Financing Strategy –
How many Eggs in one Basket?

Christoph Beumelburg / Thomas Ditt
Schaeffler AG
8. Structured FINANCE
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Schaeffler at a glance

Key characteristics

- Leading manufacturer of high-precision components and systems for automotive and industrial applications
- Global footprint with approx. 76,000 employees in more than 50 countries
- Above industry average profitability and revenue growth
- Well-balanced business, customer and product portfolio
- Focus on technology, quality and innovation leadership
- Strategic participation in Continental

Key financials in 2011 (in € mn)

<table>
<thead>
<tr>
<th>Component</th>
<th>2011 Value</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in % vs 2010</td>
<td>10,694</td>
<td>+13%</td>
</tr>
<tr>
<td>EBIT in % of sales</td>
<td>1,689</td>
<td>16%</td>
</tr>
<tr>
<td>EBITDA in % of sales</td>
<td>2,243</td>
<td>21%</td>
</tr>
</tbody>
</table>

Sales by business

- Automotive OEM: 57%
- Industrial OEM: 20%
- Industrial AM: 12%
- Automotive Aftermarket: 11%
Top three positions in core market sectors

**Automotive**
- Transmission
- Engine
- Chassis
- Aftermarket

**Industrial**
- Power Transmission
- Production Machinery
- Wind Power
- Aerospace
- Motorcycles
- Railway
- Heavy Industry
- Fluids & Pneumatics
- Consumer Products
- Power Generation
- Industrial Aftermarket

68% of sales
32% of sales
Agenda

1. Where do we come from?

2. Transaction highlights

3. Lessons learned
### Chronology of major events

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul 2008</td>
<td>Public takeover bid for Continental AG</td>
</tr>
<tr>
<td>Jan 2009</td>
<td>Acquisition of tendered shares in Continental AG (approx. 89.9%) financed by a €11 billion acquisition loan + €1 billion liquidity facility</td>
</tr>
<tr>
<td>Nov 2009</td>
<td>Separation of total debt into two tranches: Junior debt (Holding level) and Senior debt (operating business)</td>
</tr>
<tr>
<td>Jun 2010</td>
<td>Establishment of new legal structure</td>
</tr>
<tr>
<td>Mar 2011</td>
<td>Refinancing of Junior loans and re-arrangement of participation structure in Continental AG</td>
</tr>
<tr>
<td>Oct 2011</td>
<td>Conversion from Schaeffler GmbH into Schaeffler AG</td>
</tr>
<tr>
<td>Jan 2012</td>
<td>Refinancing of Senior indebtedness</td>
</tr>
</tbody>
</table>

(1) For presentation purposes only those events relevant to refinancing of Senior indebtedness are shown.
1 Where do we come from?

Financing structure prior to refinancing

Corporate structure

1 Holding

- Schaeffler Holding
  - 100%
  - 13.8%
  - 10.4%

2 Schaeffler Group

- Schaeffler AG
  - 100%
  - 36.1%

- Schaeffler Technologies AG & Co. KG

- Continental AG

Key financing elements

1 Holding debt: ~ €5.0 bn
- Junior Revolver
- Junior Term Loan
- Junior Zero Coupon Bond

2 Schaeffler Group debt: ~ €7.8 bn
- Senior Revolver: €0.8 bn
  - Maturing 06/13
- Senior Term Loan: €7.0 bn
  - Bullet structure
  - Maturing 06/13

(1) ITP - Independent Third Parties: M.M. Warburg and Bankhaus Metzler

(2) Excluding 1 year extension option
1 Where do we come from?

Major challenges

1. Entire debt due at one maturity date
2. Funding relies solely on bank loans
3. Small banking consortium
4. Financing costs to be improved
Agenda

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Key objectives of Senior debt refinancing

Six key objectives

1. Extend debt maturity profile
2. Diversify funding sources
3. Expand banking consortium
4. Improve current financing costs
5. Establish Schaeffler credit rating
6. Enhance financial flexibility

Refinancing of Senior Indebtedness
€8.0 billion senior secured refinancing package

+ Subsequent
€2.0 billion equivalent high yield and
€1.4 billion institutional loan issue
One of the largest transactions worldwide in 2012

- **Large, complex structured transaction**
  - High yield notes, bank and institutional loans launched concurrently across the US and European markets
  - **€8.0 bn refinancing** represented the largest transaction for a single 'B' borrower in 2012
  - **€2.0 bn equivalent bond issue** represented largest inaugural dual tranche high yield bond issue ever
  - **€1.4 bn cross border, institutional loan** represented largest issuance from a European borrower in 2012

- **Milestone transaction**
  - Bonds 10x oversubscribed from over 500 institutional investors, demonstrated confidence in Schaeffler
  - Deal was doubled in size from launch size of €1 billion
  - Loans 5x oversubscribed, resulting in largest reverse flex on pricing since 02/11 and largest upsize to €1.4 billion equivalent in the US market since 05/11
2 Transaction highlights

**Good mix of funding sources and geographies**

**Diverse new lender universe**

- **High Yield Bonds**
  - 25%
- **Institutional Loans**
  - 18%
- **Banks**
  - 57%

**Total debt: €8.0 billion**
(incl. RCF)

**Investor allocation breakdown of EUR Notes (€800m, 2017 / €400m, 2019)**

- **Germany**
  - 10%
- **ROW**
  - 1%
- **USA**
  - 34%
- **Europe ex Germany**
  - 55%

**Total EUR HYB: €1.2 billion**
(Total USD HYB: $1.1 billion)
Optimal timing and innovative structuring

- Optimal timing to exploit first window of opportunity in HY bond and institutional loan markets since mid 2011
- High demand allowed pricing at tight end of guidance
- Since launch, notes have performed extremely well in secondary markets, all currently trading above 110

- Refinancing package provides sufficient flexibility to service debt at Schaeffler Holding level
- Optimal capital structure with 3 & 5 year loan tenors and 5 & 7 year high yield tranches, providing flexibility for the further successful development of Schaeffler
- First pari-passu HY-transaction to fully enfranchise noteholders on enforcement voting ("one €, one vote")
Acknowledging the success

Schaeffler was voted Most Impressive High Yield Issuer in European Currencies by banks polled by EuroWeek.
## All key objectives achieved

<table>
<thead>
<tr>
<th>Six key objectives</th>
<th>Pre-refinancing</th>
<th>Post-refinancing (02/12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improve current financing costs</td>
<td>&gt; 8%</td>
<td>~ 7.5%</td>
</tr>
<tr>
<td>2. Extend debt maturity profile</td>
<td>Duration: Ø 1.5 years</td>
<td>Duration: Ø 4.4 years</td>
</tr>
<tr>
<td>3. Diversify funding sources</td>
<td>Banks</td>
<td>Banks + Institutional investors</td>
</tr>
<tr>
<td>4. Expand banking consortium</td>
<td>4 Banks</td>
<td>8 Banks</td>
</tr>
<tr>
<td>5. Establish Schaeffler credit rating</td>
<td>No rating</td>
<td>S&amp;P: B (positive)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Moody's: B2 (stable)</td>
</tr>
<tr>
<td>6. Enhance financial flexibility</td>
<td>Restrictive terms</td>
<td>Improved terms</td>
</tr>
</tbody>
</table>
## What has happened next?

### Subsequent financing events in 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jun 14</strong></td>
<td>Banking consortium further enlarged to 11 banks, bank syndication closed</td>
</tr>
<tr>
<td><strong>Jul 4</strong></td>
<td>€326 million retail / employee bond launched, tapping new market segment for Schaeffler</td>
</tr>
<tr>
<td><strong>Aug 9</strong></td>
<td>S&amp;P upgrades Schaeffler corporate rating to B+ (outlook stable)</td>
</tr>
<tr>
<td><strong>Sep 24</strong></td>
<td>Schaeffler Holding reduces liabilities by €1.6 billion, shareholder structure in Continental AG simplified</td>
</tr>
<tr>
<td><strong>Sep 28</strong></td>
<td>Moody's upgrades Schaeffler corporate rating to B1 (outlook positive)</td>
</tr>
</tbody>
</table>
2 Transaction highlights

The situation today – stable and diversified

### Maturity profile

<table>
<thead>
<tr>
<th>Maturity Profile</th>
<th>Amount (in EUR mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Term Loan B, 3 years</td>
<td>1,000</td>
</tr>
<tr>
<td>Senior Term Loan C1, 5 years</td>
<td>2,000</td>
</tr>
<tr>
<td>Institutional Loan C2, EUR/USD, 5 years</td>
<td>3,000</td>
</tr>
<tr>
<td>High-Yield Bond 2017, EUR/USD, 5 years</td>
<td>4,000</td>
</tr>
<tr>
<td>High-Yield Retail Bond, 5 years</td>
<td>5,000</td>
</tr>
<tr>
<td>High-Yield Bond 2019, EUR/USD, 7 years</td>
<td>6,000</td>
</tr>
</tbody>
</table>

(1) Without Revolving Credit Facility of about EUR 1.0 bn, as of August 31, 2012. Currency conversion based on €/$ of 1.2611

### Bond performance

**Bond performance in %**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Year</th>
<th>Yield to worst</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>2017</td>
<td>4.99%</td>
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<tr>
<td>USD</td>
<td>2017</td>
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</tr>
<tr>
<td>EUR</td>
<td>2019</td>
<td>5.35%</td>
</tr>
<tr>
<td>USD</td>
<td>2019</td>
<td>5.39%</td>
</tr>
</tbody>
</table>

**Yield to worst as of November 5, 2012**

- EUR 2017: 4.99%
- USD 2017: 4.91%
- EUR 2019: 5.35%
- USD 2019: 5.39%
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3. Lessons learned
## 3 Lessons learned

### Key lessons learned

1. **Pick and choose the right deal team.**
   - Too many cooks spoil the broth. Assign clear roles & responsibilities. Manage process tightly.

2. **Markets turn around quickly – be ready.**
   - Prepare diligently. Exploit window of opportunity. Then act speedily.

3. **Spend time on investors' education.**
   - Educate investors well ahead of launch. Do pre-deal roadshow. Shorten actual launch process.

4. **Be flexible – be innovative.**
   - Listen closely to investor feedback and concerns. Consider innovative structures.

5. **After the transaction is before the transaction.**
   - Build trust. Care about the aftermarket trading. You'll be back on the markets soon.
3 Lessons learned

Don't put all your eggs in one basket

It is paramount for Schaeffler not to put all its eggs in one basket. Bank loans, institutional loans and bonds in different currencies and regions are an integral part of our financing mix.

Therefore, capital market access is key. US capital market access is a critical success factor.

In 2012, we have established ourselves as a benchmark issuer in the capital markets. We will continue to opportunistically use windows of opportunity on the debt capital markets as and when they present themselves.