



**Analyst and Investor Conference Call**

**Financial results 9M/2015**

**28 October 2015**

### Market environment

- Robust passenger car registrations in the U.S. and Europe
  - U.S.: + 5.0 per cent to 13.05 million cars
  - Europe: + 8.8 per cent to 10.41 million cars
- China: + 2.8 per cent to 14.55 million cars after a weak Q3 (-1.5 per cent)

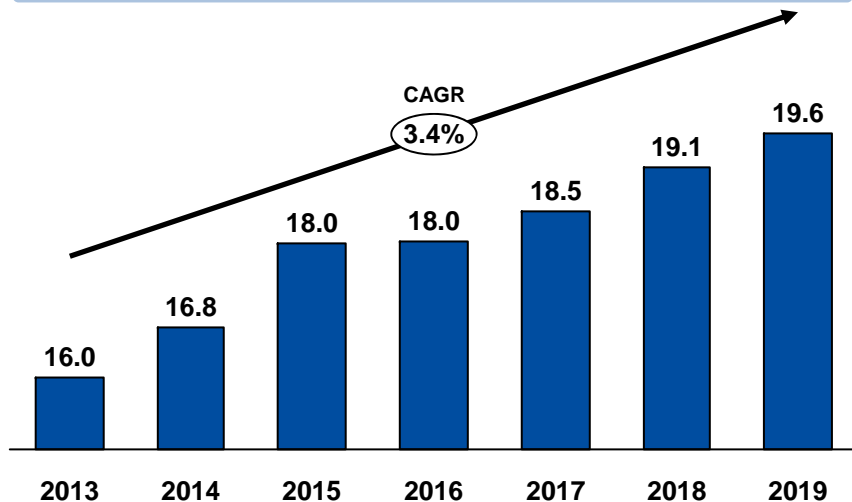
### Financial performance

- Group sales: +11.5 per cent to € 358.5 million
- Adjusted EBITDA: +5.8 per cent to € 33.0 million; impacted by non-timely execution of efficiency measures in the Powder Metallurgy
- Net income for the period: + 12.4 per cent to € 12.4 million influenced by equity result of Chinese joint venture
- Reduction of net debt by 63.6 per cent to € 9.0 million affected by high investments and successful capital increase of € 24.6 million in February 2015

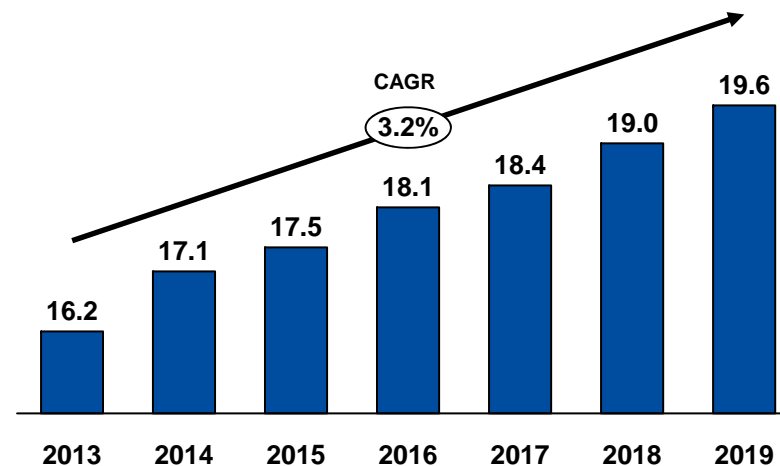
# Overall positive market development despite China's losing momentum



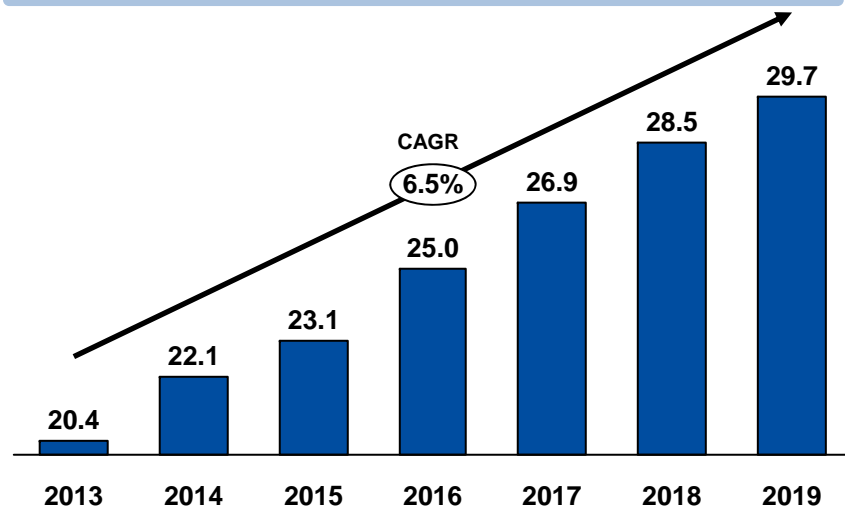
Light vehicle production (< 6 t) – Europe (m units)



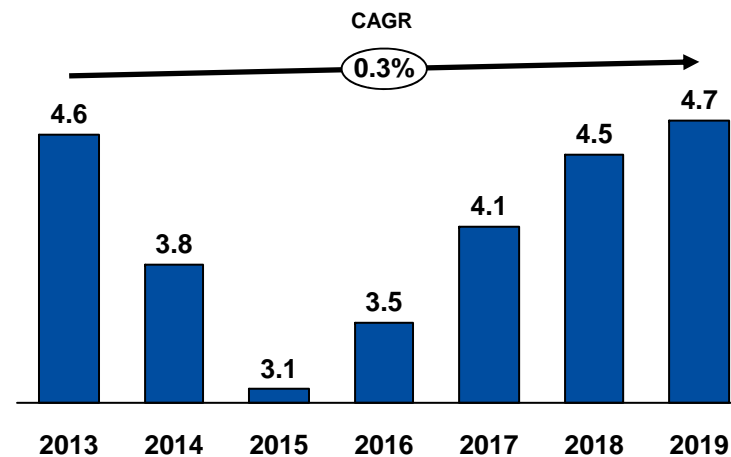
Light vehicle production (< 6 t) – North America (m units)



Light vehicle production (< 6 t) – China (m units)



Light vehicle production (< 6 t) – South America (m units)



Source: PwC Autofacts – October 2015

SHW benefits from global footprint and challenging CO<sub>2</sub> regulations in all strategic markets

# International presence enables further international growth

**Toronto, Canada**  
Employees: 5



**Tuttlingen**  
Employees: 236



**Wasseraffingen incl. HQ**  
Employees: 341



**LongKou, China**  
Employees: 113



**Detroit, U.S.**  
Employees: 1



**Shanghai, China**  
Employees: 8



**São Paulo, Brazil**  
Employees: 4



**Neuhausen**  
Employees: 152



**Bad Schussenried**  
Employees: 559



Status: 30 September 2015

**SHW's internationalisation strategy works out!**

### North America:

- Re-entry into market – nomination as serial supplier by North American OEM for variable engine oil pumps for global engine platform (North America, Europe and China); lifetime value € 160 m

### China:

- Contract gain Q1/2015: production of local content of variable engine oil pumps for North American OEM; SoP in 2019
- In Q3/2015 nomination as serial supplier of electric auxiliary pumps for start-stop function as well as transmission oil pumps for dual-clutch from a Chinese OEM (lifetime value: € 70 m - 80 m)

### Brazil:

- 2015: despite challenging market environment positive results year-to-date

### Eastern Europe:

- Partial relocation of production capacities to Eastern or South Eastern Europe – final decision and set-up in 2016; SoP in 2017

- Q3/2015: nomination as serial supplier of electric auxiliary pumps for start-stop function and transmission oil pumps for dual-clutch from a Chinese OEM
- Lifetime value between € 70 m and € 80 m
- Start of production at Chinese facility in Kunshan in 2017
- Product advantages:
  - Realisation of CO<sub>2</sub> savings by structural improvements and weight reductions
  - Contribution to pleasant driving with reduced noise and pulsation levels

### China:

- Start of operation of the joint venture SHW Longji Brake Discs (LongKou) on 1 April
- Currently “LongKou” produces unprocessed brake discs for the joint venture partner with fixed profit margins
- Production capacity will be shifted to ready-to-install brake discs for new OEM/OES business over time
- Management focus on improving system and process quality for attaining the certification according to ISO/TS16949
- Concrete customer enquiries received shortly after start of operation

### NAFTA:

- Further analysis of market potentials for light weight brake discs and evaluation of market entry strategies

## Results impacted by backlog in executing efficiency measures



€m	9M/2015	9M/2014	Change in %
Group sales	358.5	321.4	+11.5%
Incoming orders	343.9	328.6	+4.7%
Adj. EBITDA	33.0	31.2	+5.8%
Depreciation (excl. PPA)	16.5	13.2	+24.3%
Adj. EBIT	16.5	18.0	-8.0%
Net income for the period	12.4	11.0	+12.4%
EPS (in €) <sup>1)</sup>	1.95	1.88	+3.9%
Working Capital Ratio (%)	11.7	11.3	
Capex <sup>2)</sup>	19.3	24.7	-21.9%
Operating free cash flow <sup>3)</sup>	-3.6	-15.9	-77.4%
Net Debt	-9.0	-24.8	-63.6%
ROCE (%)	14.0	15.8	
No. of employees (average)	1,281	1,145	+11.9%

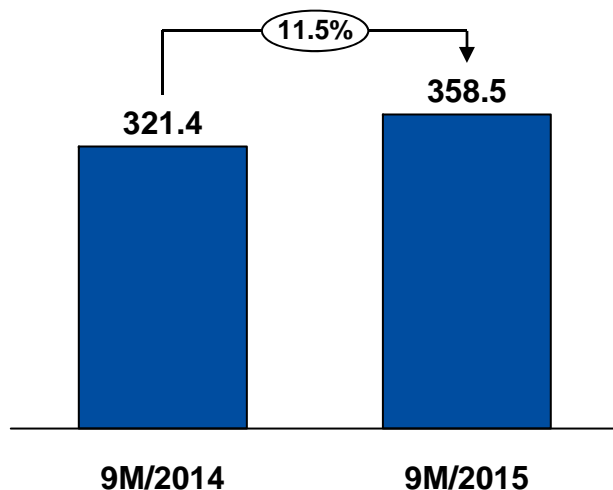
<sup>1)</sup> 9M/2015: based on an average of 6,333,333 shares / 9M/2014: based on an average of 5,851,100 shares.

<sup>2)</sup> Additions to tangible and intangible assets.

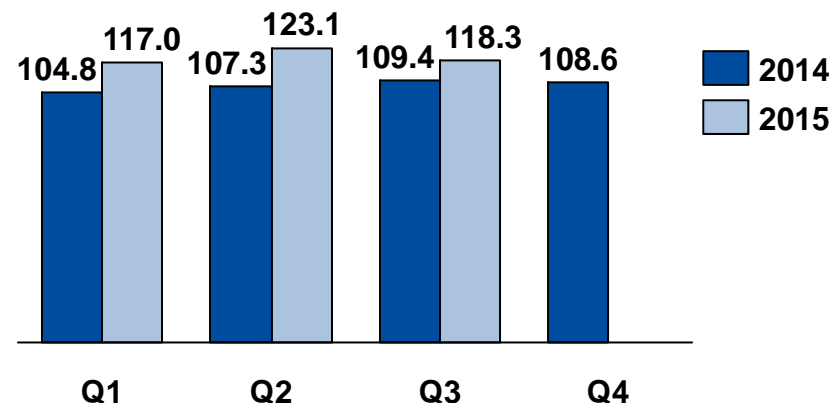
<sup>3)</sup> Operational free cash flow w/o investments in financial assets.



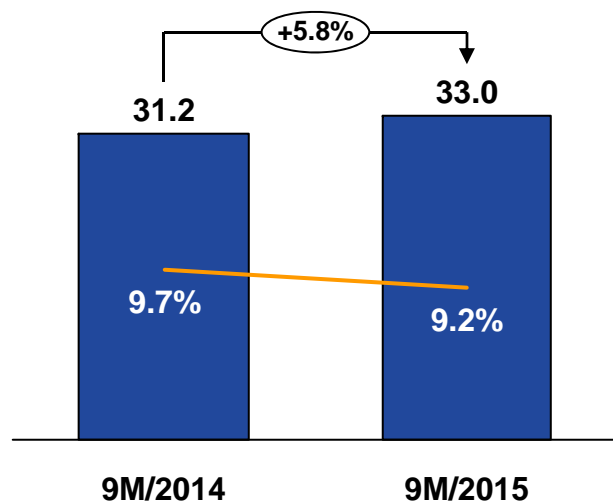
Sales (€m)



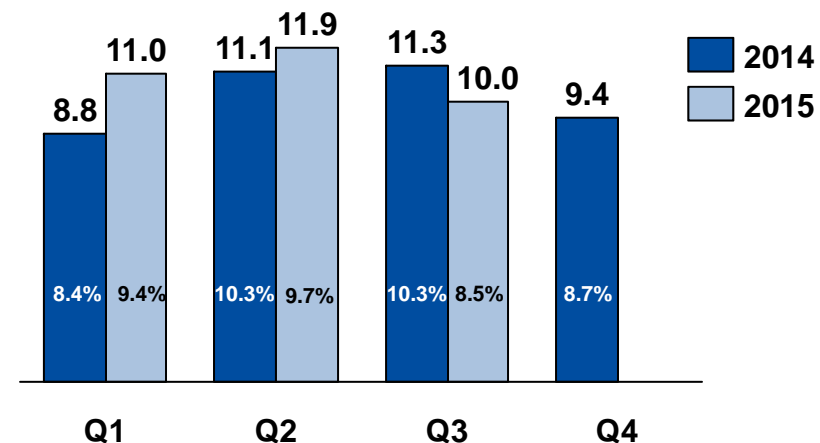
Sales by quarter (€m)



Adj. EBITDA (€m)



Adj. EBITDA by quarter (€m)<sup>1</sup>



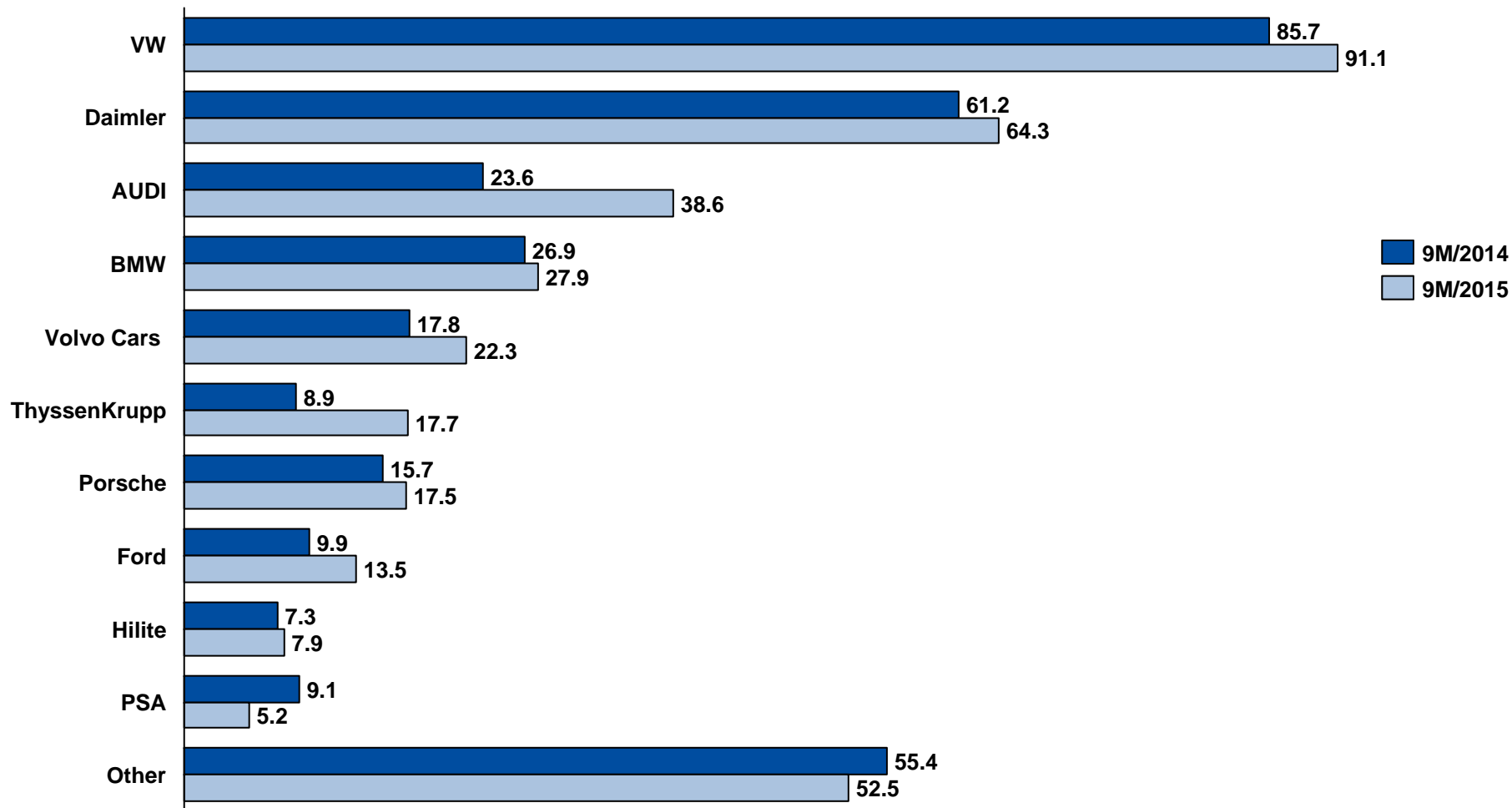
<sup>1</sup> Readjustment of Q2 / Q3 2014 figures due to non-recurring serial start-up costs

Growth driven by strong customer call orders for variable oil-/vacuum pumps and camshaft phasers

# Increased sales with leading key accounts



Sales by customer (€m)

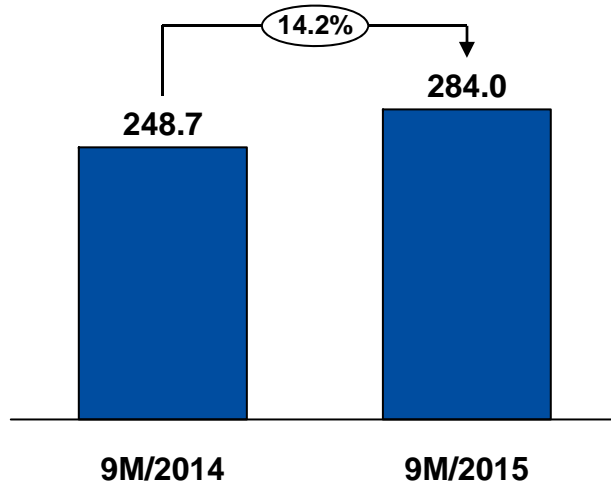


German OEMs and Tier 1 suppliers as major customers

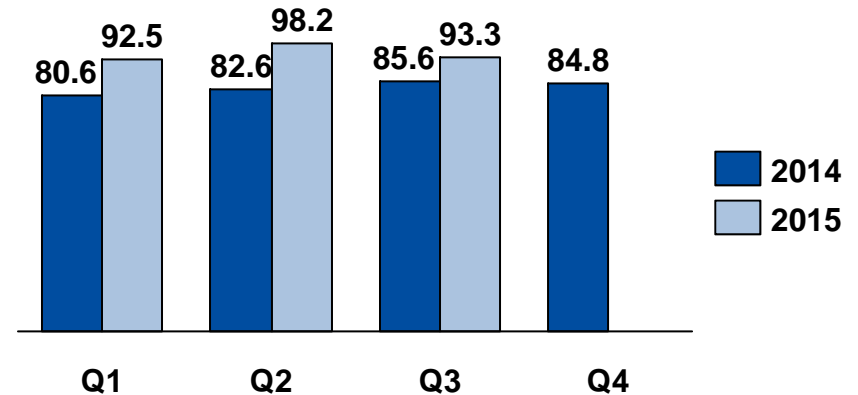
# Pumps and Engine Components



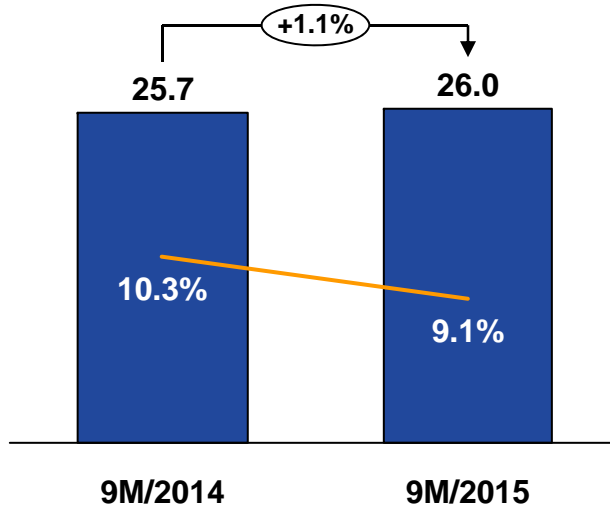
Sales (€m)



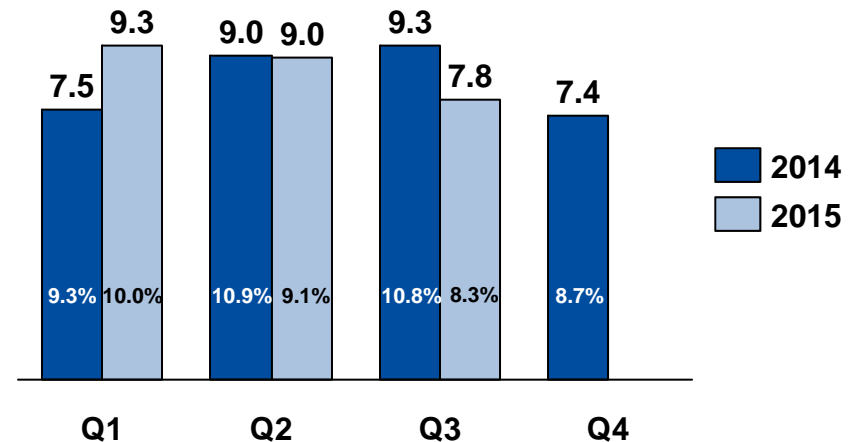
Sales by quarter (€m)



Adj. EBITDA (€m)



Adj. EBITDA by quarter (€m)<sup>1</sup>

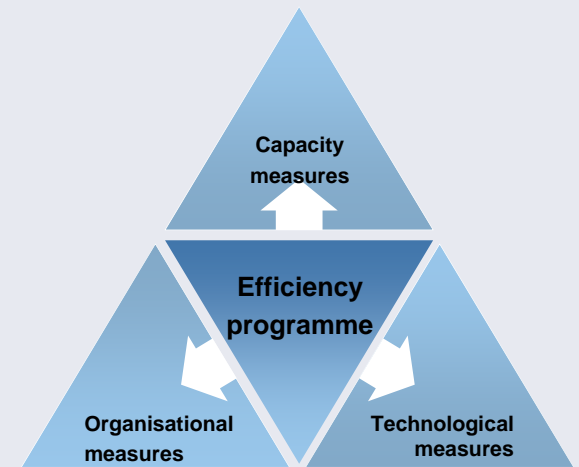


<sup>1</sup> Readjustment of Q2 / Q3 2014 figures due to non-recurring serial start-up costs

Not timely executed efficiency measures in the Powder Metallurgy impact segment result

## Scope of efficiency measures – a tripod

- 1 **Organisational measures** (shopfloor management, etc.)
- 2 **Technological measures** (material changes, automation)
- 3 **Capacity measures** (investment programme 2014-2016)



- Intensified shop floor management based on extended set of key figures
- 1
    - Revised management cockpit with increased transparency
    - Daily cost control of external services and suppliers
  - 2
    - Press tool optimisation in order to achieve higher process stability
  - 3
    - Modification of material for more precise shape
    - Automation of crack detection and visual inspection
- Overhauling of presses
- 3
    - Temporarily outsourcing of two products in order to increase lot sizes
    - Investment programme 2014-2016 with capacity expansion by 4 additional presses

## Large investments in Powder Metallurgy (2014 – 2016)



Specification	Commissioning date	Effect	Status
Building expansion	Q4/2014	Capacity	<input checked="" type="checkbox"/>
Sizing press	Q1/2015	Capacity	<input checked="" type="checkbox"/>
Powder press	Q1/2015	Capacity	<input checked="" type="checkbox"/>
Machining cell	Q2/2015	Capacity / Ratio	<input checked="" type="checkbox"/>
Double disc grinding machine	Q3/2015	Capacity / Ratio	<input checked="" type="checkbox"/>
Palletizing systems	Q3/2015	Ratio	<input checked="" type="checkbox"/>
High-speed sizing press	Q1/2016	Capacity	
Powder Press	Q1/2016	Capacity	

**Capacity bottlenecks should be eliminated until the end of Q1/2016**

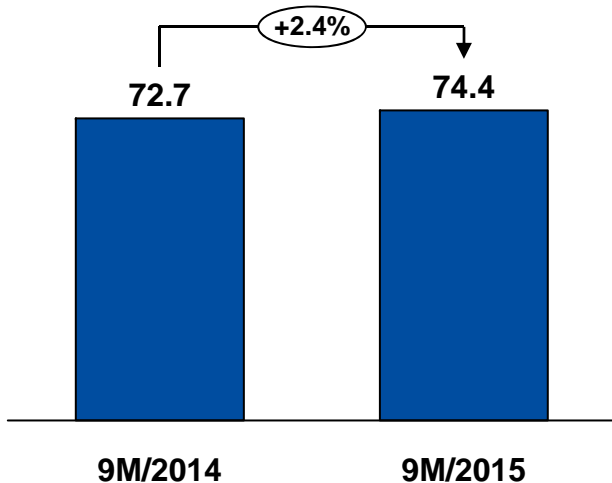
# Investments at a glance



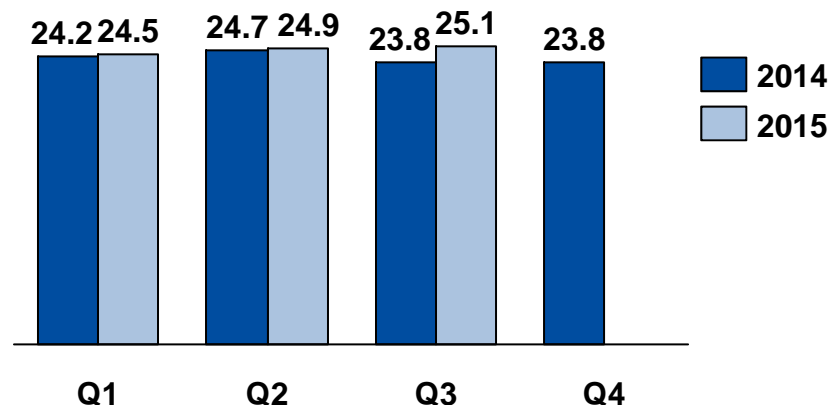
# Brake Discs



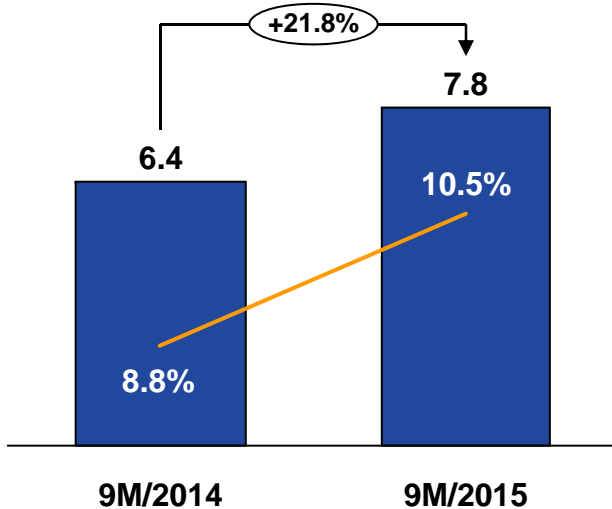
Sales (€m)



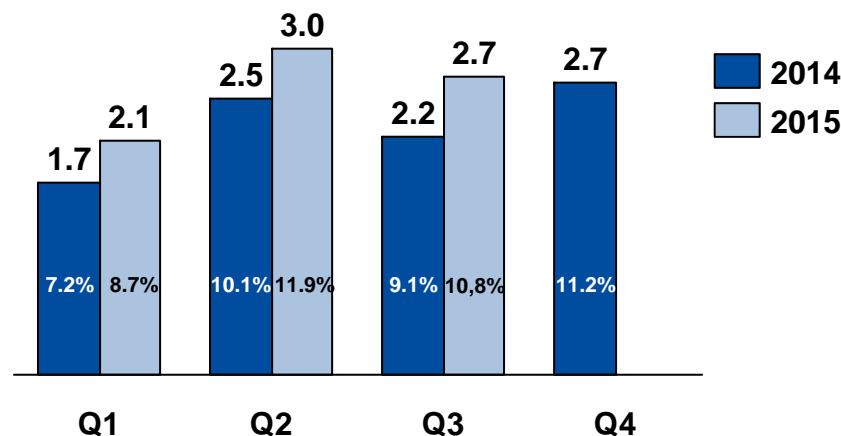
Sales by quarter (€m)



Adj. EBITDA (€m)

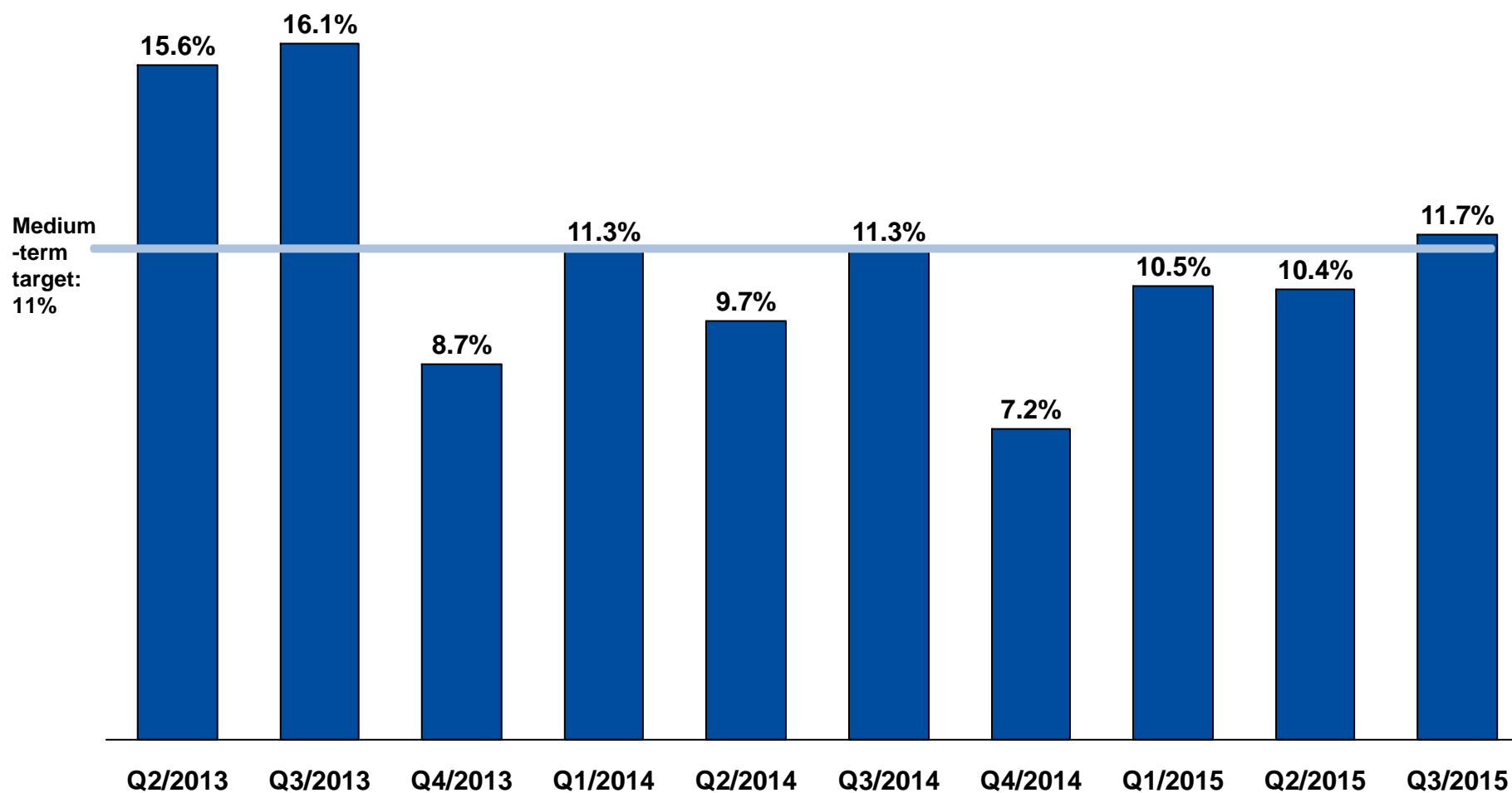


Adj. EBITDA by quarter (€m)



EBITDA-margin on a record high of 10.5 per cent

# Net Working Capital Ratio



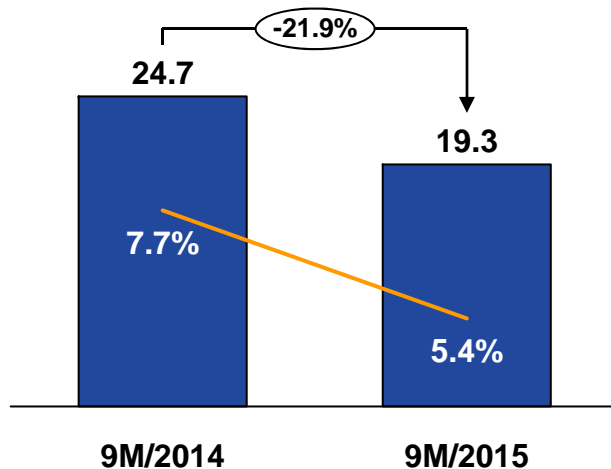
Average working capital ratio in the first nine months 2015 meets sustainable 11.0 per cent target



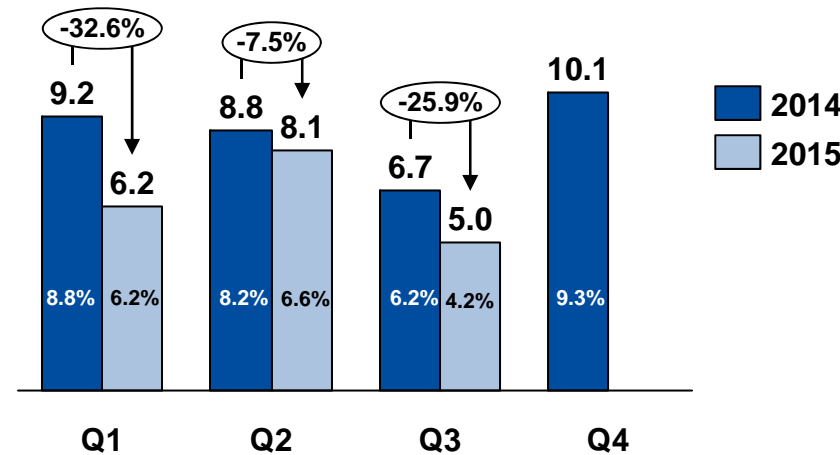
# Capex – Depreciation



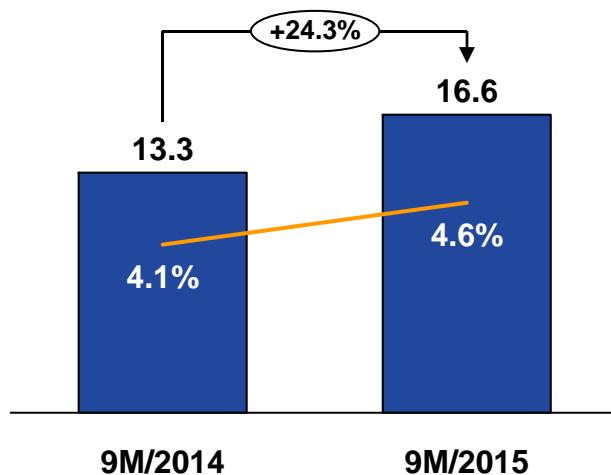
### Capex (€m)



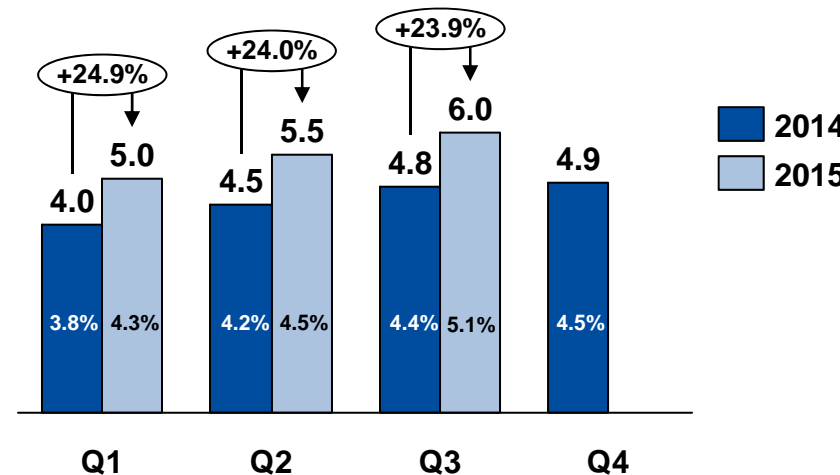
### Capex by quarter (€m)



### Depreciation (€m)



### Depreciation by quarter (€m)



Capex ratio of around 7 per cent in 2015 within reach

## Cash Flow



(€m)	Q3/2015	Q3/2014	9M/2015	9M/2014
Cash flow from operating activities	4.8	-0.5	18.0	11.6
Cash flow from investing activities - <i>tangible and intangible assets</i>	-5.0	-6.8	-21.6	-27.5
<b>Operating free cash flow</b>	<b>-0.1</b>	<b>-7.3</b>	<b>-3.6</b>	<b>-15.9</b>
Cash flow from investing activities - <i>financial assets</i>	0.0	0.0	-8.9 <sup>1)</sup>	0.0
<b>Total free cash flow</b>	<b>-0.1</b>	<b>-7.3</b>	<b>-12.5</b>	<b>-15.9</b>
Other (esp. proceeds from capital increase / dividend payment)	-0.1	-0.2	17.8	-6.0
<b>Change in net debt</b>	<b>-0.2</b>	<b>-7.5</b>	<b>5.3</b>	<b>-21.9</b>

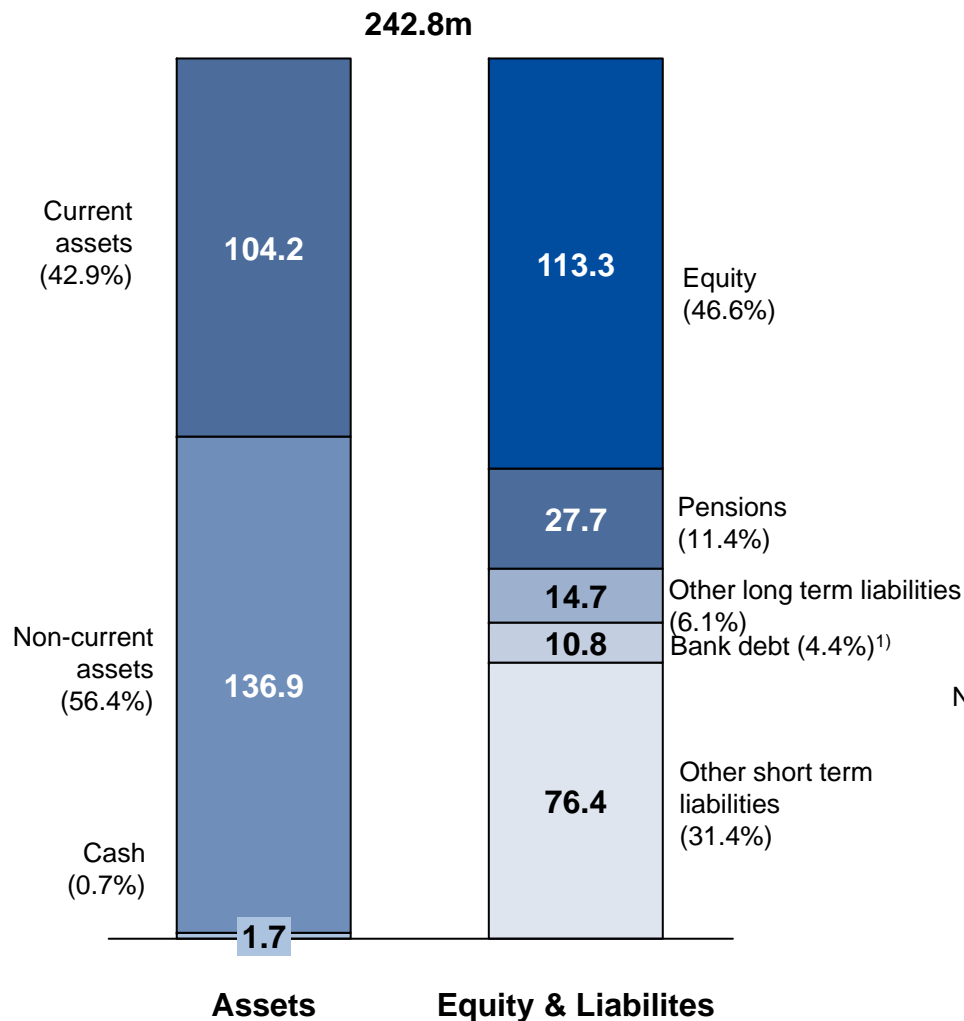
<sup>1)</sup> Payment into the Joint Venture's share capital (SHW Longji Brake Discs (LongKou))

**Net debt influenced by internationalisation of Brake Discs business and capital increase**

# Sound financial profile

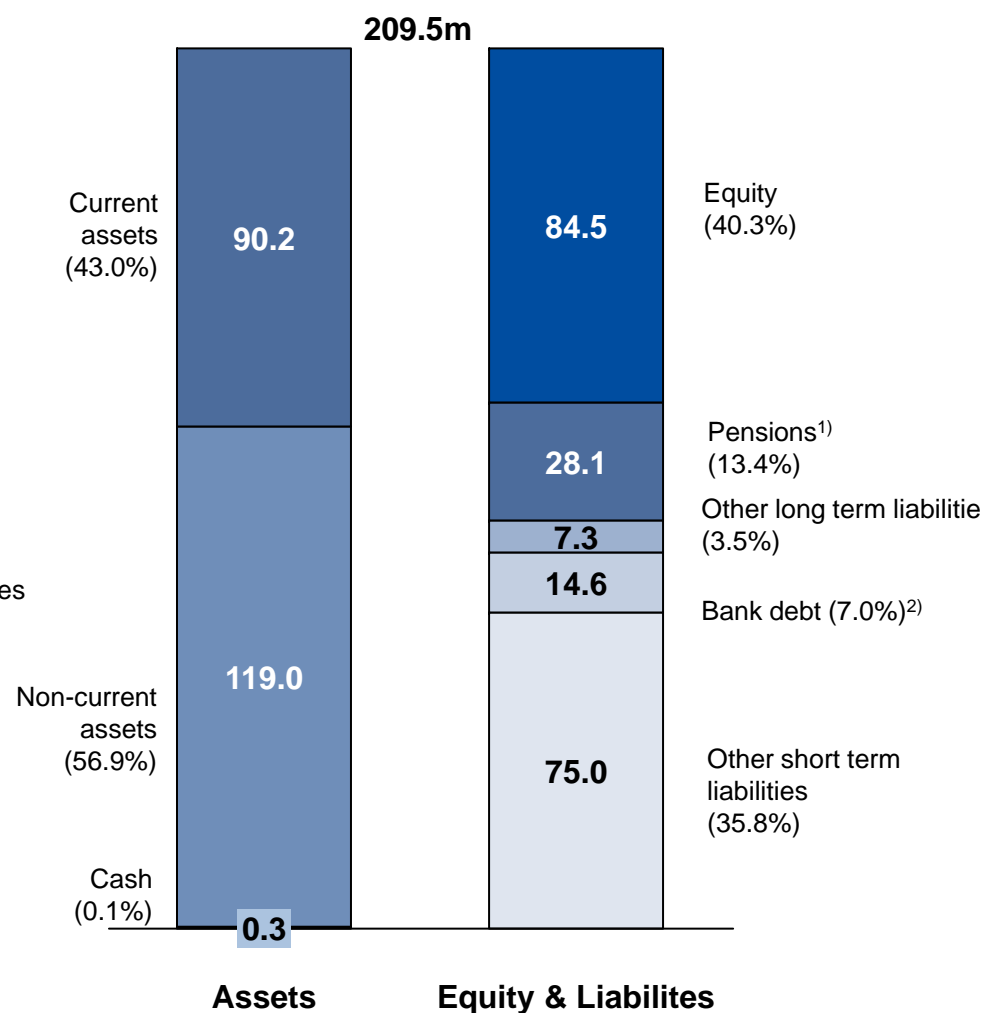


Balance sheet as of 30 September, 2015 (€m)



<sup>1)</sup> Net financial debt declined by € 5.3 million to € 9.0 million

Balance sheet as of 31 December, 2014 (€m)



<sup>1)</sup> Increased pension provision due to interest rate decline (IAS 19)

<sup>2)</sup> Net financial debt amounts to € 14.4m in 2014

Sound balance sheet safeguards financial and strategic headroom

	2015 (old)	2015 (revised)
<b>Sales</b>	approx. € 470 m	approx. € 470 m
thereof P&EC	approx. € 370 m	approx. € 370 m
thereof Brake Discs	approx. € 100 m	approx. € 100 m
<b>Adjusted EBITDA</b>	€ 46 to € 50 m	€ 42 to € 46 m*
<b>Working Capital Ratio</b>	sustainable 11 % of sales	sustainable 11 % of sales

## Areas of sustainable earnings improvements

<b>Operational Excellence</b>	<ul style="list-style-type: none"><li>• Release of temporary workers from Q4 2015 onwards</li><li>• Sufficient capacity and flexibility for bigger, economical batch sizes in Powder Metallurgy</li><li>• Less freight services and logistics costs</li></ul>
<b>Organisation/ Management</b>	<ul style="list-style-type: none"><li>• Close integration of business critical departments (e.g. procurement, sales, R&amp;D) within the production network of Aalen-Wasseralfingen and Bad Schussenried</li></ul>
<b>Procurement &amp; Supplier Excellence</b>	<ul style="list-style-type: none"><li>• Reorganisation of the purchasing and supplier management</li><li>• Centralising of certain functions in one location</li></ul>
<b>Eastern European Expansion</b>	<ul style="list-style-type: none"><li>• Final decision about the site location and set-up in 2016 for realising the start of operations in 2017</li></ul>
<b>Business Development</b>	<ul style="list-style-type: none"><li>• Utilizing further growth potential in the areas of primary transmission oil pumps, variable water pumps and electrification</li></ul>
<b>Brake Discs</b>	<ul style="list-style-type: none"><li>• Further ramp-up of lightweight brake discs</li><li>• Improved product mix with composite brake discs amounting to 34 per cent of sales in 2016</li><li>• Access to new vehicle classes through process optimisation</li></ul>

**Mid-term planning will be released at the beginning of December 2015**

Dates	Events
Beginning of December	Business Update mid-term planning Investor and Analyst Teleconference
Beginning of December	Management Roadshow – Kepler Cheuvreux <i>Frankfurt / London</i>



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