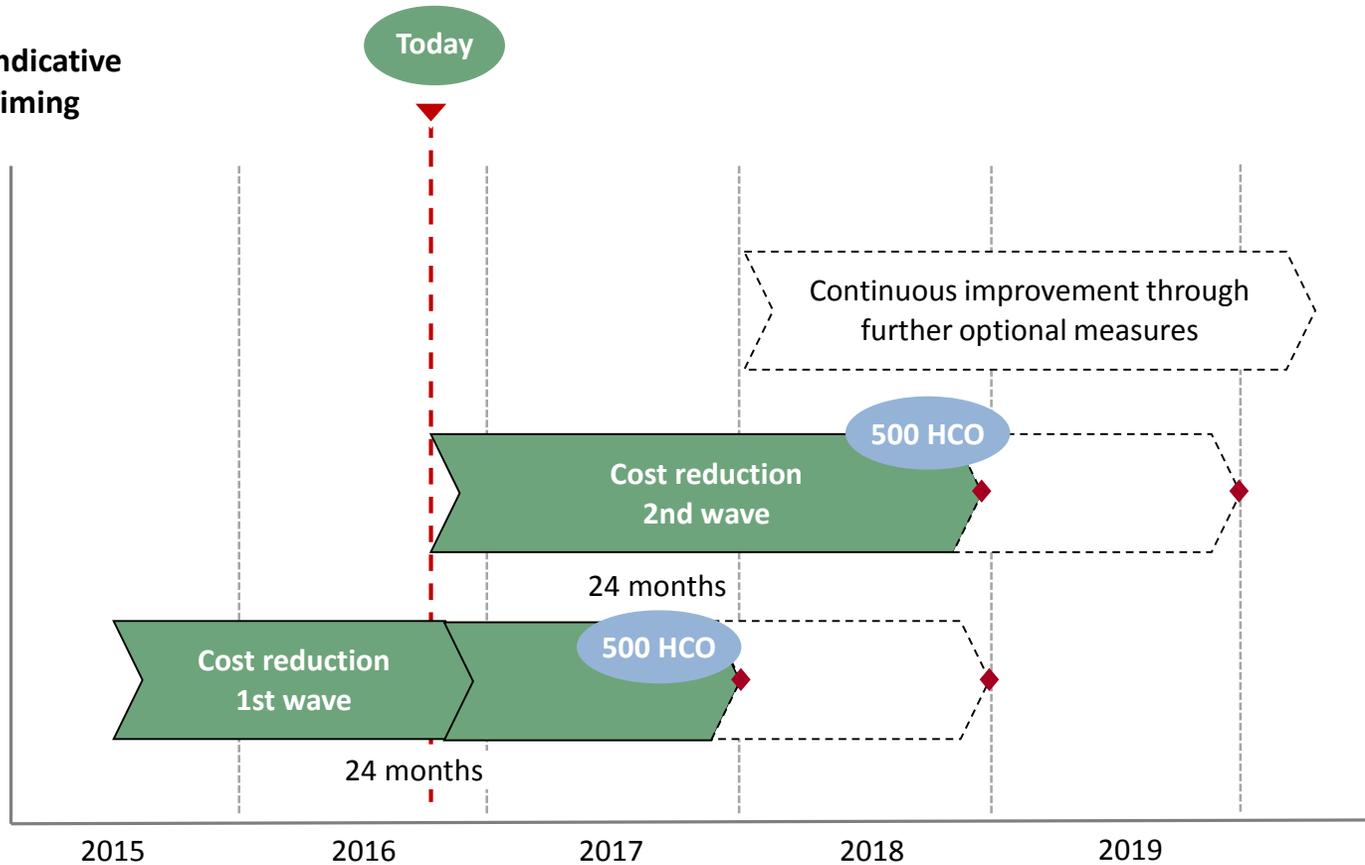
HCO reduction Plants/Overhead



3 Cost reduction and efficiency improvements – Overall target remains in place

Successful implementation

Indicative
Timing



Financial ambitions



3 Customer focus and growth – New business picking up

Example 1

Railway

Sectors and products



- ▶ E-locomotive
- ▶ Tapered and cylindrical roller bearing with ceramic coating; TAROL for Wheelset and Axle box housing
- ▶ Supplier network



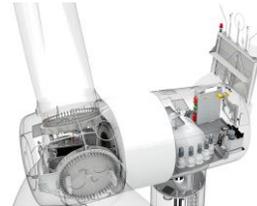
Signed 12/2016

10-year contract
Two-digit Euro mn

Example 2

Wind

Sectors and products



- ▶ Wind turbine
- ▶ Durotect B coated spherical roller bearing with WPOS
- ▶ Supplier network



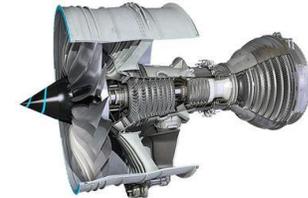
Signed 09/2016

1-year contract
Two-digit Euro mn

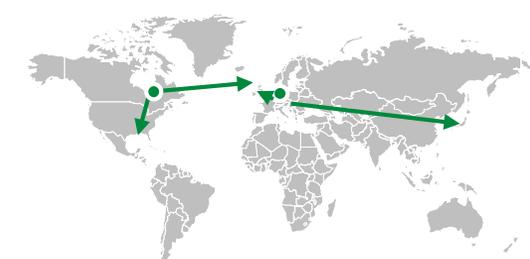
Example 3

Aerospace

Sectors and products



- ▶ Aerospace engine
- ▶ Bearings and components for key engine programs; Main shaft and gearbox bearings
- ▶ Supplier network



Signed 12/2016

5-year contract
Three-digit Euro mn

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

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

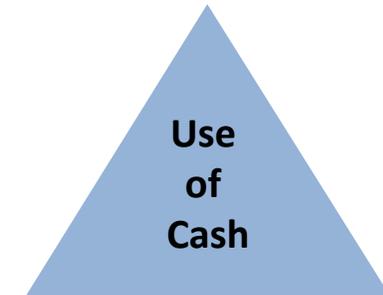
Automotive & Industrial

- ▶ Attractive pipeline of potential acquisition targets for both divisions
- ▶ Focus in Automotive and Industrial is on technology and on strengthening market positions

Use of cash

External growth

Add-on acquisitions



Deleveraging

Further optimization of balance sheet

Dividends

30-40% of net income

Guidance for 2017 – Improved growth prospects

	Guidance 2016	Actuals 2016	Guidance 2017
Sales growth	3-5% FX-adjusted	3.4% FX-adjusted	4-5% FX-adjusted
EBIT margin	12-13% of sales before one-off effects	12.7% of sales before one-off effects	12-13% of sales before one-off effects
Free Cash Flow	~ EUR 600 mn w/o external growth	~ EUR 730 mn	~ EUR 600 mn w/o external growth

Profitable growth
and sustainable
value creation

Market assumptions

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

Key messages

- 1 Pre-release of preliminary figures with strong results (FX-adjusted sales growth 3.4%, adj. EBIT margin 12.7%; FCF EUR ~730mn), comfortably achieving Guidance for 2016
- 2 Outperformance Automotive below-average in 2016, but back to 4%-pts target in 2017
- 3 Powertrain electrification requires alignment of product portfolio offering significant growth potential; more than 20 customer projects, 6 series contracts with top customers
- 4 Program CORE on track; second wave of efficiency measures initiated; increasing customer business
- 5 Strong cash flow generation allows for balanced use of cash including healthy dividend payments and add-on acquisitions
- 6 Guidance 2017 (FX-adjusted sales growth 4-5%, adj. EBIT margin 12-13%, FCF ~600 mn EUR); Foundations laid to achieve financial ambitions 2020

Mobility for tomorrow



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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