Knorr-Bremse AG-8.8.24

ML Marc Llistosella

FW Frank Weber

AS Andreas Spitzauer

AS: Welcome & Introduction.

I would now like to hand over to our CEO Marc Llistosella.

ML:

- Thank you, Andreas.
- Welcome everyone to our call regarding the financial results for the second quarter of 2024.

Chart 2 (ML: Key takeaways for today)

- As usual, I will start with an overview of the highlights before Frank dives into the details, followed by a Q&A session.
- Let's take a look at the key messages from today on chart 2:
  1) Knorr-Bremse's outperformance and resilience since the beginning of the year have been remarkable. For Rail, we continue to see strong demand across all regions and a positive margin trend. Despite the weakening truck markets, CVS latest results confirm its remarkable robustness, which is an integral part of its business model.
  2) Last year, I presented our BOOST 2026 program for the first time. One year later, I am very pleased to inform you that we are fully on track. Later I will provide more details on the measures we have successfully implemented so far.
  3) With the contract extension of Bernd Spies as a member of the Executive Board, the Supervisory Board of Knorr-Bremse has ensured further continuity in the leadership team. Bernd is responsible for the Truck division and he will continuously drive the success of it. The entire Executive Board team works extremely well together - a situation that Knorr-Bremse did not have always in the past and which helps us to achieve our goals quickly.

4) Last but not least, we raised our Guidance for 2024 last week due to our strong performance in both divisions in the second quarter and the positive outlook for the Rail division in the second half of the year.

- Let's move on to chart 3.

Chart 3 (ML: BOOST Overview - implemented measures)

- The progress of our growth and efficiency program "BOOST 2026", which we launched one year ago at the strategy update, is very satisfactory.
- The most important goal is to return Knorr-Bremse to its former strength and beyond. That is why we are not only focusing on costs and efficiency, but also want to further boost our profitable growth.
- The basis for this is to secure our global technology and market leadership positioning in the rail and truck market. At the same time, we are striving to expand into new growth areas in existing and new markets.
- To achieve these ambitious goals, we have set up 150 specialized working groups around the world. These teams are strategically located across the different regions and consist of experts from various disciplines to optimize processes and structures.
- Today we would like to focus on some of them:
  1) Increase capacity in best cost countries: KB has been successfully decentralized for decades. This means that local management is close to our customers and has a very high level of P&L responsibility. For the next phase of efficient growth, we are now systematically expanding our production sites close to our customers – like Poland, Mexico and India, as a few examples to be named.
  2) Aftermarket: Cojali is a wonderful company. Compared to our expectations at the beginning, the company has developed better and the integration into KB has gone extremely well.

     What are our next steps and goals: 1) Today, roughly 50,000 diagnostic tools from Cojali are used in workshops worldwide. We would like to leverage these unique gateways to further increase the number of applications here and 2) Cojali is the clear market leader in Europe. We see good growth opportunities in the U.S. and in other markets, too.

3) In order to reduce complexity and the related costs, we will decrease the number of legal entities further. At the beginning of 2023 the number was at 126 and at year end 2024, we expect 100.
4) In an increasingly connected and competitive business world, optimising processes is crucial to success. To meet these requirements, we are expanding our Global Business Services platform - GBS. By centralising functions such as finance and accounting, human resources or procurement, we can leverage economies of scale and significantly reduce our operating costs. At the same time, we want to be flexible and take local conditions into account. That is why we are currently focusing on four GBS hubs: Czech Republic for Europe, India as our global hub and for the APAC region, Mexico for North America as well as Suzhou in and for China.

Chart 4 (ML: BOOST – Fix it)

- Part of BOOST is BROWNFIELD, our efficiency program, which targets business units with total revenues of 1.4 billion Euros.
- In BROWNFIELD there are Fix-It measures included, which are already defined and mostly implemented for entities with combined revenues of roughly 700 million Euros. Compared to the EBIT margin in 2022, we expect these measures to lead to a margin increase by around 70 basis points by 2026 as part of the overall 200 basis points improvement, which also includes Sell-It initiatives.
- For CVS:
  - BOOST MATERIAL includes structural material cost levers such as Value Analysis/ Value Engineering, an international realignment of the supplier base and an optimized supply chain management concept.
  - Global Responsibilities: The realignment of the CVS organization will lead to a simplification of interfaces and responsibilities to streamline and accelerate key processes. In addition, accountability will be ensured through a clear global definition of responsibilities and interfaces.
  - R&D optimization: CVS's strength and USPs are based on innovative and customer-oriented products. We want to maintain this. BUT at the same time, we want to reduce regional specialties, more consistently terminate unsuccessful projects and achieve our growth targets with our existing R&D team of today.
- For RVS:

- At RVS, we generally see potential for improvement in the areas of
    - Inventory
    - Pricing and
    - China – esp. in China, cost reduction in the slightly declining OE business longer term and further expansion of the growing aftermarket business
- As previously mentioned, we want to further expand our production footprint in countries with a good cost structure and not further expand or even reduce the number of employees in high-cost countries.
- We will take restructuring measures in business areas where we want to benefit from growth opportunities in the long term and which do not yet fully meet our targets. We do not expect high one-off costs, but rather want to make use of staff fluctuations.

Chart 5 (ML: BOOST – Sell it)

- Let me explain the current status of our Sell-It program in more detail on chart 5.
- Overall, we want to lift the EBIT margin additionally by around 130 basis points until 2026 through asset sales, together with the 70 basis points combining to 200 basis points. This is what we said, this is what we do. That's the difference with promises. We don't promise, we just execute what we say. That is something I want to highlight before we speak about something like promises.
- We have finally identified and decided all the business units that we want to sell. Their combined annual revenues amount to slightly more than 700 million Euros.
- The first basket mainly includes businesses from the Truck Division and the second basket is more focused on Rail.
- Following the sale of Kiepe and Safety Direct, two further companies are in the sales process currently. One off them is GT Emissions Systems. Thereafter, the following units to be sold are larger in terms of revenues, which entail a longer carve-out process. Accordingly, we expect the closings to take place more towards 2025 and even 2026.
- Overall, we are fully on track with our sales program and looking forward to seeing more execution in the years to come.

Chart 6 (ML: Market update Rail and Truck)

- Let's have a quick look at the current market environment on chart 6.
- Rail in Europe and North America is experiencing solid growth in both OE and Aftermarket, currently and going forward. Growth in Europe is supported by the unbroken political will to make the mobility of the future greener and more sustainable. For example, there is a significant push to replace obsolete fleets, which will further fuel demand for new rail vehicles and related infrastructure.
- China's rail market is performing well this year, particularly in the Aftermarket, which benefits from last year's pushouts of maintenance topics. Additionally, the high-speed segment continues to receive decent support from the government, because ridership levels of today are above the pre-Corona time.
- Globally, OEMs are reporting high order books, indicating robust demand for new rail vehicles and equipment. The pricing of new contracts in rail remains favorable, which is a clear margin driver for RVS.
- The rail industry continuously faces supply chain challenges, particularly at the level of small specialist suppliers in the industry. These issues can cause delays and increase costs, but efforts are ongoing to mitigate these disruptions through better planning and flexible sourcing. As you know for us, the delivery and fidelity is key of our success. So this is always to keep in balance with our net working capital.
- The total number of passengers in trains in FY24 is expected to be higher versus last year.

- In the second quarter 2024 the production rate especially in Europe remained significantly lower year over year, while the price trend for CVS was supportive. In North America and China, production rates were only declining slightly or stagnating.
- On a full year level, we believe a decrease of production rates in Europe will exceed 10% year over year. In North America the potential decrease should be lower than in Europe, but still slightly negative. The market in China develops promising but mixed, including growth momentum driven by exports especially into the South East Asia region but a weak domestic market at the same time. We observe the development in the truck market closely and will be able to react quickly to all challenges, if necessary, especially in Europe.

Chart 7 (ML: H1/24 highlights)

- Let's move to an overview of our first half year KPIs for 2024 on chart 7.

- Almost all major financials moved higher year over year!
- Most important for me and us was, that the operating EBIT margin is up by 170 basis points to 12.3% in the first half 2024, well supported by our BOOST efficiency program. Remember when we spoke about EBIT margin exceeding 14% in 2026. We started at 11.1% in 2023 and now we are half through with 12.3%, so it looks very promising that we reach what we said.
- In addition, order book remains on a high level with 6.85 billion Euros. It provides good visibility and confidence for the quarters ahead regarding utilization rates. Kiepe was last year included.
- Free Cashflow for the first half of the year has reached 64 million Euros. A strong improvement versus last year's level, which was at this time of the year still negative.
- I would now hand over to Frank for more financial insights regarding our second quarter.

Chart 8 (FW: Q2/24)

- Thank you Marc and welcome also from my side.
- Let's turn to chart 8 to discuss the financial highlights of our second quarter.
- Our order intake was again very strong with 2.1 billion Euros. I guess this is a remarkable achievement by both divisions, taking into account the tougher market environment in many business segments of CapGoods companies and also the challenging truck production rates.
- Book-to-bill on group level was respectively at 1.06.
- Revenues amounted to over 2 billion Euros, despite disposals and FX headwinds. Rail saw a significant increase of more than 10% organically, while Truck faced a decrease by 5%.
- The first operating highlight of the quarter was the development of profitability. Operating EBIT margin benefited mainly from good operating leverage in RVS, our efficiency measures and better pricing. Accordingly, the margin rose to 12.5%, which is 140 basis points higher than a year ago. Both divisions contributed to this profitability improvement. As a result, we increased the upper end of our margin guidance.
- The second highlight was the Free Cashflow, which quadrupled year over year and came in at 158 million. With that, we were able to break even already in the second quarter of the year, achieving 64 million Euros in the first half of 2024. Please keep in mind that this

development was expected and follows the typical pattern for us throughout the year - Q1 is always the weakest and Q4 the strongest quarter in terms of our Free Cashflow generation.

Chart 9 (FW: Capex, NWC and ROCE)

- Let’s move to chart 9.
- Capex in the past quarter amounted to 65 million Euros, representing 3.2% of revenues. It was lower in absolute terms and on a similar level in relation to revenues year-over-year. In the upcoming quarters the ratio should increase again and we expect on a full year basis a capex to revenue ratio of 5-6%.
- Net Working Capital was stable year-over-year, reaching 1.55 billion Euros, despite the significant revenue increase. Therefore, and more importantly, the positive trend of improved scope of days in the first quarter compared to the previous year continued. This shows that our efficiency measures are taking effect and the turnaround in net working capital is continuously successful. We take action across all working capital areas, in particular further reducing inventories, especially safety stock, via our optimization program “Collect” in order to increase our capital efficiency further.
- Our Free Cashflow – as mentioned before – was 158 million Euros. It significantly improved versus prior year’s level driven by the success of the “Collect” program, as well as less capital expenditures. As mentioned in the past already: we seek to improve the cash generation also throughout the year in order to de-risk our Q4 cash generation necessities.
- With these further intra-year-improvements we feel very confident to reach our Free Cashflow target also this year.
- As a result of improved EBIT and the improved capital efficiency in the company, our ROCE increased significantly from 16.6% to 20.2%. With a ROCE of more than 20%, we are back in the range we have set ourselves as a target.

Chart 10 (FW: RVS OI and OB)

- Let’s take a closer look at the divisional performances in quarter 2, starting with RVS on chart 10.
- In terms of order intake, RVS recorded 1.14 billion Euros in the past quarter. It was particularly interesting that all regions contributed to this positive development - a clear sign

that the good demand in the rail segment is based on many pillars. We expect that RVS should achieve a comparable level of order intake in the second half of this year as in the first half. Growth was particularly strong in the Asia-Pacific region. Here order intake rose in India in the OE segment and in China in the AM segment.

- Book-to-bill ratio stood at 1.12 in the second quarter 2024, which means RVS posted the eleventh quarter in a row a book-to-bill ratio above 1. For the second half of the year we expect the book to bill ratio to stay above 1 as well.
- Order backlog remains at a high level reaching 4.9 billion Euro. In organic terms, e.g. excluding Kiepe in the second quarter of 2023, the order backlog rose by 8% year-over-year. The high order backlog provides a strong basis for the second half year of 2024 and beyond.

Chart 11 (FW: RVS Revenue and EBIT)

- Let's move to chart 11.
- Revenues of RVS in Q2 amounted to more than 1 billion Euros, which represents a new record level in a quarter. It increased by 6% year-over-year. Organically, the division even lifted its revenues by 11%.
- Rather flattish OE business overall was strongly outperformed by a strong aftermarket business. As a result, our aftermarket revenue share in RVS even reached 55% in the second quarter 2024.
- From a regional point of view our revenue growth was remarkable in the Asia-Pacific region and in North America. Europe kept the very good level year-over year.
- Operating EBIT margin recorded an increase of 90 basis points to 15.6%, driven by operating leverage. Improved pricing of new contracts and a lower share of legacy business further supported this development. In addition, a positive revenue mix driven by a higher aftermarket share and first benefits from BOOST efficiency measures impacted the operating EBIT margin positively as well.
  In the current quarter, profitability of RVS should stay at this good level.

Chart 12 (FW: CVS OI and OB)

- Let's continue with our truck division on chart 12.
- Order intake in CVS amounted to almost 1 billion Euro, a decline of roughly 5% compared to last year. The positive order development in North America was not able to counterbalance the weaker market situation in Europe and a bit in Asia Pacific. In particular, the trend of

incoming orders in Europe was negative, which had already been indicated in the recent communication from our OEM customers and needless to say also expected from us starting in Q2.

- Nevertheless, Book to bill reached almost 1 in the past quarter, a stable development compared with last year.
- Order book with almost 2 billion Euros at the end of June remains on a high level and only marks a small decline year-over-year so far.
- Developments in the second half of 2024 are expected to face considerable challenges, in North America and Europe in particular. Although the market in North America is holding up better than in Europe. Our expectations indicate that the truck production rates are expected to fall significantly in the second half of 2024 year-over-year. We assume that the book-to-bill ratio will be well below 1 on a full year basis. However, we are very well prepared to overcome these challenges.
  - In general, the flexibility in our facilities is high. For example, temp-workers represent 10-15% of workforce in the production plants in Europe, which we can lay off quickly, if necessary.
  - All major plants in Europe are prepared and ready to introduce short-time work within weeks.
  - Price increases, which we achieved, are fixed and will counterbalance shortfalls of volume.
  - Aftermarket business contributes more than 30% of revenues in Europe and in North America, which is also greatly supporting our resilience.
  - Last but least, our BOOST program targets structural costs, which already mitigated some negative impacts.
  - Please bear in mind that we are not in crisis mode, but we are very well prepared for a likely negative market development in the months ahead.

Chart 13 (FW: CVS revenues / margin)

- Let’s move on to chart 13.
- For the second quarter we noted for CVS only a slight decrease in overall revenues. The division posted revenues of almost one billion Euros, showing a decline of only 5% year-over-year.

- CVS achieved even slightly rising revenues in the aftermarket business in the regions. OE revenue, on the other hand, declined slightly in all regions, expect for South America.
- In the European market, our revenues have experienced an 8% decline due to weak demand in both the truck and trailer segment, alone the truck production rate declined by 18%. Despite these challenges, the Aftermarket segment was solid and delivered 35% of total revenues in the region. In the quarters ahead, we expect that aftermarket should provide some stability to the region's overall performance and that our outperformance of the market via content per vehicle continues and supports the resilience of the company.
- Operating EBIT of our CVS division amounted to 112 million Euros in the past quarter, up 14% year-over-year. As a result, the operating EBIT margin improved by 190 basis points from 9.3% to 11.2%.
- The remarkable increase of our EBIT margin is based on a combination of achieved price increases, a higher aftermarket share and positive effects from our efficiency measures. These targeted measures have supported our profitability and we are best positioned for the second half of the year, in which we expect an EBIT margin of only moderately less than 10%.
- With that I hand over to Marc again.

Chart 14 (ML: Path of margin improvement)

- Thank you, Frank.
- In the last year, we have made remarkable progress with the implementation of our BOOST program, which has led to a significant turnaround. These developments are a clear proof that we are on track to achieve an EBIT margin of more than 14% latest in full year 2026.
- We always said it will not be “backend loaded” and rather a linear development towards 2026 – despite the anticipated weakness in the truck market. So far, we fully delivered on that path.
- Our positive development in the Rail division, which is reflected in significantly improved margins, is particularly remarkable. We are well positioned in the rail market and we are very, very confident, that RVS achieves its share of profitability, respectively even more than 16.5%.
- From a current point of view and due to weak truck production rates in Europe, the margin target of above 13.5% in full year 2026 in the Truck division looks more ambitious. But we

have enough cost measures in our tool-box, a strong market position and plenty ideas to drive the performance of CVS to achieve the margin target.

Chart 15 (Guidance 2024)

- On chart 15, our last one, we will again speak about the guidance 2024.
- I want to finish with the confirmation of our raised guidance for 2024. Major assumptions are unchanged and outlined on the right side of this chart.
- For full year 2024 we expect revenues of 7.7 to 8.0 billion Euros, an operating EBIT margin of 11.5% and 13.0% and a Free Cashflow between 550 and 650 million Euros.
- We expect the closing of the Signaling deal end of August which is part of the Greenfield and best to our knowledge there are no obstacles to finalize the deal. After the closing and latest with the release of our Q3/24 results, we will integrate this asset in our guidance for full year 2024: 1) revenues of KB group will be up by roughly 100 million Euros and 2) the EBIT margin will increase marginally this year, as some minor integration costs will be required. Overall, this is the first step of our Greenfield strategy and it looks extremely promising.
- Thanks a lot for your attention. Frank and I look forward to your questions now.

Q&A Session

O	Operator
SW	Sven Weier
FW	Frank Weber
ML	Marc Llistosella
AG	Akash Gupta
GB	Gael de Bray
AS	Andreas Spitzauer
BU	Ben Uglow
HS	Holger Schmidt

O And the first question goes to Sven Weier from UBS. Please go ahead.

SW Good afternoon. Thanks for taking my questions. The first one is regarding the updated strategy programme. Now that you rightly said one year into it, I was just wondering what you think were the things that have surprised you positively in terms of the things that you have achieved? What are maybe the things where you think it's a bit lagging behind? And also, when you talk about going back to old strength and especially beyond what are maybe some of the things that have encouraged you more than other ones. That's the first one. Thank you.

FW Let me maybe start with that and then Marc dives in. I think what surprised me the most is the real intrinsic eagerness of the whole organization to basically engage with the BOOST Strategy Programme. It was in the past years, not seldom the case that not every part of the organization was really behind. Some directions are being called out going forward, but the whole organization on rail as well as on the truck side is fully behind the programme. And that's what you ultimately need as a buy-in for such a strategic programme. And that was something that I was very pleased to see. And maybe on some more contents, what you liked and so far, and what you didn't like, Marc, I'll leave it up to the CEO, I think to give some insight.

ML Yeah. What is obvious, the business concept is absolutely rock-solid. The products and the market positioning are better than I expected, not only in rail, but also in truck. I think we have a lot of areas for improvement, which surprised me a little bit, especially in areas where I didn't expect it. When it comes to standardization of processes, when it comes to standardization of product development processes, when it comes to R&D allocation of hours, here I am surprised that we have this kind of room for improvement, which I didn't expect. Where I am negative, there's very, very few negatives, I was surprised how many units we have here, how connected or disconnected some of the units are to each other. I think the good message for you as an investor and an analyst is that by having found this kind of, let me say surprises, it is we can help ourselves. And there's one of you colleagues just the self-healing and the self-helping potential of the company seems to work.

And the good thing is, yes, this is not rocket science what we can do here. There's a lot of improvements to be easily done, and it's just a question of consequence and also of pressure to address it in a way that the people are really picking up this topic. So long story short, the company is a very, very good company, but there's a lot of potential to make the company even better. So that means without any fancy things and fancy measures, we can get on a much better level than I expected it. So that's in a very short sentence. And at the beginning of last year, I was told that 14 should be our target, and I was saying, "Okay, let's do it." I must say the 14 is a very low, low target for such a company, because with the internal potential already, we can reach that.

SW Sounds like an intermediate goal. Thank you for that. The second question is just following up on Frank, what you said on order intake rail, much appreciated on that. But just wondering, given the obvious marked concern around the truck market how you had exit rates in June, entry rates in July on order intake. Do you see a cliff there or is this reducing in a relatively orderly fashion what you see there?

ML The good news I would say, Sven and thanks for that question, is that we don't see a cliff. We have even seen, but that's also a bit specific in North America, we have even seen an increase of order intake compared to the same time around last year. You can argue now that North America last year in the second quarter was a bit weaker after very good order intake in quarter one. So we see a solid development, I would say, given the market situation we are in. Keep in mind that the market itself in the second quarter was 18% down in truck production rate compared to last year in Europe, and it was nearly 10% down in North America. Given that market situation, we see a rather stable development going forward in terms of order intake.

SW Thank you. Much appreciated.

FW You're welcome.

O And the next question goes to Akash Gupta from JP Morgan. Please go ahead.

AG Hi. Good afternoon, and thanks for your time. I got two as well. The first one is on CVS. Again, you had very good margin in Q2, reaching at highest level in almost 12 quarters, and you are indicating some decline in the market driven by the truck production rates. And when you look at your comment rate, we get that maybe we will see higher level of pick line in Europe than elsewhere. A question I have is on the regional profitability of the segment, is it fair to say that European business could be more profitable than other businesses, which is why there is a mechanical effect on margin coming from lower European volumes? Because when I look at your commentary on cost optimization, you sound quite upbeat in your ability to reduce cost in line with market volumes. So any colour on European profitability would be the first one to start with.

FW First of all, Europe for us is where the technology happens, the centre of all R&D activities across the globe. And not all R&D so to say, is allocated to all the entities around the world because a lot of the fundamental development stuff stays within the region. That's why Europe for us in truck is not China or Asia Pacific in rail with a very accretive margin. You should rather see the European margin or profitability level on a global basis than the average level. So it's not a very accretive region that we are having here, it's more in the midfield, so to say in the group average for the truck division. That's how I see it. And that's why basically a downswing doesn't overwhelmingly hit us on the bottom line side. It does hit us, of course, but not overwhelmingly.

AG Thank you. And my second one is on RVS where you can tell us about where are we on the legacy backlog and coming from the orders you received before the inflation shock, and how shall we think about the pacing of the remaining legacy backlog between second half of this year and 2025?

FW Thanks for the question. Since quite some time we talked about it. We always said 500 to 600 million euros that we expect this revenues out of these legacy this year. I would say, of course, given so to say, the timeline of these contracts we see a bit more of that in the first half of the year, already a bit less in the second half of this year. So if we take 550 as an average between 500 and 600, so assume maybe around 300 more in the first half year already happened and second half year less than 300 million. And then next year, we assume some 200 to 300 million in '25. So only half of that would we have been suffering then in the year '24 to occur next year. But half year two a bit less than in half year one. That's what we assume.

AG Thank you, Frank.

FW You are welcome, Akash.

O And the next question comes from Gael de Bray from Deutsche Bank. Please go ahead.

GB Thanks very much. Good afternoon, everybody. I have two questions too. The first one is on the 70 bips targeted organic margin improvement. Maybe that'd be useful to understand how much is expected to come from CVS and how much from RVS and what's been the level of achievement so far in 2024? That's question number one. And then the second question is about RVS specifically. I think I remember in the past, you had previously indicated that RVS orders of one billion or more was not to be expected every quarter. Now it seems that you are guiding for about 1.1 billion for both Q3 and Q4, at least on average. So is it fair that you've upgraded your views on the rail market? Thanks very much.

FW Thanks for the two questions. Number one, it's rather simple but that's the matter of the pure facts behind it. The 70 bips on the Fix-it programme is half, half, it's both RVS and CVS. It is on the CVS side I would say a bit more backend loaded because one entity, bigger entity on the CVS side needs a bit of carve-out preparation, I think like Marc already indicated. So that's a bit coming later. That also explains a bit the answer that out of that 70 bips I would say we are a bit behind the purely linear path. But on the other hand, on the other 200 bips of operating leverage and other efficiency measures, we have a very good track record so far over the last one year or one and a half years. So we are very well in line with the linear approach overall to improve our margin from 11 to 14. As you can see from the programme last year in June where we stood at 11, now we're at 12 and a half, which is already I think quite an achievement, which is a bit ahead of the linear curve overall.

Second question is not an increase of our expectation for the RVS development. We expected a strong development of our division there. I think it's more the usual warning to everybody saying that it's a project business that we have with rail, we have big projects at times and not every quarter is developing rather linearly like in a product business. That's why we are usually saying don't draw a conclusion from the first quarter to the second and from the second automatically to the third. But as the sheer perspective goes on second half of the year, we are pretty comfortable that we will not have this big ups and downs, seeing the detailed projects that are sitting in our books. So we have to distinguish both the general so to say expression mark of us usually behind the project business, and that is not a linear kind of other intake situation, it might go up and down a bit. And the other thing is the concrete situation that we are in now in '24, and that so to say indicates a good level of other intake to come also in the second quarter.

FW Thank you very much.

GB Thank you very much.

FW Sorry for that.

GB Thank you.

FW You're welcome, Gael.

O And the next question goes to Ben Uglow from Oxcap Analytics. Please go ahead

AS And the line is open.

O Maybe you're on mute. Maybe he is muted on his telephone.

BU Thank you for that. Hi guys. Thank you very much for taking the question. I had a couple. The first is just very high level on the macro climate and the customer conversations that you are having. If I listen to what companies have been saying in the last week or so in reporting, we are hearing a lot of companies talk about customer hesitation, projects being pushed out, political uncertainty, particularly in the US, but I think it is broader than that. And I guess my first question to you is, are you sensing, or have you sensed any of that at all in the last couple of months, i.e., in terms of talking to your CVS or RVS customers? Is there any change in tone or is it still very much business as usual?

ML Okay. Beside the extreme enlightenment of the German government, our customers are relatively stable. So especially in the business of rail, we see a certain form of indifference to what is going on. And in terms of truck, there's megatrends. And after we have seen a very good truck market in Europe for the last three, four years, it's more than logic and it is more related to the age of the fleet on the streets, than whether some politicians or some people mind to say how it's going, how it's not going. So in rail, we see a very, very limited impact on the actual politics because the major trends are still valid and nobody has questioned it. In trucks, we are seeing, especially in Europe and America, that the markets are very, very sensitive more to the supply chain issues than to anything else. And when it comes to politics, beside, as I said, the excitement about the German government, there's very, very little remarks on this topic.

BU Thank you, Marc. But it sounds fair to say that it's not like you've suddenly got a call from the division to say everybody is applying the brakes, not to coin the pun, but nothing like that. There hasn't been a sudden stop in the last month or so?

ML Absolutely not. Absolutely not.

BU Okay. Very clear. Thank you. And my second one is, and congratulations on some of these margins, on the truck side at 11%, there are a lot of moving parts if I think about the second half between volume, price after-market etc. I guess my question for Frank is, am I correct to assume that even with volume being weaker, there's no reasonable scenario where the CVS margin goes back or below the 9% levels that we were seeing in the first half of last year, i.e., that that sort of downside, if you like, is capped?

FW I don't think that there are so many ingredients so to say, volatile for the second half of the year. I basically only see volume, and the volume is driven by the market. And even there, I basically see only so to say Europe and maybe north America as kind of volatile, so to say. With that given and the conversions that from us given, that's why I said moderately below ten this is what could be expected, not more. This is our belief. If it comes to a catastrophe in the market, I can never rule out that also maybe nine-ish would be then a number, but that's not something that we anticipate that this point in time. So in a nutshell, I would say, yes, you are right, I would see something moderately below ten if the market deterioration comes as we expect it to be. If it's getting significant diverse, then of course it's a different story, then we have to re-evaluate. But that's nothing we plan for.

BU Understood. That's very helpful. Thank you.

FW You're welcome, Ben.

O And the last question is a follow up and it goes to Akash Gupta again. Please go ahead.

AG Hi. Thanks for taking my follow up. I have one follow up on the guidance. And you increased the margin guidance at the top by 50 basis points. And when we look at your first half operating margin, 12.3%, it is roughly in line with the midpoint of the new margin guidance or maybe slightly ahead. And when we look at your second half margin commentary, you are implying CVS margins moderately below 10%. So does it mean that if you have to hit the top end of the guidance of around 13%, we are going to see a substantial recovery in RVS? Or maybe if you can explain the math on what can take you to more like 13% margin for the year? Thank you.

ML No, you are not too wrong in that regard. Absolutely that is clear. Also mathematically pretty clear. So the reason why we have also increased the upper end is because of the good rail performance, so to say. And if it wouldn't be so to say the uncertainties of the truck market in Europe then we would have maybe even lifted the given corridor that we had so far. But we wanted to be on the safe side. Just referring to the question from Ben. So if anything comes weaker than expected in truck in Europe, in the market that's why we have left the lower end, so to say, at the level where it was. But it's clear yes to what you asked, rail should be performing better going forward.

AG Thank you.

ML You're welcome, Akash.

AS Okay, the last question?

O Yes, just a second. And we have a last question from Holger Schmidt from DZ Bank. Please go ahead.

HS Hi. Good afternoon everyone. Thanks for taking my questions. I have two. You mentioned the significant decline in truck production rates in Europe, and to what extent do you expect this to impact your price setting in CVS going forward? That's the first question. And the second question, moving to North America, against the background of the new EPA emission regulation, expected to come in 2027, how do you think about the likely pre-buying in North America? What kind of impact could it have and when do you expect it to start?

FW I take the first and then Marc and myself will figure out who takes the second. It's clear so to say that in the market that is booming, the flexibility to accept certain price levels is potentially higher than the market that is going downward. We have made our negotiations in 2022 and in '23 with two big waves with all the customers, we have fixed the prices going forward. We expect them to be sustainable, the right of each and every customer, so to say, to come back at a certain point in time to the negotiation table. We expect that this will happen in the future. It's nothing that is on the table at this point in time. We are prepared for that because we also suffered in the past, and that's why we have risen the prices. We have not risen the prices because we felt like this, but it had a clear reason, and that's why you can expect from us that we will be very, very, very hesitant if anybody's knocking at our door in that regard.

Second question, maybe I start even though Marc is technically more advanced in potentially answering this question. We do expect that the EPA regulations, the greenhouse regulations kicking in '27 in North America should lead to a pre-buy effect. We expect that to come in '26 earliest, maybe towards the end of '25 in a noticeable manner that the industry can feel, not earlier. Unfortunately, not earlier, but that's the way we think. We think that the fleets need to so to say prepare over at least 12 to 16, 18 months to bring the fleets up to speed but not more, not earlier.

HS Okay. Understood. Thank you very much.

FW You are welcome.