



PRESS RELEASE

Strategy "SHW 2020": Returning to the path of profitable growth

- Improving operational excellence, expanding international presence and strengthening of the technological and innovative leadership have priority
- Two-year period of consolidation and higher investments to be followed by phase of sustainable and profitable growth starting in 2018
- Sales to rise to approx. € 630 to € 660 million by 2020 accompanied by significantly higher profitability

Aalen, 1 December 2015. SHW AG, one of the leading automotive suppliers of CO₂-relevant pumps and engine components, as well as composite brake discs, today presented its "SHW 2020" strategy. The company is targeting a return to profitable growth by improving its operational excellence, expanding its international presence and strengthening its technological and innovative leadership. As indicated, fiscal years 2016 and 2017 will represent a phase of sales consolidation and higher investments with sequentially better profitability. The Company expects to report sharply growing sales and earnings starting in 2018. The target is to increase sales to € 630 to € 660 million by 2020. The EBITDA margin is expected to rise to at least 12 per cent during the same period.

Over the past several months, the Company's strategy underwent an extensive examination by the Management Board given the market and industry trends and changes in the Company's management. "We have identified the challenges that need to be tackled and have developed the appropriate action plans and solutions", said Dr. Frank Boshoff, Chief Executive Officer of SHW AG. "SHW will be more efficient, more international and even more innovative in the future. All prerequisites to achieve a lasting, profitable growth on our own in the years to come have been created. I am thoroughly convinced that from 2018 significantly increasing sales will give us the tailwind to 'take off'".

SHW profits from industry trends

SHW benefits from three important trends in the automotive industry:

- Global demand for **mobility** continues to grow. Forecasts predict that global production of so-called light vehicles (vehicles < 6t) will rise on average by 3 per cent per year until 2020 to roughly 103 million units. The strongest growth is expected in China and Europe.
- In absolute terms, **combustion engines** will continue to power the vast majority of light vehicles, in the coming years. The increasing importance of hybrid drives – a combination of combustion and electric engines – will be accompanied by a rise in the number of pumps per vehicle.
- The push for a **reduction in CO₂-emissions** will continue in all strategic markets and will include ambitious targets. For the automotive manufacturers, this means that by 2020, the CO₂ output per kilometre in both Europe and China must be cut by roughly 27 per cent and by approximately 21 per cent in North America. Achieving this will



continue to entail a thorough optimisation of the engine and transmission – a task for which SHW possesses the suitable product portfolio.

"Our products largely reflect the key trends in the automotive industry. By expanding our international presence and strengthening our technological and innovative leadership, we are laying the groundwork for the next growth phase", added Dr. Boshoff.

Improving operational excellence

In the period 2010 to 2015, SHW managed to more than double the EBITDA margin in the Brake Discs business segment from 4.4 per cent to just over 10 per cent. This business segment is already well positioned and will continue to consistently optimise its operating processes. To increase the competitiveness of the Pumps and Engine Components business segment, the focus in the next two years will be on making the organisation more flexible and more efficient, raising capacity and optimising the production network.

A key factor in this respect is the elimination of the operational and logistical bottlenecks in the Powder Metallurgy at SHW's location in Aalen-Wasseralfingen and the pump assembly in Bad Schussenried. Smooth production processes in SHW's pump assembly operations will be ensured with the scheduled completion of capacity increases at the location in Aalen-Wasseralfingen at the end of the first quarter of 2016 (2014 – 2016 investment volume of roughly € 20 million). Beyond this, the machinery output and the automation of individual production steps will be improved in the Powder Metallurgy. The continued development of the process and matrix organisation in the Pumps and Engine Components business segments is another priority. Subordinate areas such as purchasing, sales, and research and development will be more tightly integrated into the production network in Aalen-Wasseralfingen and Bad Schussenried. A reorganisation of the purchasing and supplier management should also bring higher efficiency.

Another important element is the optimisation of the production network through the planned construction of a new production site in Eastern Europe. The establishment of this site will be accompanied by the transfer of selected pump projects and levels of the value chain. During the first half of 2016, the Company will evaluate potential locations and build the necessary infrastructure. The first processing and assembly lines are expected to be constructed during the second half of the year. Start of production is scheduled to begin in the course of 2017. With expected sales of above € 100 million, the resulting earnings improvement is estimated to be in a high single-digit million range until 2020.

Expanding presence in all strategic markets

Today, SHW is already present in all strategically relevant regions so that it can meet the growing demand of customers located in Europe, NAFTA, China and Brazil. As part of its current strategy, SHW is forging ahead with the targeted international expansion of its Pumps and Engine Components business segment. The Chinese subsidiary, SHW Automotive Pumps (Kunshan) Co., Ltd, will begin with the manufacturing of already existing pump assembly projects at the Kunshan location. The production of transmission oil pumps for a leading Chinese automotive manufacturer is scheduled to be carried out by this subsidiary in 2017. In 2018, the Company will begin with the series production of variable engine oil pumps for a global engine platform in North America and Europe for a major North American automobile manufacturer. Series production for this product will begin the following



year in China. The internationalisation strategy will have an increasing impact on the sales figures of the Pumps and Engine Components business segment as of 2018.

The Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., within the Brake Discs business segment, has been operating since 1 April 2015. Initially, the joint venture will produce unprocessed brake discs for the Chinese partner's spare parts business. The joint venture's focus in the future will be on the development and production of processed monobloc ventilated brake discs for passenger cars and light commercial vehicles mainly for multinational manufacturers in the Asian market. A variety of options are being explored for the Brake Discs business segment's market entry into North America.

Strengthening technological and innovative leadership

SHW will extend its technological and innovative leadership. The Company already has a leading position in the areas of and CO₂- and weight-reducing engine oil pumps and composite brake discs. In view of the rising demand for vehicles with automatic transmissions, SHW sees particularly strong future growth potential from transmission oil pumps. SHW has developed primary transmission oil pumps as a two-stroke vane pump that offers significant advantages in terms of weight, efficiency and size. Prototypes of this pump have been delivered to several major automatic transmission manufacturers. Additionally, the standardisation of secondary transmission oil pumps for the start-stop function in connection with a modular toolkit is being promoted intensively.

SHW believes that another area of development with additional market potential is the increasing electrification of auxiliary components in combination with the hybridisation of the powertrain and the introduction of the 48V wiring system. In this respect, SHW will expand its core expertise in electric drives and electronic controls in addition to its core competency in hydraulics. Not only is the Company recruiting qualified development personnel, but also it is also thoroughly reviewing possible acquisition targets and cooperation opportunities.

The Brake Discs business segment benefits from the trend towards lighter vehicle parts. SHW's composite brake discs represent an extremely innovative product within the Company's portfolio that combines weight reduction with an improvement in the brakes performance. The Company is also considering expanding its product range to include weight-reducing components for the brake system.

Returning to profitable sales growth as of 2018

Following two years of sales consolidation, SHW expects to return to profitable sales growth from 2018. By 2020, Group sales should reach a level of € 630 to € 660 million (2015e: approx. € 470 million) and the EBITDA margin is expected to rise to at least 12 per cent during the same period.

After a temporary rise in investments in new markets and production plants during 2016 and 2017, the Company plans to bring investments back down to a normal level as of 2018. The present dividend policy has been reconfirmed. The payout ratio should remain at 30 to 40 per cent of the Group's net income for the year depending on the level of investment necessary.



About SHW

The Company was established in 1365 making it one of the oldest industrial companies in Germany. Today, SHW AG is a leading automotive supplier providing products that make a substantial contribution to reducing fuel consumption and, consequently, to lowering CO₂ emissions. In its Pumps and Engine Components business segment, the SHW Group develops and produces pumps for passenger vehicles and industry applications (e.g., trucks, agricultural and construction vehicles, stationary engines and wind farms) as well as engine components. The Brake Discs business segment develops and produces monobloc ventilated brake discs made of cast iron and composite brake discs made of a combination of an iron friction ring and an aluminium pot. The SHW Group's customers include renowned automotive manufacturers, manufacturers of commercial, agricultural, and construction vehicles as well as other suppliers to the automotive industry. Currently, the SHW Group has four production sites in Germany located in Bad Schussenried, Aalen-Wasseralfingen, Tuttlingen-Ludwigstal and Neuhausen ob Eck, one site in Brazil (Sao Paulo) and a sales and development centre in Toronto, Canada. Besides, SHW Automotive GmbH also holds a 51 per cent interest in the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., in LongKou, China. With just over 1,150 employees, the Company generated Group sales in fiscal year 2014 of € 430 million. Further information is available at: www.shw.de

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