



# Financing Strategy – How many Eggs in one Basket?

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## Schaeffler at a glance

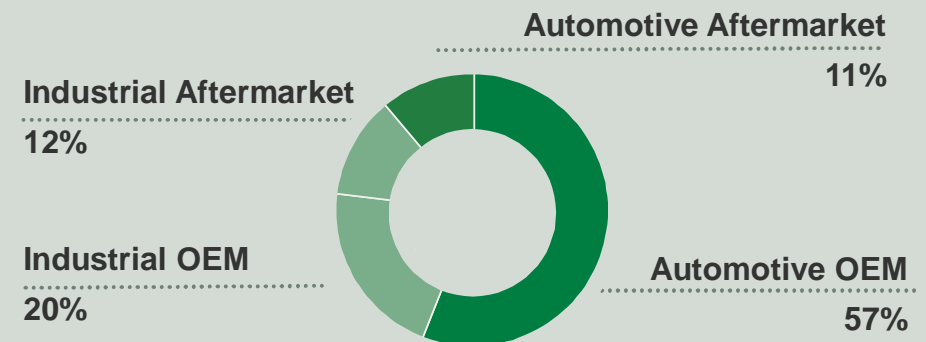
### Key characteristics

- ▶ 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)

<b>Sales</b> in % vs 2010	<b>10,694</b> +13%
<b>EBIT</b> in % of sales	<b>1,689</b> 16%
<b>EBITDA</b> in % of sales	<b>2,243</b> 21%

### Sales by business



## Top three positions in core market sectors

### Automotive

68% of sales



Transmission



Engine



Chassis



Aftermarket



### Industrial

32% of sales



Power  
Transmission



Production  
Machinery



Wind Power



Aerospace



Motorcycles



Railway



Heavy Industry



Fluids &  
Pneumatics



Consumer  
Products



Power  
Generation



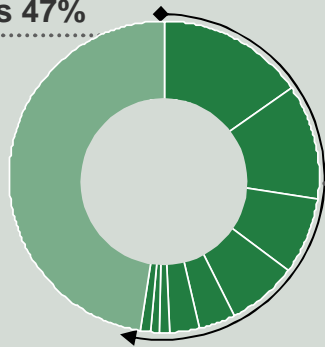
Industrial  
Aftermarket



## Highly diversified customer base

### Automotive

Other customers 47%



TOP 10  
customers

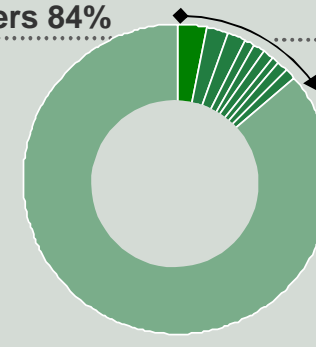
53% of  
Automotive sales

~ 7,500 Automotive customers



### Industrial

Other customers 84%



TOP 10  
customers

16% of  
Industrial sales

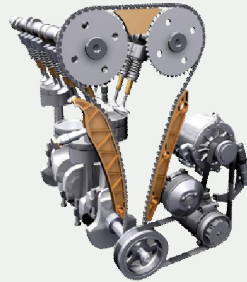
~ 17,000 Industrial customers



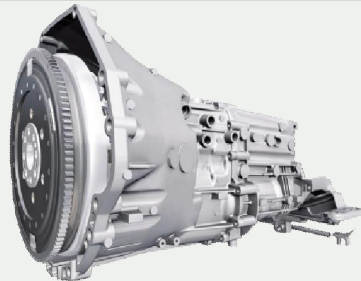
## Broad spectrum of components and systems

### Automotive

#### Engine



#### Transmission



#### Chassis and accessory-drive



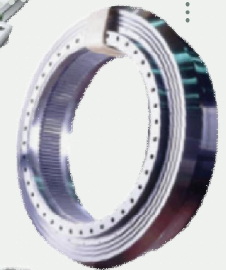
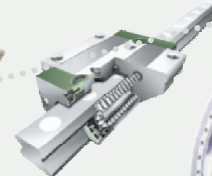
### Industrial

Radial insert  
ball bearings

Components  
for  
parallel  
kinematics

Linear  
guides

Thrust/radial  
cylindrical  
roller bearings  
with an outside  
diameter up to  
4 meters



smallest ball  
bearing with  
an 1 mm inside  
diameter

Tapered  
roller  
bearings

Spherical  
roller bearings

Direct drives



INA-FAG catalog with  
40,000 articles



## Ongoing regional diversification – "In the region – for the region"

### Global footprint with five dedicated regions



### Planned greenfield sites and plant extensions for 2012-2014

- 1 Irapuato, Mexico
- 2 Kysuce, Slovakia
- 3 Skalica, Slovakia
- 4 Szombathely, Hungary
- 5 Brasov, Romania
- 6 Nanjing, China
- 7 Yinchuan, China
- 8 Taicang 5, China
- 9 Taicang 6, China
- 10 Suzhou, China
- 11 Savli, India
- 12 Pune, India
- 13 Hosur, India
- 14 BienHoa City, Vietnam

	Germany	Europe w/o Germany	North & South America	Asia/Pacific	Total
Plants	24	19	14	13	70
R&D centers	13	9	8	10	40

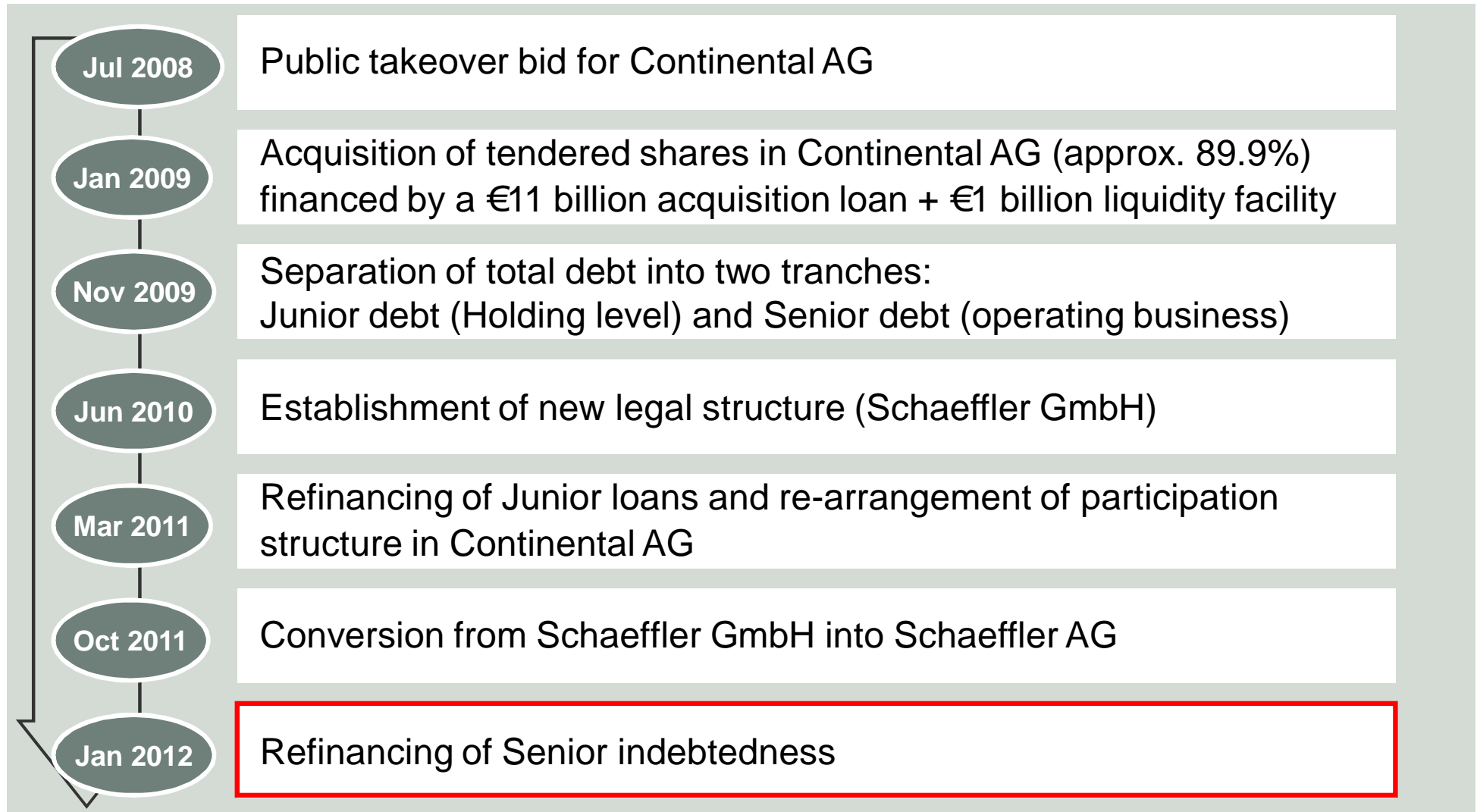
# Agenda

**1** Where did we come from?

**2** Transaction highlights

**3** Lessons learned

## Chronology of major events<sup>1</sup>



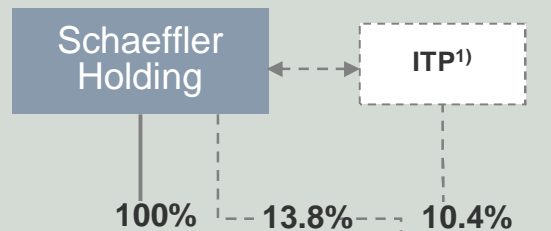
(1) For presentation purposes only those events relevant to refinancing of Senior indebtedness are shown



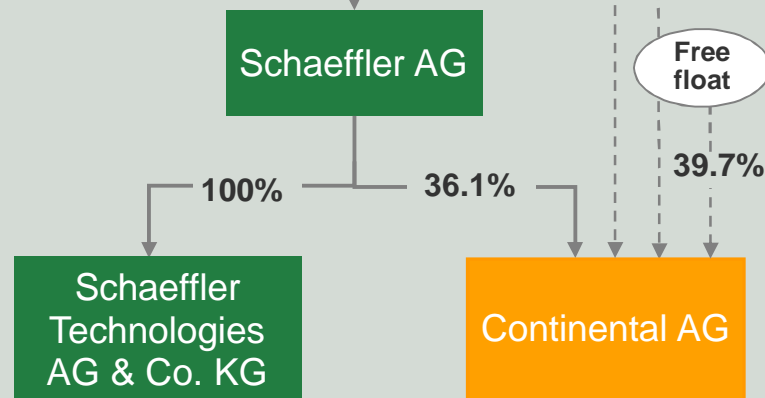
## Financing structure prior to refinancing

### Corporate structure

#### 1 Holding



#### 2 Schaeffler Group



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

### Key financing elements

#### 1 Holding debt: ~ €5.0 bn

- Junior Term Loan
- Junior Zero Coupon Bond

#### 2 Schaeffler Group debt: ~ €7.0 bn

- Senior Term Loan: €7.0 bn
- Bullet structure
- Maturing 06/13<sup>2)</sup>

(2) Excluding 1 year extension option and Senior Revolver

## Major challenges

- 1 Entire debt due at one maturity date !
- 2 Funding solely relies on bank loans !
- 3 Small banking consortium with respective risk exposure !
- 4 Financing costs do not match market conditions at the time !

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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

## Comprehensive bank / bond deal

**€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 upside to €1.4 billion equivalent in the US market since 05/11

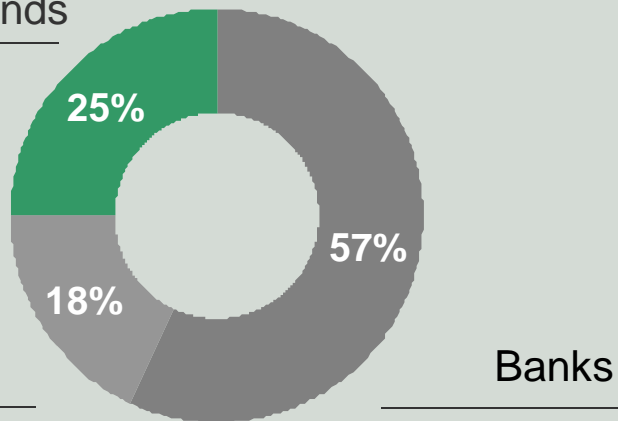


## Good mix of funding sources and geographies

### Diverse new lender universe

High Yield Bonds

Institutional  
Loans



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

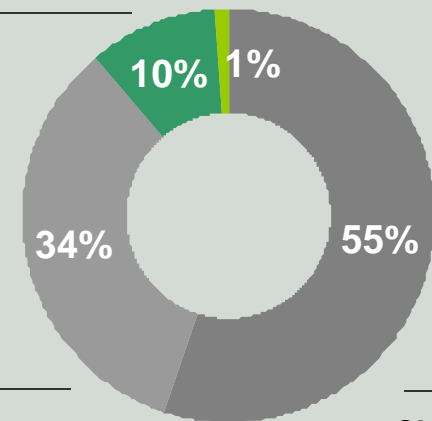
### Investor allocation breakdown of EUR Notes (€800m, 2017 / €400m, 2019)

Germany

ROW

USA

Europe  
ex Germany



**Total EUR HYB: €1.2 billion**  
(Total USD HYB: \$1.1 billion)

## Optimal timing and innovative structuring

Optimal timing  
allowed tight  
pricing

- ▶ 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

Innovative  
structuring and  
groundbreaking  
documentation

- ▶ 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



- ▶ EMEA High-Yield Bond of the Year 2012
- ▶ EMEA Leveraged Loan of the Year 2012



- ▶ Deal of the Year
- ▶ Most Impressive High Yield Issuer in USD
- ▶ Most Impressive High Yield Issuer in EUR



- ▶ The Global Corporate Deal 2012



- ▶ The Treasurer's Deal of the Year – Bonds
- ▶ The Treasurer's Overall Deal of the Year

**All key objectives achieved**

Six key objectives		Pre-refinancing	Post-refinancing (02/12)
1	Improve current financing costs	> 8%	~ 7.5% ✓
2	Extend debt maturity profile	Duration: Ø 1.5 years	Duration: Ø 4.4 years ✓
3	Diversify funding sources	Banks	Banks + Institutional investors ✓
4	Expand banking consortium	4 Banks	8 Banks ✓
5	Establish Schaeffler credit rating	No rating	S&P: B (positive) Moody's: B2 (stable) ✓
6	Enhance financial flexibility	Restrictive terms	Improved terms ✓

## What has happened next?

### Subsequent financing events in 2012/2013

Jun 14

Banking consortium further enlarged to 11 banks,  
bank syndication closed

Jul 4

€326 million retail / employee bond launched,  
exploiting new market segment for Schaeffler

Sep 24

Schaeffler Holding reduces liabilities by €1.6 billion,  
shareholder structure in Continental AG simplified

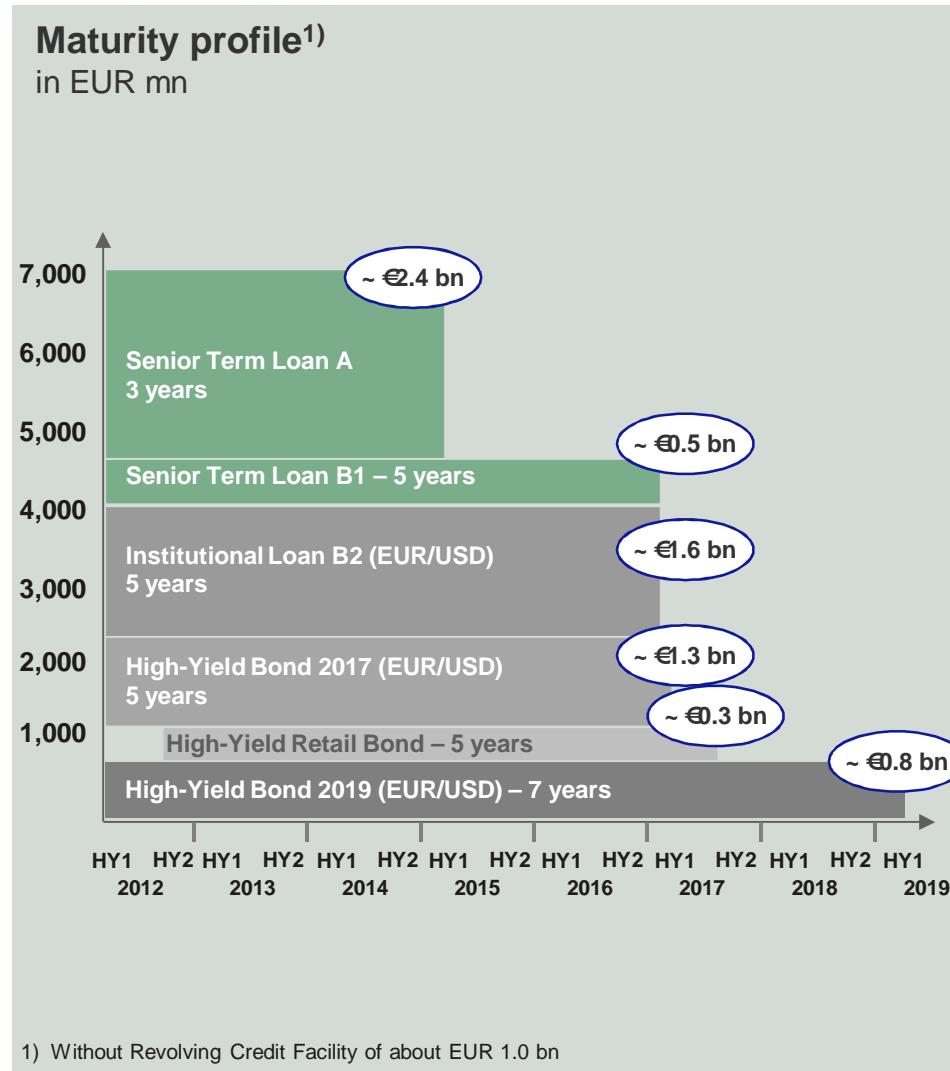
Dec 14

Refinancing of €5.6 billion Senior Facilities,  
enhancing covenant, repayment and structural flexibility

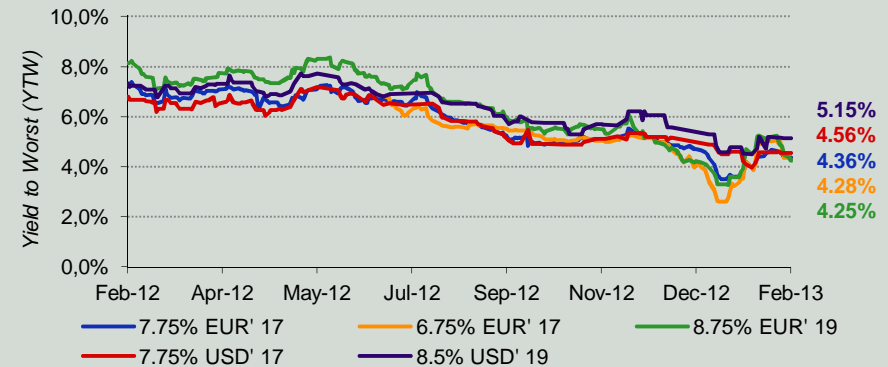
Feb 21

Launch repricing transaction of €1.6 billion equivalent Senior Facilities  
with institutional lenders

## The situation today – stable and diversified



### Bonds outperforming high-yield markets



### Prices (as of Feb, 20):

EUR '17 (6.75%): 108.0  
EUR '17 (7.75%): 112.3  
EUR '19 (8.75%): 114.5  
USD '17 (7.75%): 111.5  
USD '19 (8.50%): 112.0

### Current rating

S&P

Moody's

Corporate rating

B+ outlook stable

B1 outlook positive

Issue rating

B+

Ba3



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## 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. | Care about aftermarket trading. Build trust. You'll be back on the markets soon.               |

## Debt capital markets – The role of Investor Relations at Schaeffler

Interface between  
capital markets and  
management

- ▶ Provide regular capital market feedback to management (competitive intelligence)
- ▶ Facilitate cultural change in a family owned company with capital market structures

Voice and face to the  
debt capital markets

- ▶ Prepare and structure transactions together with Capital Markets Treasury Team
- ▶ Participate at leveraged finance conferences and conduct dedicated credit roadshows

Internal and external  
marketing material and  
documentation

- ▶ IR/Press-releases on results / transactions
- ▶ Debt capital market story / transaction story
- ▶ Prospectus / Senior Facilities Agreement

## **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 its 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.

**Together we move the world**