

Press and IR Release

Schaeffler kicks off Roadmap 2025

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- Roadmap 2025 presented by webcast at 5th Schaeffler AG Capital Market Day
- Strategy, implementation program, and medium-term targets as the three pillars of Roadmap 2025
- Group CEO and CEOs of the three divisions outline growth opportunities and value creation potential
- Medium-term targets for 2025 set at Group and divisional level
- Klaus Rosenfeld: "We want to remain the preferred technology partner for our customers."

The global automotive and industrial supplier Schaeffler presented its Roadmap 2025 today at its 2020 Capital Market Day (CMD). The Roadmap 2025 updates Schaeffler's business strategy to 2025, sets out a program for its implementation, and includes a set of medium-term targets. The medium-term targets for 2025 had been published after the markets closed on November 17 and were explained further at today's CMD. The main part of the event comprised presentations by Schaeffler's three divisional CEOs, who discussed the growth opportunities and value creation potential of their respective divisions.

Strategic priorities in the Roadmap 2025

At the start of the event, Klaus Rosenfeld, CEO of Schaeffler AG, emphasized that the Roadmap 2025 does not mark any radical change in strategic direction. The approach is rather to hold to the current course in areas where continuity has proven successful, to focus even more clearly on the company's strengths, and to improve in areas where there is ground to make up. The new corporate claim, "We pioneer motion", expresses Schaeffler's commitment to continuing to shape motion and progress by being a diversified automotive and industrial supplier with a global reach, he said. This will require even more effective use of the synergies available within the Schaeffler Group, he added. The company's success will continue to be based on its four proven key differentiators of innovation, manufacturing excellence, top quality, and system understanding. At the same time, he said, Schaeffler also needs to continue its transformation and to focus on core expertise and its consistent implementation.

In the Automotive Technologies division, this essentially means accelerating the portfolio's transition towards electric mobility and chassis applications. The priority

in the Automotive Aftermarket division will be to maintain the existing high margin, while focusing on utilizing opportunities for growth in the independent aftermarket segment. The Industrial Division will be looking to enter new growth sectors and consistently continue to increase its profitability, he said.

All of these measures will continue to be implemented consistently and with strict operational discipline. The focus here will remain on the creation of free cash flow and the convincing allocation of capital within the Group. The objective is to sustainably create added value in the long term.

Rosenfeld identified five key future trends that open up special opportunities for the Schaeffler Group: (1) sustainability and climate change, (2) new mobility and powertrain electrification, (3) autonomous production, (4) the data economy and digitalization, and (5) demographic change. Based on these trends, Schaeffler has formulated five areas in which the company wants to further enhance its position. These areas encompass the products and services of all three divisions as well as the ten cross-divisional customer sectors and sector clusters.

The Schaeffler Group sees strong growth potential in sectors such as hydrogen technology, for example – both in the form of fuel cells for mobile applications and electrolyzer equipment for green hydrogen production: “The Schaeffler Group sees a significant opportunity for growth in the hydrogen sector. With our manufacturing excellence and industrialization expertise, we are outstandingly positioned to offer our customers high-quality solutions and to benefit from the expansion of renewable energies,” Rosenfeld said.

The issue of sustainability is of higher-level significance for the Schaeffler Group. To this end, the company is pursuing an integrated approach across all divisions, functions, and regions. The objective is to achieve CO₂-neutral production operations from 2030 onwards.

Automotive Technologies: Aiming for innovation leadership in the electric powertrain segment

Matthias Zink, CEO Automotive Technologies, began his presentation with some remarks on the continuing high level of uncertainty in the automotive sector, on which he said the COVID-19 pandemic has had a particularly severe effect, coming on top of the fundamental structural transformation that was already underway. A conservative planning approach is therefore required, combining strict cost discipline with a measure of flexibility, he said.

Focusing on the powertrain segment, Zink extended Schaeffler's "Vision Powertrain 2030", which is based on global production of passenger cars and light commercial vehicles, out to the year 2035. The pace of electrification is set to increase sharply, with battery and fuel cell-powered vehicles (xEV) surging to 50 percent of the fleet, and hybrid drives (HEV) and internal combustion engines (ICE) declining to 35 and 15 percent, respectively.

Schaeffler will need to take this change into account in its portfolio management and capital allocation decisions, he said. Mature business areas with less growth potential will need a stronger focus on profitability and efficiency, with higher investment going into future technologies and new business. For the foreseeable future, however, HEV and optimized ICE drives will remain important for stabilizing margins and generating free cash flow, partly as a means of funding growth in new business areas. The implementation of measures to boost efficiency and reduce complexity within the Automotive Technologies division will continue, he said.

Dr. Jochen Schröder, head of the E-Mobility business division, highlighted the high volumes of incoming orders in the electric mobility sector, which amounted to EUR 4 billion in 2019 and over EUR 1 billion in the first half of 2020. The annual electric mobility order intake target for the period up to and including 2021 is EUR 1.5-2 billion, he noted, while the target for the period after that is an average of around EUR 2-3 billion per year. He highlighted the construction of a plant for electric motor production in Hungary, the location of a state-of-the-art electric mobility Competence Center in Bühl, success in gaining an established position as a supplier of "3in1" electric axles, and the manufacture of electric motor components for trucks in the USA. There is also very promising potential for fuel cell technology for trucks in particular, he said. This is an area in which the Schaeffler Group is building a position across divisions as part of its hydrogen technology initiatives.

There are also some success stories in the field of chassis applications as enablers of self-driving vehicles. Schröder cited a partnership with Bosch for rear-wheel steering systems and the Schaeffler Paravan joint venture, which is currently involved in the development of steer-by-wire solutions.

As medium-term targets for 2025, the Automotive Technologies division is aiming for revenue growth in constant currency terms of 200-500 basis points on average above the growth in the global production of passenger cars and light commercial vehicles. The target EBIT margin before special items is 4-6 percent, with the lower end of that range to be reached by 2023 at the latest.

Automotive Aftermarket: Changes in the business model needed for the realization of market opportunities

Michael Söding, CEO Automotive Aftermarket, summarized the current and future market trends for his division. Based on current forecasts, he noted that the global vehicle fleet, currently numbering 1.40 billion automobiles, was set to grow to 1.55 billion in 2025, mainly driven by trends in China. Along with this increase in the vehicle fleet, opportunities will open up in the spare parts business owing to the increasing average age of vehicles and the trend towards greater vehicle complexity. These trends will result in higher demand for vehicle repairs.

At the same time, however, profit pools in the aftermarket sector are under pressure, particularly as a result of consolidation and new market entrants. In addition, digital platforms and e-commerce are changing consumer behavior.

Schaeffler will have to respond to this complex mix of challenges on multiple levels and make changes to its business model, he said. He cited a broadening of the company's range of solutions and services as an example of this. As part of its ongoing transition from a component supplier to a supplier of systems and integrated solutions, for example, Schaeffler is adding data-based services and innovative plug-and-play repair solutions to its product range. Another avenue is the formation of industry partnerships, he said, as the basis for offering holistic solutions, including access to vehicle data.

Söding also highlighted the creation of digital sales channels, citing the ETC (engine, transmission, and chassis) product portfolio in China, which offers a "one-stop shop" for high-complexity products on a fragmented market with high potential for growth. The REXPART workshop portal also uses digital channels, he noted.

As a further measure for increasing efficiency, he referred to the establishment of "Aftermarket Kitting Operation Europe" (AKO Europe), an assembly and packaging center that went into operation on August 12, 2020. By 2023, the AKO will cover at least 60 percent of global warehouse stocks. Incorporating both digital and non-digital solutions, it will provide a sustainable boost to efficiency and agility in the supply of spare parts for the automotive aftermarket. It will also result in a 20 percent reduction in CO2 emissions because of shorter transport distances, he said.

The medium-term targets for 2025 for the Automotive Aftermarket division are to generate constant-currency revenue growth that is on average higher than global GDP growth, and an EBIT margin before special items of 13-15 percent, with the lower end of that range being reached by 2023 at the latest.

Industrial: Higher margin through new business areas and operational measures

Dr. Stefan Spindler, CEO Industrial, noted that global industrial production in 2020 was expected to be down from the prior year by at least 8 percent. Growth is negative in all regions except China, he said. A return to pre-pandemic growth levels is not expected until 2022. In the long term, growth prospects in the eight sector clusters are mainly positive, he continued, with Wind Power and Rail seen as the market sectors with the strongest growth potential.

The division can generate growth in its core business by leveraging key future trends such as sustainability and demographic change, he said. But growth can also be driven by selling innovative systems and services, he added. Schaeffler has a strong position in the components business, with growth based on production technology and innovative product development built up over several decades. Investments in both high-performance products and cost-effective volume products is carefully targeted according to customer requirements. Based on those requirements, the division is increasingly bringing systems, mechatronic products, and service solutions onto the market.

Spindler cited the following six examples of growth initiatives in the components and systems business: Components for wind turbines and rail applications, rolling bearings and sensor technology for agricultural equipment, new robotics systems, the OPTIME condition monitoring solution, and initial steps in the development of components for hydrogen generation.

Overall, the Industrial division plans to extend its technology leadership, to further enhance its customer service through e-commerce solutions, to achieve ongoing efficiency gains with the FIT program, and to proceed with the step-by-step implementation of the structural realignments adopted in September.

As medium-term targets for 2025, the Industrial division is aiming for revenue growth in constant currency terms that on average exceeds the growth in global industrial production, and an EBIT margin before special items of 12-14 percent, with the lower end of that range to be achieved by 2023 at the latest.

Value-based management of the Schaeffler Group and focus on free cash flow

As the last presenter at the CMD, Dr. Klaus Patzak, CFO of Schaeffler AG, provided an overview of the Schaeffler Group's medium-term targets, which form part of a revised financial framework. He explained that the decisive factor in determining the medium-term targets was the multi-year plan for the divisions. The budget year represents the first year of the medium-term plan.

The purpose of multi-year planning is to enable Schaeffler to invest in new growth areas, obtain leading market positions, focus mature parts of the business on profitability and free cash flow, proactively adjust its footprint, and reduce overheads.

The main indicators for value creation at Group level are the return on capital employed (ROCE, based on reported EBIT), which should reach the 12-15 percent target range by 2023 at the latest, and the free cash flow conversion ratio (free cash flow before inflows and outflows for M&A-activities divided by reported EBIT), which should reach the 0.3-0.5 target range during 2023 at the latest.

These two indicators highlight the central importance of profitable growth, focused capital allocation and capital efficiency for value-based company management and the generation of free cash flow from EBIT.

The Board of Managing Directors of Schaeffler AG has also formulated the following parameters for the capital structure and dividends policy: The Schaeffler Group's debt to EBITDA ratio, defined as net financial debt divided by EBITDA before special items, should be in the 1.2x to 1.7x range between 2021 and 2025. The dividends policy remains unchanged. As before, the aim is to distribute 30-50 percent of net income adjusted for special items to the shareholders.

Roadmap 2025 sets the Schaeffler Group up for a successful future

With the Roadmap 2025, the Schaeffler Group is successfully orienting its activities towards the future. Winding up the event, Klaus Rosenfeld commented: "Our Roadmap 2025 is a forward-looking strategy with which we want to make the Schaeffler Group even more competitive and fit for the future. We want to use our opportunities for growth even better, realize more synergies in the Schaeffler Group, and create sustainable value. Our new claim 'We pioneer motion' combines all our activities. In this way, we will also live up to our claim of being the preferred technology partner for our customers in the future."

Forward-looking statements and projections

Certain statements in this press release are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any

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Schaeffler Group – We pioneer motion: The Schaeffler Group has been driving forward groundbreaking inventions and developments in the field of motion technology for 80 years. With innovative technologies, products, and services for electric mobility, CO₂-efficient drives, chassis solutions and renewable energies, the company is a reliable partner for making motion more efficient, intelligent, and sustainable – over the entire life cycle. Schaeffler describes its comprehensive range of products and services by means of eight product families: From bearing solutions and all types of linear guidance systems through to repair and monitoring services. Schaeffler is with around 110,000 employees and more than 250 locations in 55 countries, one of the world's largest family-owned companies and one of Germany's most innovative companies.

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