

# Investor Call Annual Results 2016

**MAHLE**

*Driven by performance*



**April 27th, 2017**

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## Highlights

Successful execution of dual strategy with focus on existing market position and future mobility trends


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- New record sales in 2016, but earnings were burdened by higher R&D expenses and non-recurring effects

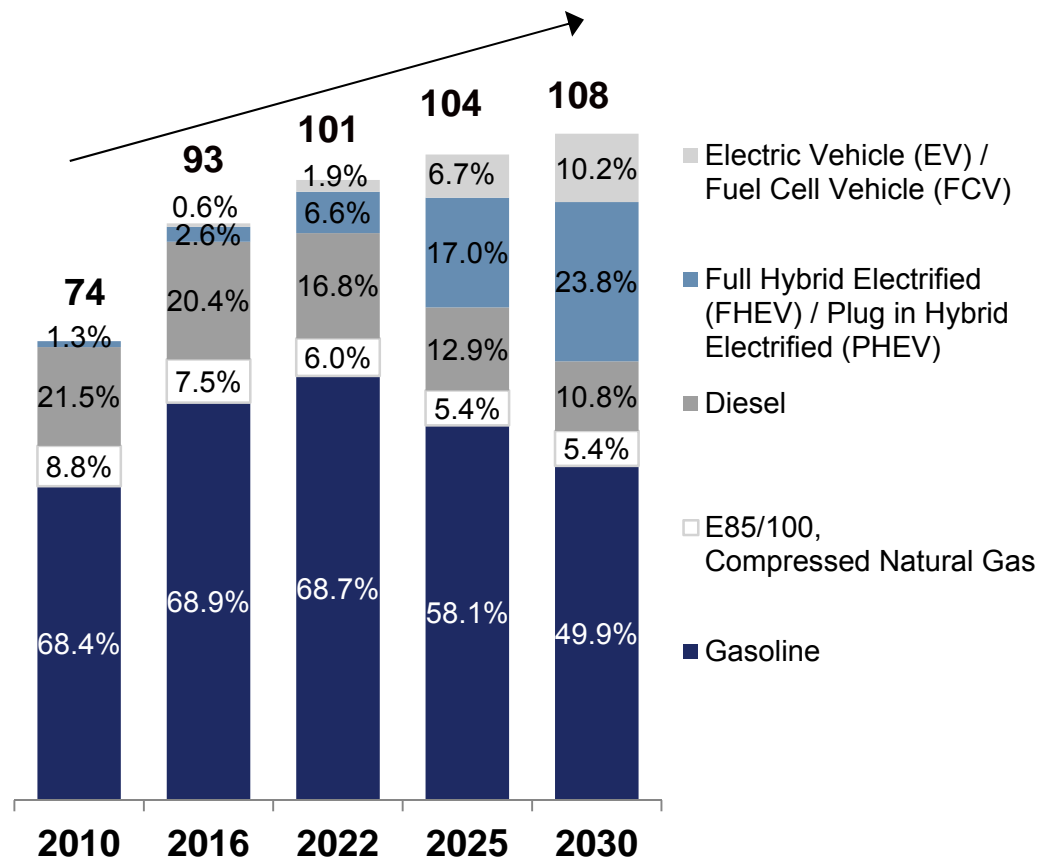
- Numerous product innovations for alternative powertrains – well positioned to benefit from growth of e-mobility market

- Continued alignment of business portfolio through strategic M&A activities

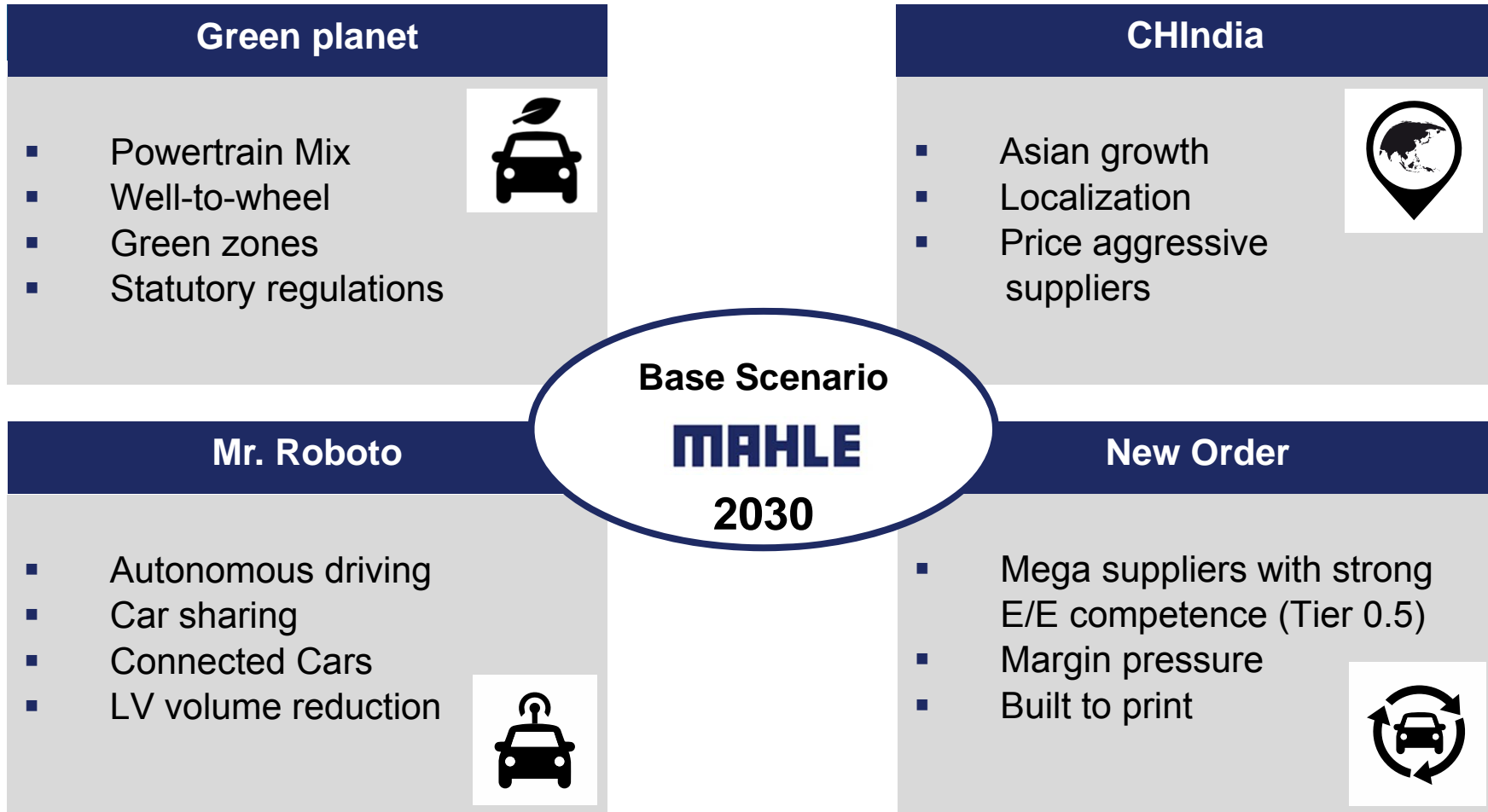


MAHLE will be a driver of e-mobility, just as it is already in the conventional market today.

**Base Scenario: global light vehicle production**  
(up to 6 tons, in million units)



- Gasoline will still represent main fuel type in 2030
- Significant global reduction of diesel
- Further reduction of fuel consumption via high-efficiency engines and increasing electrification
- Growing powertrain complexity drives demand for integrated system solutions
- Alternative powertrains need specific thermal management solutions (e.g. for EV and FCV)
- Potential to increase sales per vehicle, especially with hybrids



**1** Strengthen our existing market position

Highly efficient combustion engines

Emerging Markets

Commercial Vehicles & Off-Highway

Aftermarket



**2** Shape the future in a changing mobility world

HVAC

Thermal management

Electric auxiliaries

MAHLE Startups

Electric drives & Power electronics

Market trends and strategic positioning

Enhancements of our „traditional“ components are key to e-mobility

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### Conventional Powertrain

Cooling  
Module ICE



Mechanic AC  
Compressor



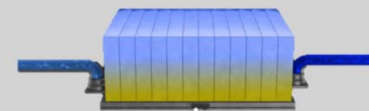
HVAC



Electric  
Power Steering



### Components for e-mobility



Battery  
Cooling Plate



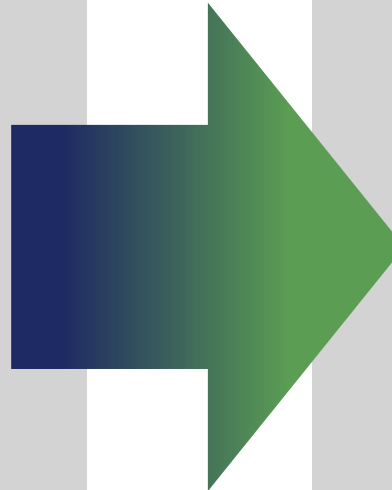
Electric AC  
Compressor



HVAC +  
Heating



Electric  
Power Steering



Market trends and strategic positioning

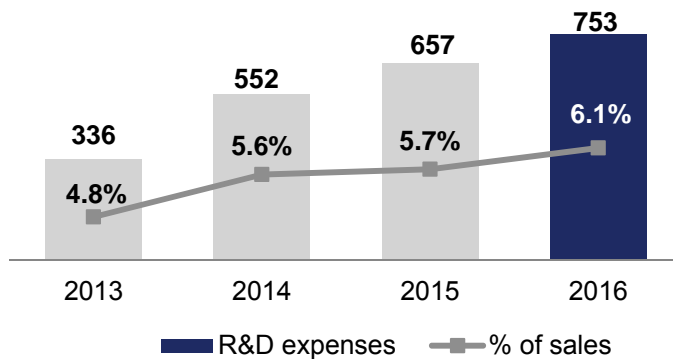
Higher R&D expenditure –  
Integrated R&D drives system solutions

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### R&D expenses

(EUR mn)



- Industry wide unique combination of products and continuously increasing cooperation of business units
- Higher R&D mainly for Thermal Management and Mechatronics for alternative powertrains
- Almost 6,000 researchers with at least one patent registered per day

Strengthen  
existing market  
position

Shape the  
future in a  
changing  
mobility world

E-Bike Motor



Traction Motor  
with integrated  
Electronics



Electric AC  
Compressor





Market trends and strategic positioning

Globally diversified – top 10 customers account for around 55% of sales

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### Top 5 European customers



### Top 5 North American customers



### Top 5 Asian customers



- MAHLE provides solutions for current and future powertrains and is supplier to all major OEMs worldwide
- The largest two customers VW and GM are representing around 20% of MAHLE's annual sales
- Approx. 17% of the automotive sales are related to heavy duty and truck business

### E-mobility customers

- MAHLE was awarded for several contracts with well-known e-mobility customers

Market trends and strategic positioning  
Strategic alignment of business portfolio

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**Recent Acquisitions**

**NAGARES, Spain**  
Control electronics



**O-Flexx, Germany**  
Thermoelectrics



**Engine development facility, USA**

**Westport™**



✓ **Focus on core business areas**

✓ **Continuous development of products for future mobility**

✓ **Strengthening system solution products**

✓ **Investment Focus: Thermal Management/ Mechatronics/ Electrification**

**Recent/Ongoing Divestments**

**Industrial filtration**  
Sale of non-core business

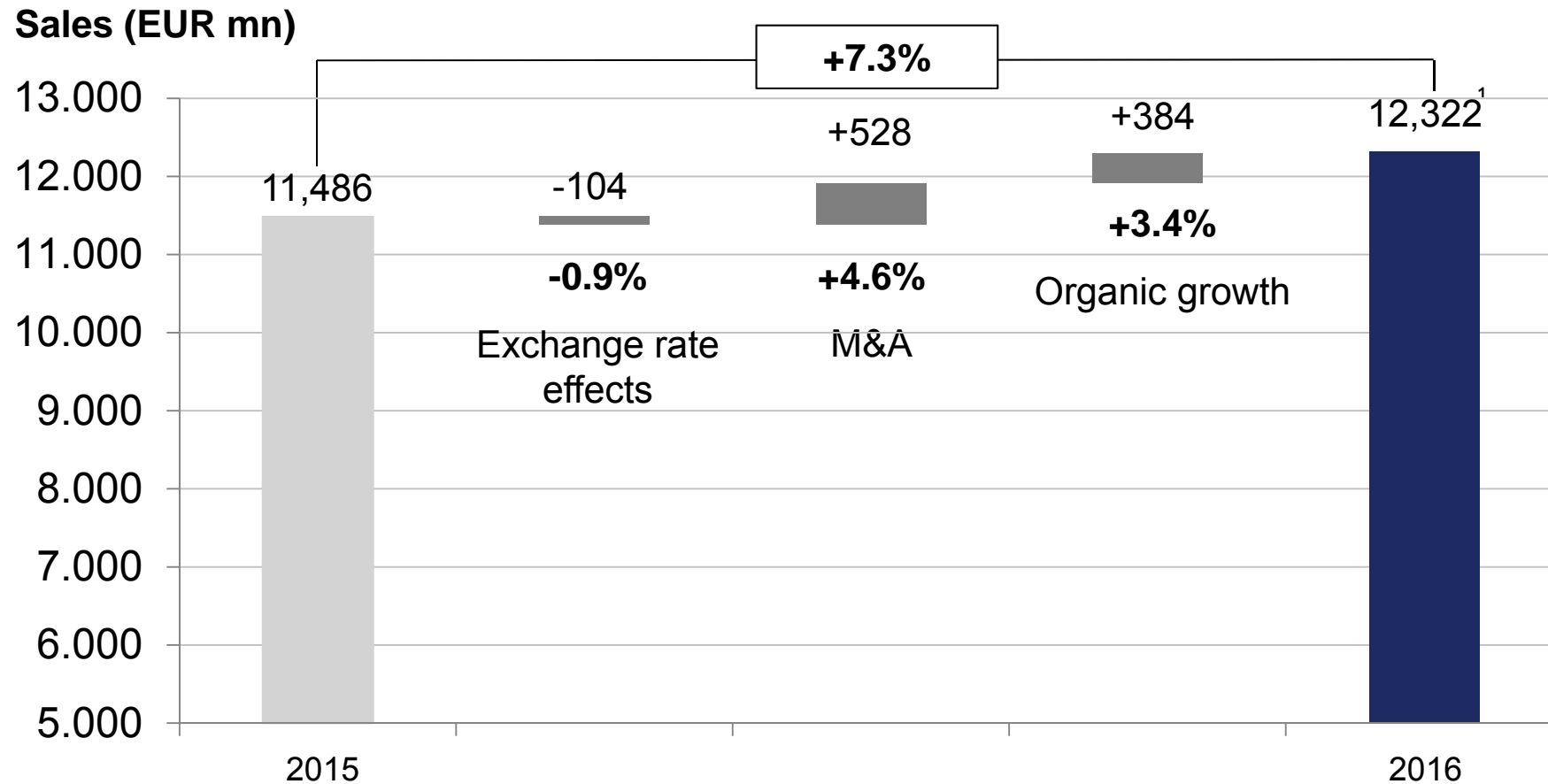
**Forging activities**  
Sale of non-core and capital intensive production process

**Turbochargers**  
Planned sale of turbocharger business BMTS (JV with Bosch) – required market position not yet achieved

## MAHLE Group – Key financials 2016

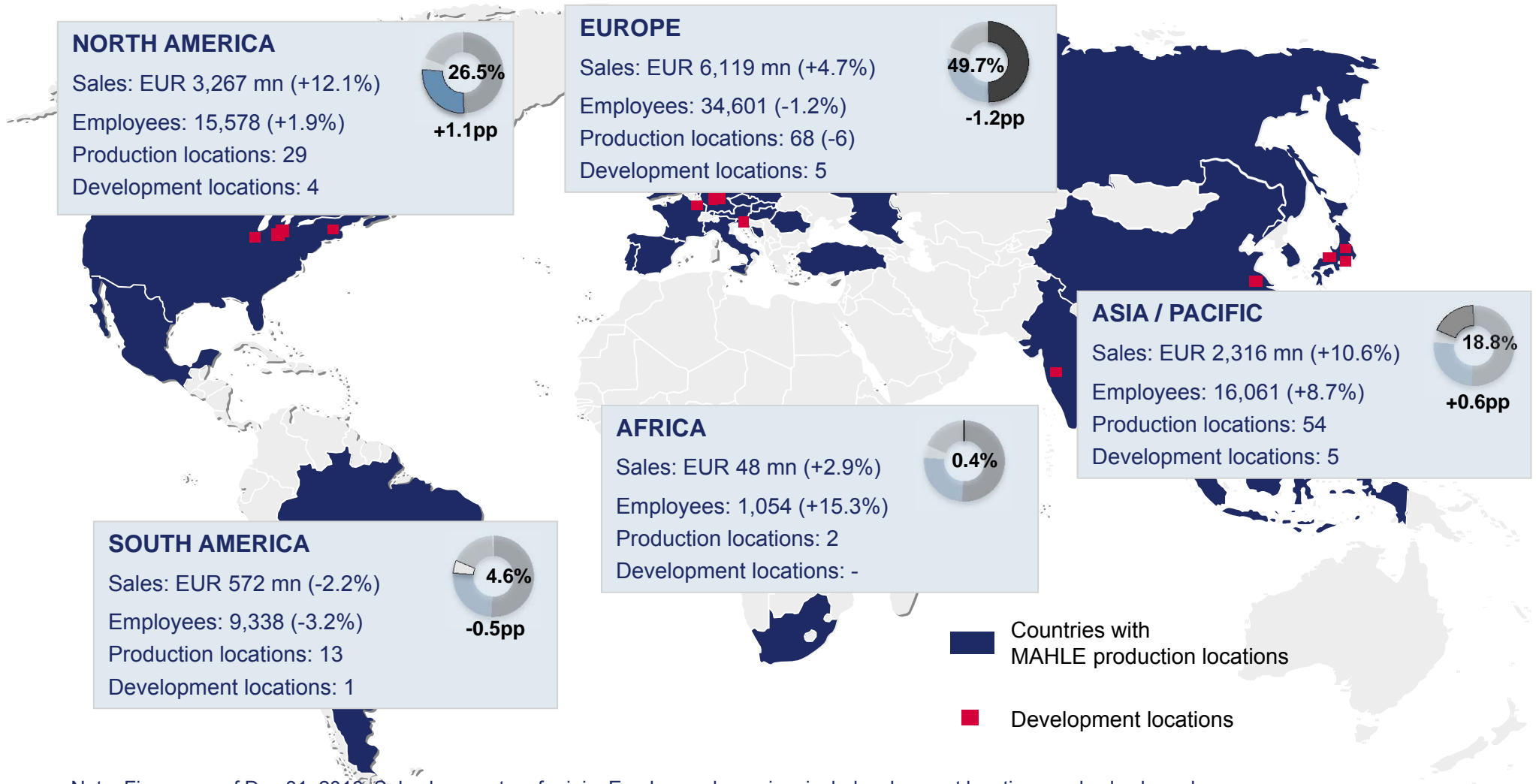
|                   |                 |
|-------------------|-----------------|
| Sales             | EUR 12,321.8 mn |
| EBITDA            | EUR 1,079.3 mn  |
| EBIT              | EUR 472.8 mn    |
| R&D ratio         | 6.1%            |
| Net income        | EUR 63.0 mn     |
| Equity ratio      | 33.9%           |
| Net debt / EBITDA | 1.1x            |
| Employees         | 76,632          |

- Organic sales growth of 3.4%, outperforming last years' growth rate and full-year guidance
- Net income margins under pressure mainly due to non-recurring effects, e.g. impairment of JV
- Financial ratios within conservative target ranges
- Successful deleveraging as anticipated despite weaker earnings



<sup>1</sup> Incl. BilRUG effect 2015: The effect from a change in the definition of sales was adjusted for the disclosure of organic growth. This new regulation complies with the requirements of the German Implementation Act (BilRUG) and had an effect of almost EUR 27 million for the 2015 business year.

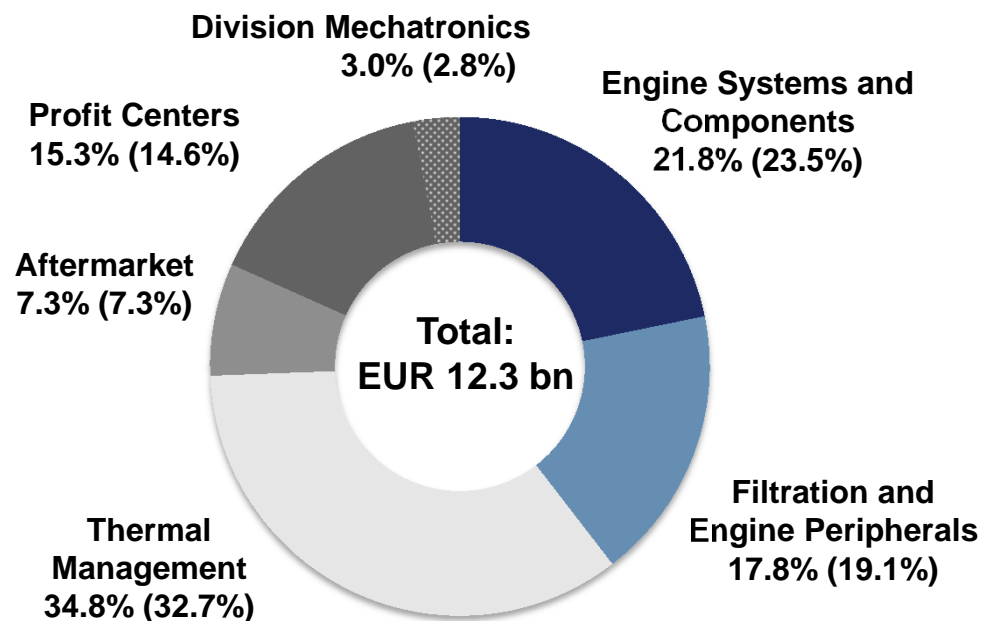
MAHLE is present in all global core markets enhancing its well-balanced footprint



Note: Figures as of Dec 31, 2016; Sales by country of origin, Employees by region, incl. development locations and sales branches

Balanced BU portfolio – Significant growth impulse from Thermal Management and Mechatronics business

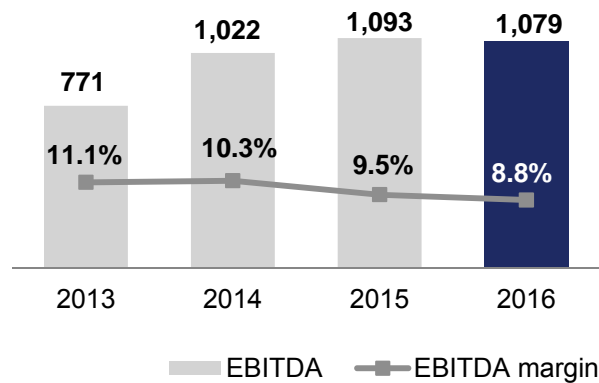
### Sales split by business segments 2016 (2015)



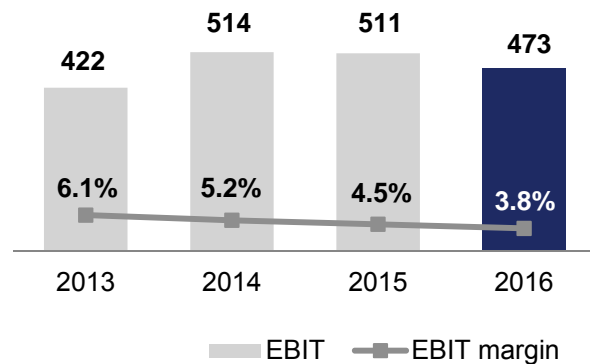
- Besides integration of recent acquisitions organic growth in both Thermal Management and Mechatronics of 6-7%
- MAHLE is the worlds second largest automotive supplier in the area of Thermal Management
- Automotive sales which relate to light vehicle combustion engine components account for less than 50% of group sales

## EBITDA stable but margins under pressure due to non-recurring effects

### EBITDA (EUR mn)

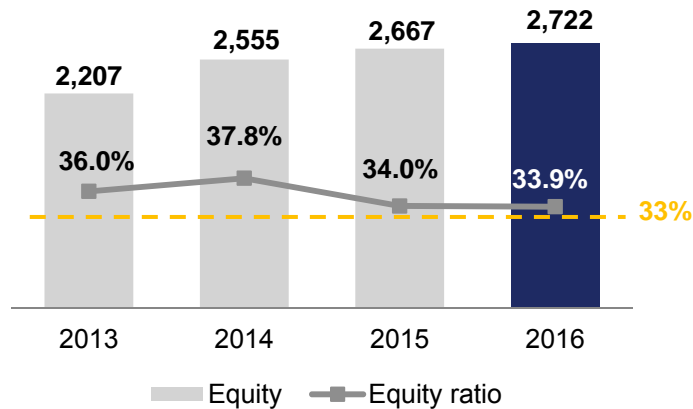


### EBIT (EUR mn)



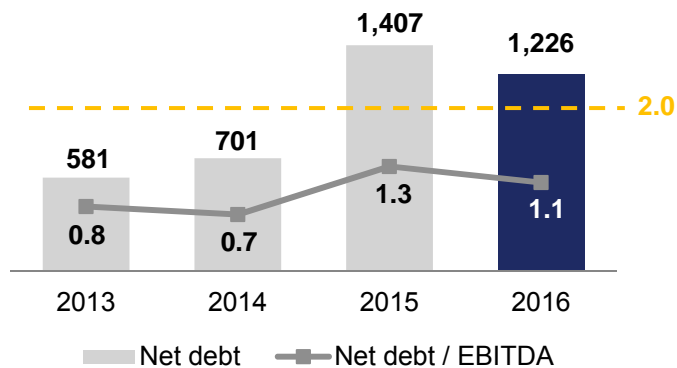
- EBIT impacted by higher R&D expenses
- German GAAP regulates the amortization of goodwill and purchase price allocation amounting to 1.2% of group sales
- Net income declined to EUR 63 mn
  - Impairment of JVs
  - Higher tax rate due to higher non-deductible expenses
- Confirmation of antitrust penalty of EUR 62.1 mn, having no negative earnings effect as enough accruals were built

### Equity (EUR mn)



- Stable equity position
- Net debt reduction due to strong cash flow from operations
- Commitment to implicit investment grade rating
- Improved financing profile after successful implementation of new syndicated loan facility at better terms (EUR 1.6 bn; 5 year maturity with options for prolongation)

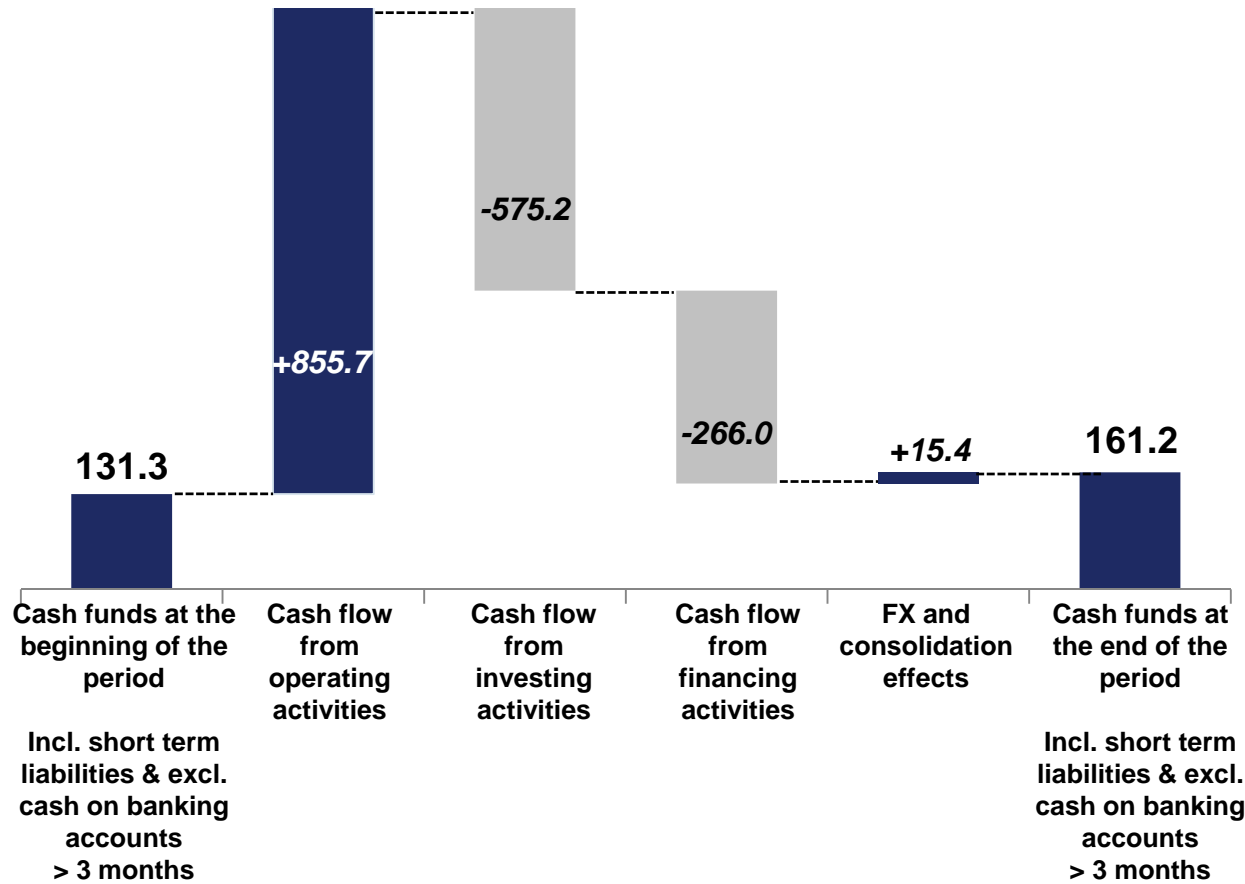
### Net debt\* (EUR mn)



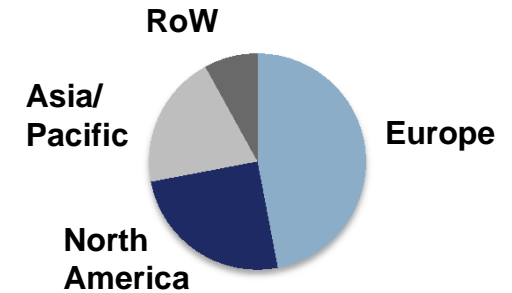
\* Net debt = liabilities to banks + bonds – cash in hand, bank balances and checks



Cash flow development 2016 (EUR mn)



- Mainly investments in property, plant, and equipment



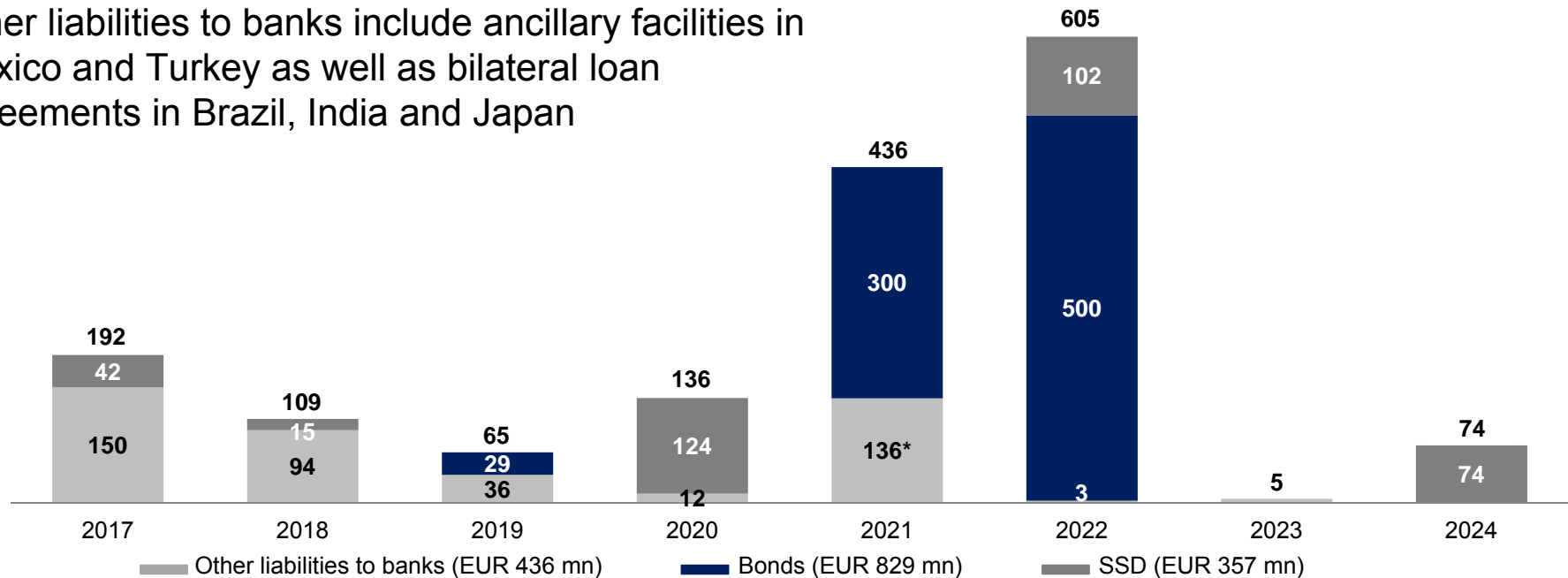
- Improved cash flow from operating activities due to reduced Working Capital
- Repayment of debt worth EUR 266 mn as anticipated
- Positive free cash flow\* of EUR 280 mn

\*Calculation: Cash flow from operating activities – cash flow from investing activities

## Well balanced maturity profile and diversified funding mix with different debt instruments

- MAHLE has continuously increased and diversified its investor base
- Liquidity backstops EUR 1,600 mn RCF maturing Jul, 2021 (2022/2023)
- Refinancing of matured Schuldschein in 2016/2017 with further Schuldschein planned
- Other liabilities to banks include ancillary facilities in Mexico and Turkey as well as bilateral loan agreements in Brazil, India and Japan

Total financial liabilities:  
**EUR 1,622 mn**  
 (incl. liabilities to banks, bonds and certain other liabilities)



\* EUR 108,7 mn of other liabilities to banks represent short-term drawdowns from RCF maturing in 2021  
 RCF = Revolving Credit Facility    SSD = Schuldscheindarlehen

Global vehicle production expected to grow however uncertainty remains due to political risks

### Production of Passenger Cars and Light Commercial Vehicles [in million pcs.]

### Production of Medium and Heavy Duty Vehicles and Buses (>6t) [in thousand pcs.]

| Region               | Forecast 2018 | Forecast 2017 | % Change            |
|----------------------|---------------|---------------|---------------------|
| World market         | 96.0          | 94.8          | +1.2 %              |
|                      |               |               | +1.8 %              |
| Europe               | 22.1          | 21.9          | +1.0 % <sup>2</sup> |
|                      |               |               | +1.7 % <sup>1</sup> |
| North America        | 17.8          | 17.5          | +1.4 %              |
|                      |               |               | -1.5 %              |
| South America        | 3.1           | 2.9           | +4.9 %              |
|                      |               |               | +6.7 %              |
| Asia/Pacific         | 50.3          | 50.0          | +0.5 %              |
|                      |               |               | +2.8 %              |
| Middle East / Africa | 2.7           | 2.4           | +11.7 %             |
|                      |               |               | +4.1 %              |

| Region                                  | Forecast 2018 | Forecast 2017 | % Change            |
|---|---------------|---------------|---------------------|
| World market (incl. Middle East/Africa) | 3,361         | 3,404         | -1.3 %              |
|   |               |               | +4.3 %              |
| Europe                                  | 660           | 640           | +3.1 % <sup>2</sup> |
|   |               |               | +0.5 % <sup>1</sup> |
| North America                           | 583           | 536           | +8.6 %              |
|   |               |               | +3.8 %              |
| South America                           | 108           | 97            | +11.9 %             |
|   |               |               | +10.0 %             |
| Asia/Pacific                            | 2,009         | 2,130         | -5.7 %              |
|   |               |               | +5.3 %              |

<sup>1</sup> Comparison Forecast 2017 with Actual 2016    <sup>2</sup> Comparison Forecast 2018 with Forecast 2017

Source: Includes data provided by IHS, www.ihs.com; Copyright © [2017], LV and MHD Production April 4<sup>th</sup> 2017

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## Company Overview

Group structure reflects diversified product portfolio  
(As of Dec 31, 2016)

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### BUSINESS UNITS

### DIVISION

#### Engine Systems and Components

Sales: EUR 2,683 mn  
Employees: 28,293



#### Filtration and Engine Peripherals

Sales: EUR 2,191 mn  
Employees: 10,796



#### Thermal Management

Sales: EUR 4,293 mn  
Employees: 22,767



#### Aftermarket

Sales: EUR 899 mn  
Employees: 1,555



#### Mechatronics

Sales: EUR 374 mn  
Employees: 3,243



### PROFIT CENTERS

Sales: EUR 1882 mn  
Employees: 9,978

Compressors

Engineering Services,  
Motorsports, and  
Special Applications

Large and small Engine  
Components

Industrial Thermal  
Management

Control Units

Front-end Modules

MAHLE strives to be among the top 3 players in its key business areas (Light vehicles ≤ 6 tons)

| Engine Systems and Components |   | Filtration and Engine Peripherals |  | Thermal Management                  |  |
|-------------------------------|---|-----------------------------------|--|-------------------------------------|--|
| Pistons                       | #1  | Oil Filter Module                 | #1   | HVAC <sup>1)</sup> Module           | #3   |
| Piston Rings                  | #1  | Air Intake Module                 | #1   | Radiator / Condenser                | #2   |
| Bearings                      | #4  | Air Cleaner                       | #2   | A/C Compressor                      | #5   |
| Camshafts                     | #4  | Cylinder Head Cover               | #1   | Engine Cooling <sup>2)</sup> Module | #2   |
| Valves                        | #6  | Oil Coolers                       | #2   | Charge Air Cooler                   | #1   |
| <b>Main competitors</b>       | Federal Mogul, Rheinmetall Automotive, Riken, Daido |                                   | Mann & Hummel, Denso, Elring Klinger, Sogefi |                                     | Denso, Valeo, Hanon, Modine, Calsonic Kansei |

<sup>1)</sup> HVAC = Heating, Ventilation, Air Conditioning, <sup>2)</sup> w/o inhouse assembly of customers

## Income statement (key figures)

|  | ACTUAL<br>1-12/2015 |                  | ACTUAL<br>1-12/2016 |                  | CHANGE<br>in million<br>EUR |
|--|---------------------|------------------|---------------------|------------------|-----------------------------|
|  | in million<br>EUR   | in % of<br>sales | in million<br>EUR   | in % of<br>sales |                             |
| <b>Sales</b>   | 11,486.1            | 100.0%           | 12,321.8            | 100.0%           | 835.7                       |
| Cost of sales and other income and expenses  | -10,393.5           | -90.5%           | -11,242.4           | -91.2%           | -848.9                      |
| <b>EBITDA</b>  | 1,092.6             | 9.5%             | 1,079.3             | 8.8%             | -13.3                       |
| Depreciation / amortization of tangible and intangible assets (incl. goodwill) & longterm loans and securities | -581.4              | -5.1%            | -606.6              | -4.9%            | -25.2                       |
| <b>EBIT</b>  | 511.2               | 4.5%             | 472.8               | 3.8%             | -38.4                       |
| Investment result  | -80.9               | -0.7%            | -148.3              | -1.2%            | -67.4                       |
| Result from interest (incl. pensions)  | -121.4              | -1.1%            | -96.4               | -0.8%            | 25.1                        |
| <b>Result from activities</b>  | 308.9               | 2.7%             | 228.1               | 1.9%             | -80.8                       |
| Taxes on income  | -155.8              | -1.4%            | -132.2              | -1.1%            | 23.7                        |
| <b>Result after taxes on income</b>  | 153.0               | 1.3%             | 95.9                | 0.8%             | -57.2                       |
| Other taxes  | -30.6               | -0.3%            | -32.9               | -0.3%            | -2.2                        |
| <b>Net income</b>  | 122.4               | 1.1%             | 63.0                | 0.5%             | -59.4                       |

|                                | ACTUAL<br>12/31/2015 |               | ACTUAL<br>12/31/2016 |               | CHANGE            |
|--------------------------------|----------------------|---------------|----------------------|---------------|-------------------|
|                                | in million<br>EUR    | %             | in million<br>EUR    | %             | in million<br>EUR |
| Intangible assets              | 771.4                | 9.8%          | 630.7                | 7.9%          | -140.7            |
| Property, plant, and equipment | 2,888.4              | 36.8%         | 3,029.0              | 37.7%         | 140.7             |
| Financial assets               | 152.3                | 1.9%          | 90.0                 | 1.1%          | -62.4             |
| Inventories                    | 1,242.3              | 15.8%         | 1,268.8              | 15.8%         | 26.5              |
| Receivables and other assets   | 2,239.6              | 28.5%         | 2,350.3              | 29.3%         | 110.8             |
| Cash and cash equivalents      | 310.0                | 4.0%          | 372.5                | 4.6%          | 62.4              |
| Prepaid expenses               | 23.2                 | 0.3%          | 20.9                 | 0.3%          | -2.3              |
| Deferred tax assets            | 165.9                | 2.1%          | 196.2                | 2.4%          | 30.2              |
| Plan assets                    | 55.5                 | 0.7%          | 73.6                 | 0.9%          | 18.1              |
| <b>Total</b>                   | <b>7,848.8</b>       | <b>100.0%</b> | <b>8,032.1</b>       | <b>100.0%</b> | <b>183.3</b>      |



|   | ACTUAL<br>12/31/2015 |               | ACTUAL<br>12/31/2016 |               | CHANGE            |
|---|----------------------|---------------|----------------------|---------------|-------------------|
|   | in million<br>EUR    | %             | in million<br>EUR    | %             | in million<br>EUR |
| Equity  | 2,667.3              | 34.0%         | 2,721.9              | 33.9%         | 54.7              |
| Badwill                                       | 1.9                  | 0.0%          | 1.5                  | 0.0%          | -0.4              |
| Accruals for pensions and similar obligations | 544.0                | 6.9%          | 575.3                | 7.2%          | 31.4              |
| Other accruals                                | 1,412.9              | 18.0%         | 1,462.5              | 18.2%         | 49.6              |
| Bonds   | 829.0                | 10.6%         | 829.0                | 10.3%         | 0.0               |
| Liabilities to banks                          | 887.3                | 11.3%         | 769.3                | 9.6%          | -118.0            |
| Trade payables                                | 1,096.5              | 14.0%         | 1,256.8              | 15.6%         | 160.3             |
| Other liabilities                             | 410.0                | 5.2%          | 415.6                | 5.2%          | 5.7               |
| <b>Total</b>                                  | <b>7,848.8</b>       | <b>100.0%</b> | <b>8,032.1</b>       | <b>100.0%</b> | <b>183.3</b>      |

[in million EUR]

|  | ACTUAL<br>1-12/2015 | ACTUAL<br>1-12/2016 | CHANGE        |
|--|---------------------|---------------------|---------------|
| <b>Cash funds at beginning of period</b>                                   | <b>421.0</b>        | <b>131.3</b>        | <b>-289.7</b> |
| Cash flows from operating activities                                       | 638.0               | 855.7               | 217.6         |
| Cash flows from investing activities                                       | -1,223.8            | -575.2              | 648.6         |
| Cash flows from financing activities                                       | 335.9               | -266.0              | -601.9        |
| <b>Total cash flow</b>   | <b>-249.9</b>       | <b>14.5</b>         | <b>264.4</b>  |
| Change in cash funds from exchange rate movements and valuation procedures | -46.5               | 18.9                | 65.4          |
| Change in cash funds from changes in the consolidation group               | 6.6                 | -3.5                | -10.2         |
| <b>Cash funds at end of period</b>   | <b>131.3</b>        | <b>161.2</b>        | <b>29.9</b>   |