

Vitesco Technologies Group AG
Siemensstraße 12
93055 Regensburg, Deutschland



19th October 2023

To: The Independent Transaction Committee of the Supervisory Board
and Mr. Andreas Wolf, CEO of Vitesco Technologies

Dear Mr. Wolf and members of the Transaction Committee,

Ninety One, through portfolios that it manages, is one of the Vitesco Technologies' ("Vitesco" or "the company") largest independent shareholders. We have held our shares since Vitesco's spin-off from Continental in 2021 and added to our position over time.

We are addressing this open letter to the Independent Transaction Committee of the Supervisory Board of Vitesco, which is tasked with evaluating Schaeffler AG's ("Schaeffler") proposals to gain control of the company. **We believe that the acquisition process, constituting of a tender offer followed by a share merger for the remaining Vitesco shareholders, risks disadvantaging minority shareholders.**

In the first step of the acquisition process, Schaeffler proposes, through a cash tender, to acquire additional shares in Vitesco at €91 per share, a price that we believe materially undervalues the company. The mid-term targets that Vitesco has set itself for 2026 – which our analysis shows to be both reasonable and conservative – are for a 7-9% EBIT margin on revenues likely to be around €10.5bn (around half of which is the electrified business). As addressed in Vitesco's own statement from the 17th October 2023, the order book necessary to generate these revenues and profits has already been secured. However, it is important to note that profitability is currently depressed by the significant ramp-up costs and restructuring associated with the transition to these electrification products. Focusing on 2026 affords a better picture of normality than nearer-term results.

Applying the mid-point of management's 2026 margin guidance (8%) to €10.5bn of revenues shows that Schaeffler's tender offer values Vitesco at a 2026 Enterprise Value-to-EBIT multiple of around 3.5 times. Even within the auto supplier sector – currently out of favour among stock market investors – this is a low multiple. Further, our analysis – including interactions with Vitesco's peers, industry participants and sector experts – shows that Vitesco's mid-term targets do not fully capture the company's long-term earnings potential. Vitesco has a credible path to achieve c.10% group EBIT margins beyond 2026 and to continue to grow well above industry-average rates. The company's own presentation materials lay out their expectation that "electrified business" revenues will double between 2026 and 2030, implying double-digit annual group-level revenue growth during those years.

This significant back-end-loaded profit growth undermines easy comparisons between Vitesco and other auto suppliers, many of which – including Schaeffler – have product portfolios predominantly exposed to the internal combustion engine architecture. These peers are facing complex structural challenges over how to adapt to a world of electrified powertrains; yet, the price that Schaeffler proposes to pay in its tender offer values Vitesco at a lower multiple than many of these auto supplier peers. Schaeffler's offer reflects neither Vitesco's superior industry position, nor the remarkable job that Vitesco's management has done in positioning the company as a leader in some of the most value-added components of electrified powertrains.

We believe that properly recognising these factors would yield a very significant premium compared to the price of Schaeffler's tender offer.



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The second step of the acquisition process will take place after the tender offer and be voted on at next year's AGM. We understand that this second step will determine, via an appointed independent valuation expert (incorporating an IDW S1 methodology), a share exchange ratio for new Schaeffler shares to be issued to those Vitesco shareholders who do not tender their shares at €91. From a valuation perspective, we believe this necessitates particular scrutiny of:

- The number of future years explicitly modelled in a DCF, in order to correctly capture Vitesco's transformation to 2026 and further above-sector growth to 2030.
- The growth rate used in a DCF, including the terminal growth rate, which needs to give Vitesco credit for its superior industry position in an increasingly electrified global auto market.
- The risk of inappropriately referring to trailing trading ranges for a spin-off with a limited two-year trading history, which has coincided with a challenging period for the auto supply sector.
- The risk of inappropriately relying on comparable peer valuation multiples, given the differing outlooks for companies within the sector.

We hope that the independent committee set up by Vitesco to evaluate the tender offer and share merger will take full account of Vitesco's own mid-term targets and long-term potential. In our opinion, only such an approach can ensure that the interests of minority shareholders are properly represented throughout this process.

We look forward to your thoughts and a continued dialogue.

Sincerely,



Guillaume Redgwell



Alessandro Dicorradò

