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Knorr-Bremse AG – Earnings Call Q1 2021

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PRESENTATION

00:00:01 Andreas Spitzauer

Good afternoon, as well as good morning, ladies and gentlemen. My name is Andreas Spitzauer, our Head of Investor Relations of Knorr-Bremse. I want to welcome you to Knorr-Bremse's conference call for the first quarter 2021 results. The webcast and conference call will be recorded and are available on our homepage, www.knorr-bremse.com. in the Investor Relations section. Here, you can find today's presentation and later a transcript of the call. It is now my pleasure to hand over to Dr. Jan Michael Mrosik, our CEO, and Frank Markus Weber our CFO. Please go ahead, Dr. Mrosik.

00:00:39 Dr. Jan Michael Mrosik

Thank you very much. And I would like to welcome everybody to our conference call today. I really appreciate you joining us today and I hope that you and your families, in these very difficult and unusual times, remain healthy and safe. Today's call is made up of two parts. First, I'd like to present the highlights of last quarter and then I'll hand over to my colleague, the CFO, Frank Weber. He will provide more details of the financials in the first three months, followed by the guidance for 2021 and some final remarks. And afterwards, as usual, we look forward to your questions and comments.

Allow me to walk you through the Group's highlights of the first quarter 2021 on chart number 2. Knorr-Bremse generates revenues worth of EUR 1.7 billion, which represents an increase of 6% organically and an EBIT margin of 14.9% in the first quarter, which is up 110 basis points year over year. We continue to see a very strong recovery in the truck markets. CVS, our truck business, benefitted greatly from this development and it was our key driver in the first quarter, reaching record revenues of EUR 886 million, which is an increase of 22% year over year. The corresponding EBIT margin came in at 13.1% which is also a significant improvement compared to last year's level of 10.4%. Our rail business developed as expected in the first quarter 2021. There we expected that the first quarter would be probably the weakest in the year. And it generated revenues of EUR 805 million, which is a decrease of 7% year on year organically. And that's an EBIT margin of 18%, which is, despite the top line development, an improvement of 50 basis points versus the previous year's quarter.

ESG is a very important topic at Knorr-Bremse, as we have highlighted several times already in the past. To underline this priority, at the upcoming annual general meeting next week, a proposal will be put to the vote that 20% of the short-term management bonus will be dependent on ESG in the future. I would also like to highlight that we have taken further steps since the beginning of the year to strengthen our corporate governance. In a moment I will provide more details exactly on this topic.

With that, let me continue with chart number 3. We know and understands that the topic of Mr. Thiele's legacy is very important for the capital market. Therefore I would like to give you an update on this. The signals we received from our anchor investor, the Thiele the family, including Julia Thiele-Schürhoff, after the passing away of Mr. Thiele, are characterized by stability and continuity. This can be seen by the joint press release which was published a few weeks ago by the Thiele family together with Knorr-Bremse, which was stating that the 59% stake in Knorr-Bremse is to be transferred to a family foundation. The creation of this foundation is now being initiated. Julia Thiele-Schürhoff, the daughter of Mr. Thiele, will continue her mandate as Supervisory Board Member, which she has held since 2016 already. As a visionary entrepreneur, Heinz Hermann Thiele placed the management of the company in the hands of external managers almost 15 years ago. The company is led by a highly experienced supervisory board and a management team, which will continue Knorr-Bremse's successful course. The important element of the aforementioned stability is the extension of the mandate of our Supervisory Board Chairman, Prof. Dr. Mangold, by two years. This period should be sufficient to find and induct a suitable successor for him. Dr. Sommer, a former CEO of ZF Friedrichshafen, will take over Mr. Thiele's mandate after the upcoming AGM. He has many years of industry experience and in-depth knowledge of the trucking industry. With Dr. Claudia Mayfeld having joined the executive board on May 1, 2021, we are very happy to have another very experienced manager complementing our management team at Knorr-Bremse, and the extension of female leadership with Knorr-Bremse will be very supportive for the whole company.

Turning to the next chart on slide number 4, I would like to give you an overview of the current market situation and the outlook towards year-end. Overall, we see a continuing strong market recovery in the trucking industry and that the underlying market fundamentals in rail are unchanged. The rail market does not face any cancellations of projects. But what we see is postponements and shifts of tenders that are still ongoing. This development is also reflected in the financials of our customers, the rail OEMs, so original equipment manufacturers. In addition, the rail industry has also not experienced any meaningful supply shortages, driven by the fact that not many mass products are used here, customization is very pronounced, and there is a very broad and locally focused supply industry. COVID-19 persistently results in less train traffic and fewer trains on the tracks, which affects the whole rail aftermarket business. However, due to the large fixed cost base of train operators, it makes financial sense for them to use at least 80% of trend capacity to generate a contribution margin. In addition, there is an explicit political will to keep public transport running during the pandemic. Shifts in demand in APEC, especially in China and India, but also partially in the EU, are putting pressure on the rail market currently. Nevertheless, we expect long term that global investment programs specifically for rail transport will support demand. The main keywords here are global decarbonization plans, the Green Deal in Europe and ambitious infrastructure programs in the EU, as well as in the US. Nevertheless, regarding ridership, we do not expect that pre-COVID-19 levels will be reached before 2023.

Coming to the truck markets, which experienced a very pleasing demand currently, key sales markets of our truck division in Europe and North America have continued their significant recovery paths, showing strong truck production rates despite first impact from the challenging supply situation. The current Chinese truck market remains a class of its own, supported by good underlying demand and pulling effects from the second half of 2021. If you keep in mind that, as of next July, it is planned to introduce the new China 6 emission standards, it will result in a probable decline of market demand here because investments have been pulled forward due to this effect. The development of the truck production rates in Europe and North America until year-end will depend heavily on the development of the shortages on the supply side. However, market research companies currently expect truck demand in Europe and North America to increase significantly overall in 2021. And we share this opinion, so that overall we expect across the year an increase in demand of truck production rates overall. So that's the underlying overall effect for 2021.

Chart number 5, let's have a look at that and see what these market environments mean for our divisions. We will start with rail. The order intake development Q1 2021 was rather low, which was fully expected in that sense. The main drivers have been contracts in the rail industry are very difficult to put into quarterly courses. They often span several months and tend to be lumpy sometimes. Tender activity is more pronounced in the second to fourth quarters in 2021. Knowing this, we are not concerned about the rather weak performance in the past quarter. Additionally, after a strong order intake in Q4 2020, we already anticipated the Q1 2021 order intake to be weaker, which we communicated already during the presentation of our fiscal year 2020 results in March. A lower intake was recorded in all regions, but predominantly in the Asia-Pacific region, especially China – high-speed and aftermarket – but also in India, and particularly LHB coaches, where the drivers reported a hit. We expect a better development of RVS order intake, still depending on the unknown COVID-19 impact. Nevertheless, we expect that the full-year book-to-bill ratio should be above 1.

The aftermarket business is still affected by the lower rail traffic. Please keep in mind that the number of trains in service is more important than the actual ridership. Trains that run on tracks or return to service after breaks must meet all regulatory obligations. Therefore, trains must be maintained regularly. Despite the fact that the number of trains on tracks is at a solid level, it is lower compared with the situation pre-pandemic. This continuously impacts our service and spare parts business. In addition, rail operators in China extend overhaul cycles, also as a result of lower mileage of high-speed trains driven since the pandemic started last year. On the positive side, countries which see fewer infected people monitor a significant uplift in train utilization. We believe that the aftermarket business will improve when the tensions from the pandemic will decrease, and rail mobility returns to normality.

I would now like to turn to China, a topic on which we always receive many questions from you. Overall for the Chinese government, train transport is an important pillar for the nationwide mobility of the population. Accordingly, the country is investing in the expansion of rail network and in new trends. Even China is not immune to the effects of COVID-19, and after years of sometimes extreme growth rates, we are seeing a normalization in many areas. The rolling stock industry in China is getting mature and the country is adapting to the market conditions of other countries, an expected normal and healthy development. Knorr-Bremse has a strong market position in China, and we are one of the few non-Chinese suppliers in the rolling stock industry. Obviously, our products can make a lasting impression in terms of quality, and above all, innovation. The two-circuit policy in China exists and will remain. However I believe RVS is well positioned, and we are aiming to find creative answers to deal with these imponderabilities.

Moving to our truck division on page 6. The first quarter has seen an extremely positive development, driven by strong demand in Europe, the US and China. A strong freight market with high transport volumes means that the transportation industry renews and expands fleets to fulfill increasing demand, which is expected to continue in Europe and North America until year-end 2021. In China we expect, as previously said, a significant slowdown of the truck production rate following the introduction of China 6 mentioned before. Last year China was the only large market which saw production rates going up. Please keep in mind that this regional outlook for the remainder of the year will also be heavily dependent on future developments in the COVID-19 pandemic. Content per vehicle is one of the key drivers of CVS and is not really impacted by cycles. Due to the extraordinary increase of truck production rates in Q1 '21, the good development of content per vehicle was less visible, but content growth will continue to be an important pillar of CVS's future growth path.

The global shortage, especially of semiconductors, had already a noticeable effect on our truck business in the last quarter. But we were able to keep the impact low by introducing measures very early. In addition to the semiconductor crisis, however, we also see that the supply of other components, such as metal, plastic, has become more difficult. This is a condition that usually occurs during cyclical recovery phases, and our truck division is very experienced in dealing with such circumstance. In the coming quarters, we expect the global supply chains for semiconductors and other components to remain uncertain. The semiconductor situation, in particular, should not change quickly. Accordingly, we expect CVS's second, but even more pronounced the third quarter and potentially beyond, to be negatively impacted. Nevertheless, we still expect solid sales growth for our truck division for the full year. The COVID-19 pandemic continues to create uncertainty, and it can still lead to additional restrictions that could impact us both in our rail and our truck divisions, our business partners and our customers. Knorr-Bremse is very closely monitoring the situation and is prepared to act quickly, if necessary.

Let me now continue with page number 7 and the operating highlights both of our divisions. To prepare our truck division for the coming generations of the e-vehicles, we have launched the Group's internal so-called incubator, as an agile think tank. Sixty in-house and external specialists work on innovative, future-oriented solutions at Knorr-Bremse's Munich and Budapest locations. CVS announced to enlarge its Dalian plant in China to meet the ongoing booming truck demand there. The start of the production is scheduled for December 2022. CVS has signed a major contract with one of the world's leading global truck OEMs, worth EUR 1 billion, to continue the long-term partnership with this customer. The new supply contract was signed for a new generation of braking and air treatment systems, which use the next-generation technology developed by Knorr-Bremse, the so-called Global Scalable Brake Control system and the Global Scalable Air Treatment system. On the other side, RVS won two major contracts, which will be executed together with Stadler, one multi-system order in Berlin to equip 606 metro cars, and one in Atlanta for 254 metro cars. In my view, one order is particularly noteworthy with regard to potential future business models in the aftermarket sector. Knorr-Bremse has signed a framework agreement with Deutsche Bahn, which will enable our rail division to develop projects based on condition-based maintenance of rail vehicle fleets. Data-driven projects like these open up the opportunity to participate continuously in related cost savings of our customers. With this, I would like to hand over to my colleague Frank, CFO of Knorr-Bremse.

00:20:28 Frank Markus Weber

Thank you very much, Jan. And a warm welcome from my side as well. Thank you for joining us today despite the fact that this day we have chosen is a bridge day. I do already apologize in advance for that. Let us talk about the numbers on page 8 now. Considering the ongoing challenging economic environment around the world, our quarter-one finances once more confirm the robustness of our business model. Given that, we do believe we have achieved a superb performance overall. Nevertheless, KB was not fully immune to the still-ongoing impacts related to the pandemic. Order intake increased significantly by 13% to EUR 1.8 billion. The order book improved once again by 9% to a new record level of almost EUR 5.1 billion. Revenues increased by 4%, to EUR 1.7 billion, and margins grew by 110 basis points. EBITDA margin was up from 17.8% to 18.9% and EBIT margin or return on sales from 13.8% to 14.9%. Please note that we will focus more on EBIT than EBITDA from this year onwards. Free cash flow could be improved versus the previous year but with EUR −23 million still slightly negative, resulting in a cash conversion rate of −13% versus −43% in the previous year.

Let me dive deeper into our order intake and order book on chart 9. Compared to the same period last year order intake on group level increased significantly by 13%, to EUR 1.8 billion in quarter one. On an organic basis, the increase was even higher, at around 16%. Year over year, we had some FX headwinds mainly from US dollar and Brazilian real, Russian ruble and Indian rupee, so basically all BRICS currencies plus US dollar. Accordingly, the book-to-bill ratio also improved year on year, reaching 1.06 versus 0.98 in the previous year's quarter. The development of the order book at the end of the first quarter was also particularly pleasing, as it rose for the third quarter in a row. It grew very solidly by 9%, to EUR 5.08 billion. This record figure provides us with a generally very good confidence and is the foundation of our guidance.

We continue with the revenue development on chart 10. Revenues on group level in the first quarter increased by 4%, to EUR 1.69 billion. On an organic level, we saw an even better performance with an increase of 6%, but also faced some headwinds from FX effects, as already explained. This development was very pleasing, as our first quarter 2020 had not been significantly hit by COVID-19 already. As already in the fourth quarter of 2020, the APAC region continued to develop particularly well and showed 9% growth on a year-over-year basis. Europe returned to the growth path driven by recovery demand and posted an increase of 3% above the previous year's level. Europe still accounts for the biggest part of our total revenue, with a share of around 47%. North America is still not quite recovering completely, and therefore faced a slight decrease by -2% year over year.

Let me continue with the development of our profitability on chart 11. In the first quarter of ’21, the Group’s EBIT amounted to EUR 252 million, after EUR 224 million in the previous use water, which is a strong increase of EUR 28 million, or 12%, despite some FX headwinds. The EBIT margin was at 14.9%, after 13.8% in Q1 of 2020. This significant increase clearly shows the profitability and resilience of our business model, and our ability to get out of the crisis with higher profitability, as growth of profitability was well above the revenue increase in the quarter. Knorr-Bremse benefited predominantly from the operating leverage. In addition, we were still able to benefit from cost-saving measures, although these effects will diminish to some extent as the year progresses. It is our goal that the cost base will develop under-proportionally as our business activity and revenues increase. The aftermarket revenue share decreased year over year by 3% to around 34% in the first quarter of 2021 on group level, mainly driven by the strong growth of the OE business. In absolute figures, aftermarket was not immune to the effects of the pandemic that is still ongoing, especially on the rail side, and recorded a decrease of 6% to EUR 569 million. This decrease was solely driven by the RVS division and basically COVID-19 related. The EBITDA margin developed strongly in line with the EBIT margin and improved as well by 110 basis points year over year, to 18.9%.

Let's continue on chart 12. In 2020, we have initiated a CapEx management program, and we prioritize and monitor ongoing spending very closely. Accordingly, investments in absolute terms decreased from EUR 81 million in the first quarter 2020 to EUR 62 million in quarter one of 2021. In relation to sales, investments reached 3.7%. However, we do expect this ratio to increase in the upcoming quarters and think it should reach a level of 5% to 6% for the whole year. At the end of the first quarter 2021, net working capital stood at EUR 1.08 billion. This is a slight increase compared to the previous year in absolute figures, due to higher stock levels to secure the supply chain and to maintain a high level of flexibility in regards to our operations. And with our measures, we were able to improve the scope of days of net working capital, which shows a clear relation to the revenue situation. In the current fiscal year, we expect that the net working capital should be overall higher, again in absolute terms, due to expected sales growth. Utilized operating ROCE improved from 26.7% to 28.2%. This increase was supported by higher profitability levels and a well-managed, stable capital employed.

Let me continue with our free cash flow on chart 13. The free cash flow in Q1 2021 came in at EUR −23 million, which is EUR 38 million better compared to the previous year's quarter. But please note that the free cash flow in the past quarter benefited from the final payment in the context of the sale-and-leaseback transaction of the Munich "north sector," amounting to around EUR 50 million. But even without this extra payment, free cash flow was remarkable at only EUR −73 million, given the general seasonality of this KPI at Knorr-Bremse and the great figure of free cash flow of more than EUR 500 million that we generated in the fourth quarter of the year 2020. Consequently, the cash conversion rate defined this free cash flow divided by profit after tax improves significant significantly to −13% compared to −43% a year ago.

Let's move on to the divisional view, starting with RVS on slide 14. In the last quarter of 21, order intake of the rail division was at EUR 714 million, a decrease of 18% in total and 16% on an organic basis. The decrease compared with the previous year quarter is driven by the following topics. First, the rail industry is still impacted by COVID-19, facing postponements of projects. The lion's share of the shift occurred in China high-speed trains and aftermarket, and in India on the passenger coaches side. Second, timing of award-winning tenders in 2021 is more favorable in the second to fourth quarter of this year. Third, order intake in the Q4 2020 was very strong and above EUR 1 billion. Last but not least, KB did not win a contract in Germany which would have amounted to a mid-double-digit million euro figure. In 2021, we expect RVS to book significantly more orders in Q2 to Q4 than in Q1. As we have already pointed out, Q1 of 2021 will be the weakest quarter in 2021 in that regard, affected by lumpiness of business, which does not always go well with quarterly reporting, as Jan already figured out. The book-to-bill ratio in quarter one consequently came in at 0.89 versus 0.98 a year ago. The order book, on the other hand, increased by 2% year over year, at EUR 3.6 billion. This level provides a good visibility, and is the basis for the solid revenue growth we expect for RVS in the full year 2021, driven by the upcoming quarters.

Now moving on to revenue and profitability for the rail division on chart 15. In the first quarter of 2021, RVS recorded revenues of EUR 805 million, which is a decrease of −10% year over year (organically only −7%). Compared with the fourth quarter of 2020, the division kept its momentum and achieved an increase of 4%. RVS recorded declining sales in both OE and the aftermarket business, of a similar magnitude in Q1 year over year. The aftermarket business in absolute terms declined by around 9%, while the share remained stable at 44% year over year. As Jan mentioned before, the trains in service are much more important than ridership levels. Nevertheless, most importantly, operators still have a lower number of trains in service since the beginning of the pandemic, and therefore currently need less service and spare parts. Having a closer look at the regions, it is noticeable that they are affected to different degrees, strongly depending on the respective COVID-19 situation. Asia, an important market for KB with unchanged future potential, was affected more than in previous quarters due to COVID-19. Especially India and the aftermarket in China posted lower revenues year over year. It is worth mentioning, however, that China in total was flat year over year in Q1, due to a strong metro business. Europe contributed roughly 15% of the revenue decline of RVS in the first quarter. It was affected from a noticeable declining light rail vehicle business and from lower revenues in the local and the metro business. The European aftermarket business slightly increased in quarter Q1 2021, as it also did on a full-year basis last year, despite the ongoing tense situation for all rail operators. In North America, we recorded an overall decline in both segments, OE and aftermarket. Our North American OE businesses still seeing postponements, although passenger numbers are recovering slightly, for example, the metro in New York is now running around the clock again. The billion dollar support for Amtrak by the US government is helpful, but it will only have a positive impact on our business over the time to come. On the other hand, the recovery in the freight business will, as well, take some time.

We expect that in 2021 overall, RVS revenues should grow solidly, predominantly driven by the OE business. Due to the lead time between order intake and turnover of at least six to nine months, we expect that revenue development in the second half of the year will be stronger than in the first half of the year 2021, especially due to the slow development in the very first quarter. The aftermarket demand going forward should be rather stable, strongly depending on the development of the pandemic going forward. The profitability of RVS in the past quarter developed nicely, despite the noticeable revenue decline. I think this was, again, a clear example and proof of our countermeasures and the resilience of our business model in rail. Based on that, EBIT of RVS came in at EUR 145 million in the first quarter of 2021. The EBIT margin increased from 17.5% to 18% and the EBITDA margin went up solidly from 20.9% to 21.7%. These margin improvements are also driven by cost measures, which we started to implement already last year. And we are still continuing and they are still having a positive effect on the quarter. We do believe that our profitability will slightly increase for the full year, as overall we anticipated the Q1 situation accordingly.

Let’s continue with the development of our truck division on slide 16. Incoming orders of CVS were again remarkably strong and one of the highlights in the first quarter of this year. At one point EUR 0.9 billion, the overall figure, was 52% higher than in the previous year. Organic development of +54% was even slightly better. Compared to the fourth quarter 2020, which was already an exceptional quarter in this respect, the order intake even further increased by 9%. Europe and North America could continue their recovery from the severe COVID-19 hit of last year. The underlying demand in both regions should stay strong, but it will presumably be more impacted by turbulences in the supply chain. Freight volumes of industrial and consumer goods in both regions continued to grow in the first quarter. The COVID-19-driven increase in ecommerce trend among customers drives freight volumes and is not expected to face a downswing.

In APAC, the development of order intake was again well fueled by China, but the recovery in Japan was supportive as well. The strong increase of infected people in India has not impacted the order development yet, but is expected to do so. In terms of order intake in the full year 2021, CVS has probably already seen its strongest quarter. We do not assume a trend reversal on a full-year basis but, driven by component shortages on the supplier and customer side, as well as the lower truck production rates in China from the second half-year, we expect a less positive development. The order book of our truck division amounted to EUR 1.47 billion at the end of March, which is remarkable, 32% higher year over year. The order book of CVS, therefore, reached a value again which is well above the pre-COVID-19 levels. As a consequence, book to bill stood at 1.22.

Let's move on to slide 17. CVS posted EUR 886 million in revenues in the first quarter of 2021, a new record in a quarter. Compared to the last year's figures, this is an increase of 21%, in line with the organic improvement. In Europe and North America, CVS saw a positive development in all channels. The supply situation impacted the division, but countermeasures had an overcompensating effect overall. The APAC region also posted a strong revenue growth in Q1, well supported by China and India. The share of market sales decreased from 29% in the previous year to 24%. This is driven by the extraordinary e-business growth in the first quarter as, in absolute terms, the aftermarket remains rather stable. As mentioned before, in terms of revenue development on a full-year basis, CVS should be able to post a very solid increase year over year, strongly depending on potential supply constraints. We expect that our truck division should have a stronger performance in the first half of this year compared with the second half. In that respect, we do believe that the last quarter could have been the best quarter for this year. In the first quarter, CVS achieved an EBIT of EUR 116 million, which is 51% higher than the previous year. The EBIT margin amounted to 13.1% compared to 10.4% one year ago. CVS has just returned to pre COVID-19 margin levels, despite higher freight costs due to global container and harbor shortages, but compensated by benefits from cost measures and the operating leverage. EBITDA margin improved from four 14.6% to 16.8%, and in absolute terms by EUR 41 million, to EUR 149 million in the first quarter of 2021. Given all that, what I just outlined, we do think that the full year 2021 should show solid margin improvements of our CVS division.

Let me continue on chart 18. I would like to give you an overview about our recent ESG activities, as this topic is very important for us at Knorr-Bremse and me personally. For our Group, corporate sustainability means striving for economic, social and ecological goals equally and simultaneously. This is based on the foundation of good corporate governance. We want to create long-lasting values, offer good working conditions, and treat the environment and resources carefully. Knorr-Bremse recognizes climate change as one of the most pressing challenges of our time. As an internationally operating industrial company, we do consider climate protection as a key corporate responsibility, and aim to make a significant contribution to climate neutrality. We are fully on track with our ambitious climate strategy and are continuously working on improving the energy efficiency of our production, using more self-generated renewable energy and expanding purchasing of renewable energy as a whole.

Following the Sustainable Development Goal 5, gender equality at Knorr-Bremse advocates for gender equality, and intends to create more space for this within the company. Within this initiative, we intend to promote women in management roles and support them in their careers. With the addition of Claudia Mayfield, we have achieved the goal we set ourselves, namely 25% female representation in the executive board. We strive to continuously improve the group quota of currently 13.2% of women in leading KB positions in the near future. KB is well aware of its duty to carry our due diligence on human rights and is committed to fulfilling this at all times, including in the value chain and our operations. With the establishment of a new human rights policy among the Group, we strengthened our efforts in this respect, as it combines all human rights-related provisions previously contained in various guidelines in one policy, which is being rolled out at KB sites as we speak.

Knorr-Bremse's global and local care initiatives also contribute immensely to positively impact society and our employees. In the past quarter, the issue of education was a top priority for us, as it has become a major problem for many children worldwide, especially as a result of COVID-19. As already mentioned in the previous calls and outlined by Jan, we plan to anchor ESG targets in the management's compensation system to underline the importance for us. The final vote will take place at the Annual General Meeting of Knorr-Bremse next week.

Jan has mentioned before how important the topic of good corporate governance is for KB. We believe that we are generally on a good path, for example, with the improved reporting timelines of last year's annual report by 23 days and results of the first quarter by 14 days, following the German Corporate Governance Codex and the developments in the Supervisory and Executive Board of KB. Early reporting is a key project at Knorr-Bremse, and we have already achieved meaningful improvements with our Q3 report last year, as well as the annual report and the Q1 report of this year. This will continue, which is why we have also brought forward the Q2 2021 publication date from 3rd September to now 13th of August. I'm also very happy to announce that we are working on a new sustainability strategy for Knorr-Bremse, which we will publish in the course of 2021, so stay tuned.

Last but not least, I would like to give you an update on our guidance. As always, the outlook for 2021 is under the disclaimer of a stable political and macro-economic environment, as well as no further significant setbacks driven by the pandemic. In addition, the shortage in the semiconductor sector should be kept in mind when looking at our outlook for 2021, as we expect that this topic will also remain with us at least until year-end of 2021. At this point in time, we assume that it will be possible to largely compensate for the decreases in revenues in CVS resulting from current supply bottlenecks for electric components of the semiconductor industry within the course of 2021. We will be continuously monitoring the situation. For 2021, on group level, we do confirm our guidance given in March, and continue to expect revenues between EUR 6.5 to 6.9 billion an EBIT margin between 13% and 14.5%, and an EBITDA margin between 17.5% and 19%. In addition, we expect ROCE between 25% to 30% and we believe that headcount should stay within the range of 29,500 to 30,500 employees, needless to say, of course, driven by potential revenue generation. For the scope of days of our net working capital, our plans are 45 to 50 days, and CapEx, as already said, should be between 5% to 6% of revenue. We have the financial strength to continuously master this crisis well and emerge from it even stronger. One sign of this is the uncompromised continuity of our dividend policy to distribute 40% to 50% of our earnings directly to our shareholders. Therefore, we propose a dividend of EUR 1.52 at the upcoming AGM, which represents the same payout ratio as in the previous financial year pre-COVID. Thank you. I will now hand over to Jan again.

00:46:47 Dr. Jan Michael Mrosik

Let’s move to the last slides of the presentation. We are proud of the strong execution by the whole team in the first quarter, despite an ongoing challenging environment in both industries. The solid financials in the last quarter were, again, a good evidence of the resilient business model in both divisions, as well as the company overall. This year, and maybe even beyond, we will still be faced with a pandemic. And as a consequence, we also assume that the tense supply situation will continue to accompany us for some time to come. We at KB are closely monitoring all developments and are ready to take countermeasures quickly, if needed, as we did last year. We continue to lean to the strong mega trends in rail as well as in truck, and remain committed to executing on our strategic plan. With our efforts in corporate governance and ESG, we are on a good way to improve our company further and to be on a good path into a more sustainable future. With that, I’ll turn back to the operator to begin the Q&A session. Thank you.

Q&A

00:48:15 Operator

Dear ladies and gentlemen, we will now begin our question-and-answer session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask a question. If you find your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment, please, for the first question. And the first question received is from Sven Weier of UBS. Your line is now open, Sir. Please go ahead.

00:48:53 Sven Weier

Yes, thanks for taking my questions. Good afternoon. And thanks for the color you already gave out on the divisional outlook. That answers a lot of questions already. I was just wanting to follow up on your statements on RVS, where you confirm the solid growth outlook, which I think is between 5% and 10% organic growth, so implying quite a bit of a steep recovery in the remainder of the year. I was just wondering, do you see already some evidence for that in the second quarter, now that the quarter is almost half over? Should we already see some tangible signs for that trajectory in the second quarter? That's the first one. Thank you.

00:49:53 Frank Markus Weber

Hello, Sven. Thanks for raising this question. I do think that we have had so far a good month of April in our books. As we can see, it's still preliminaries, as you know. But we do think that it speaks for itself, what we are currently seeing on the performance side of our business. And there is no indication that, based on what we have in our books in the new quarter, this expectation should not stand steadfast.

00:50:29 Dr. Jan Michael Mrosik

I would like to add to what Frank has just been saying. So the situation in RVS is currently characterized by a slow aftermarket development due to low ridership and 20% of trains, on average, not going throughout the world right now. So that's one thing. Secondly, postponement of projects, where no cancellation that happened so far. And the third thing is that, obviously, in China we had Chinese New Year, which made the first quarter slow in terms of OE business there and after Chinese New Year, some OEMs in China closed down factories for a while and stopped their production. So that also left their footprints in our numbers. So that's obviously an extraordinary effect that we saw in Q1 compared to other quarters, and underlines again, that's obviously quarters 2, 3, 4 will not see that effect.

00:51:36 Sven Weier

Thank you for the additional color on that one. The second question, if I may, is just on the truck division. I don't know if you just unintentionally upgraded the guidance there, but you said you see a very solid growth development. I don't know if that's better than the solid one you had before. And the other question I had on CVS is also, obviously the order intake has been quite, quite strong. I was just wondering if you had any evidence in the division that there was kind of a double ordering, safety ordering from the OEMs? Or whether this is all an underlying development as far as you can actually see that? Thank you.

00:52:21 Dr. Jan Michael Mrosik

Thank you very much for this question. What we usually know in the industry is what the order books of the OEMs are. And from there, from these order books, we can judge the numbers that we can expect, and the orders and call-off that will come in the frame contracts into our books. And what do we have to keep in mind-- so that that's a clear understanding and transparency that we have in the market. However, what we can't judge at this point in time, what we already pointed out during the course of the presentation, is to what extent this demand that’s there on the end customer side can be satisfied by the OEMs due to the supply shortages that have been stated quite a few times.

00:53:10 Frank Markus Weber

Sven, to also answer the first part of your question, I know that you're very carefully listening to when we are basically saying something. I would say it's better. It should be better than solid, we currently think. But I have to always say – and I know that you are listening to this as well carefully – is look at our disclaimers. It's of course, still, depending on the situation in regards to the supply chain semiconductor issue. But what we, at this point in time, see is that it's very solid. This is what I would say, slightly better than what we have seen in the very, very beginning of the year. And, as the year gets more mature, we will keep you updated, of course.

00:54:04 Sven Weier

Thank you. And very finally, also thank you for the color you gave on the shareholder situation. In the meantime, we had this article in the German press about the family having to make a record inheritance tax payment. And I think the market is concerned that maybe this situation or the statement could have changed with regarding having not to sell any KB shares in order to pay for that. Did you also get an update from the family on that or is basically the guidance on that very much unchanged?

00:54:38 Frank Markus Weber

That is very much unchanged. I would say that's the good news. So, everything that you just mentioned is what we still have to say at this point in time.

00:55:00 Operator

The next question is from Akash Gupta of J.P. Morgan. Your line is now open, Sir. Please go ahead.

00:55:07 Akash Gupta (JP Morgan)

Hi. Good afternoon, everybody, and thanks for your time. My first question is on China rail. If I look at the rail segment overall and your backlog is more than 12 months of revenues – and I believe you may be having higher visibility than your backlog because backlog at your customers like Alstom, Stadler is significantly higher in terms of visibility – the question I have is that, when it comes to China, can you give us how much visibility do you have compared to the segment overall? I just wanted to gauge that, if something changes on the ground there, then how long it will take you to respond to the shift in customer preference, both in favor of you or away from you?

00:55:55 Dr. Jan Michael Mrosik

What we usually know is very long-term projects. As you might appreciate, the rail market is a very long-term market where projects, as well as maintenance activities, are known long term. And there's hardly totally unexpected developments that that we see in this market. Therefore, we can see into the general order, or let's say project situation, quite a few years into the future. What comes at this point in time, and this is a very specific and very one-time kind of experience, is that the pandemic causes a very unusual situation for all rail operators around the world. First of all, low ridership actually causes the cash situation of rail operators to be below expectations, and has continued to do so for a couple of quarters in a row already. And then, on the other side, we're seeing that, due to the COVID pandemic itself, the closures of factories occurred. And this causes kind of a dent in this, aside from that very stable market development overall. We are very confident that, going forward-- and by the way, just as I pointed out before, one example of this is the behavior and the situation we were faced with during Chinese New Year, where not only the two weeks of closure happened, but some OEMs closed down their factories for another two to four weeks in a row, so that these four weeks have resulted in call-offs and therefore also a dent on the OE side of our business.

Generally speaking, the market there is intact, and we expect this to recover soon. And the clear evidence of that is that there have been no cancellations of projects so far. That means the mechanisms that I've been talking about in the beginning of my description and my speech here are intact. The market as such, the projects that have been piling up, are still fully intact. They're just going to be a little bit postponed. And moreover, we have seen during the course of the pandemic and even beyond that, clear statements from governments in Europe, in the United States after the change of the administration there, but also in China, that build-out of rail infrastructure is going to continue. And therefore we are convinced that the future prospects of these markets are fully intact and show a very, very attractive growth path.

00:59:15 Akash Gupta

Thank you. My second one is on also China, on truck business. So you said you expect this demand pull-forward because of China 6 standards. Can you tell us, should we expect any content growth when China will be moving to CN 6? And if there will be any content growth, can you give us the magnitude whether it could be mid-single-digit or high single-digit that may be able to offset your revenue decline against underlying market decline?

00:59:45 Dr. Jan Michael Mrosik

Yeah. What we're seeing is that we need to take a world perspective. And what we're seeing is that we expect in Q3 and Q4 demand to go down because of the effects that investments have been pulled forward. By the way, this is not a unique effect. We see this very often when legislation or any guidelines in China are changing, and in other countries, then investments are being put forward. And that causes a dent in the demand for a couple of months. By the way, we are still in a situation where we're seen an upside adjustment on Chinese truck production rates and across demands. So, a situation is that, even if our demand will go down still, we are going to stay on a high level in China. That is our expectation. And at the same time, we see that truck demand in both Europe and North America will continue to increase. By the way, expectation is also that in India a similar investment situation will take place. However, there, the pandemic is in a very, let's say, uncertain stage of the development, as we all know. And if we just keep in mind that, generally, trucks in Europe and in North America are more valuable as far as content per vehicle is concerned, you might appreciate that this is also a positive tailwind for all CVS business in that sense. So overall, we see a favorable development of the market.

01:01:28 Frank Markus Weber

In regard to your content per vehicle part of the question, we still definitely see what we have always said since the IPO as intact. And also here in regards to Asia-Pacific and China, we do see that the content per vehicle growth is as well intact. And usually when it comes to the maturity of respective markets, we do think that it should be above the average on our content per vehicle story, what is contributed from the Asian Pacific region to that.

01:02:12 Akash Gupta

Thank you. And the final one is on raw materials. I think in your remarks you also highlighted about some tight supply of certain materials. And we see that prices are going up. I know you have some pass-through mechanism, but it takes some time delay. So is it fair to say that there might be some impact of raw materials, particularly in the second quarter, or maybe in the third quarter before you are able to pass this to your customers?

01:02:39 Frank Markus Weber

Yes, you're right, there might be some interim effects in our P&L. Due to that time lag of the price sliding clauses that we would have with suppliers and the customers, that might occur. But we are very confident that we will be able to pass it through fully.

01:03:10 Operator

The next question received is from Ben Uglow of Morgan Stanley, Your line is now open. Please go ahead.

01:03:19 Ben Uglow (Morgan Stanley)

Good afternoon, everyone. I hope you're all well. I had a couple. At the beginning, in your opening comments, I didn't manage to write it all down fast enough. But just on China aftermarket, can you elaborate on this sort of postponement or change in the maintenance terms? What are you seeing there? Can you just explain that a bit more, please?

01:03:46 Dr. Jan Michael Mrosik

Yeah, Ben, no problem. Thank you for that question. What are we seeing in China right now is on the aftermarket there are two effects that play a role there. First of all, the number of trains that have been running on tracks is reduced compared to the normal situation. And there's two reasons for quarter one. The first one is that Chinese New Year usually results in a mass travel situation in China, which this year obviously did not take place. Secondly, general ridership is lower than in usual times. And these two effects lead to less wear and tear on the train side, which also results, on the other hand, in an extension of maintenance cycles in China. So the intervals are being increased, and therefore there's less maintenance activities going on. That’s something that we expect to change after the COVID crisis has gone and normal wear and tear sets in again. That's probably the major effects that we're seeing there.

01:05:17 Ben Uglow

Okay. And just following up on the aftermarket in China, can you give us a sense between the cooling down or normalization in high speed versus obviously a very strong level of OE orders, in metro? Does that increase on the metro side, does that have any implication for margin or is it not meaningful?

01:05:47 Dr. Jan Michael Mrosik

Generally speaking, the margins both on the high-speed side, as well as on the metro side, are quite satisfying and are level, so that we would not see too much of a profit impact from a shift of one segment to another.

01:06:07 Ben Uglow

And then on the CVS side and the chip commentary, look, I'm always trying to read between the lines. What are you guys trying to signal? It does feel as if you sound a bit more cautious to me about the chip situation. Am I am I over-interpreting this? And when you talk to the truck OEMs, what feedback are you getting from them about how long this is going to take to resolve?

01:06:42 Dr. Jan Michael Mrosik

Yeah, I think what I said in my speech pretty much hit the nail on the head. So let me let me quickly summarize. There was already a shortage of components in the market in Q1. However, there have been ways and means to overcome that, either through getting the required share of deliveries from the original suppliers or by making available sources from independent brokers. And that just got us into a situation where we've, in Q1, been able to deliver at any given point in time. So we could, in fact, manage. What we're seeing here is, by the way, an ongoing, day-to-day management work that we need to undertake. And there's a triple-digit number of people within Knorr-Bremse – just to give you a flavor of this –on a daily basis actively chasing electronics components and other material shortages. So that's quite a managerial task that has to be performed here. And you might appreciate that this is a continuous event, where we have then successes on a day-by-day basis in terms of securing supply whenever we get the opportunity to secure it. We see the situation over time now becoming more tense. And therefore, we have been saying what we have been saying, that we see a continuously strenuous situation on the supply side here. And again, very hard to forecast how much that, in terms of numbers, would be. But on the other side, Q1 was very good. We see a high truck production, at least a high demand going forward. And the expectation, and our assumption at this point in time, is that we'll be able to secure a lion's share of what we need. And that's the assumption of our forecasts for the current year.

01:09:18 Ben Uglow

Very clear. And just a quick final question. I realize it's absolutely early days, and you may or may not have any insight into this at all, but in terms of the family foundation that's being established and discussed, are you able to tell us anything about the mandate of the foundation, i.e., what is the purpose beyond simply holding that 59% interest? Is it simply a holding vehicle, or could it be doing certain things?

01:09:57 Dr. Jan Michael Mrosik

Ben, this is something where you might appreciate that this is something we can't comment on, that we have to observe what's going to happen. And then, at the right point in time, I'm very sure that the family will give the appropriate information.

01:10:17 Ben Uglow

That's understood. Thank you very much for the time.

01:10:26 Operator

The next question received is from Arsalan Obaidullah of Deutsche Bank. Your line is now open, Sir. Please go ahead.

01:10:34 Arsalan Obaidullah (Deutsche Bank)

Thank you very much and good afternoon. The first question is on-- I think you've commented that in terms of more broadly, rail passenger ridership, you see returning to sort of pre-COVID levels by about 2023, if I'm correct. I just wanted to understand in terms of the assumptions behind that. I guess the two driving factors are, obviously, less direct activities from people working from home and that dynamic that's taking place. But on the flip side, increased encouragement from governments to use rail from a decarbonization perspective. I was just wondering if you could give a bit more color on your assumptions for that idea, of a return by 2023, please.

01:11:20 Dr. Jan Michael Mrosik

Arsalan, thank you very much for that question I think we always have to keep in mind, whenever it comes to public transportation, that roughly 50% of traffic – and I'm talking about metro and, to some extent, also high speed – is caused by daily commute. A lot of people simply don't have cars. They go to town in order to do their shopping requirements. They travel, maybe, on the leisure on the weekends. And this constitutes at least 50% of the traffic or more. And therefore, we have kind of a balanced picture. Certainly, home office will play an increasing role in the future going forward. On the other side, these effects that I've been talking about play a role.

Secondly, we see a clear development in a lot of countries and a lot of cities that individual transport is discouraged by not making available enough parking space anymore. We all know the restrictions that you get into town and you have to pay for it. The amounts there will increase. By the way, in the European Union and particularly in Germany, strong programs have been put in place. The climate push has just been again emphasized by the German highest court. And there will be legislation in place in due course. All of this will lead us inevitably into a situation where public mass transport is going to be further emphasized and traffic is going to be pushed onto these systems.

So, in the short term, I think home office and all the other activities around shopping, leisure traffic, traffic that is not work-related, will play a major role. And additional people will jump on trains because of these long-term perspectives. We don't foresee and we're not that optimistic that we're saying the COVID pandemic will be forgotten very soon. That's why we're saying, well, the situation will bounce back worldwide until 2023. And then we are going to see train ridership and public transport ridership equally to pre-COVID times because of these effects that I've been talking about. But in general, I firmly believe that long-term ridership trend utilization investment in these transport systems is going to increase. And therefore, we are in a very, very good long-term market. And by the way, always keep in mind – that's why I keep on talking about goods now and GDP growth – whether goods are being transported via train or via truck is something where we benefit from both sides. So I think our position there is quite unique.

01:14:29 Arsalan Obaidullah

Okay, thank you very much. Another question is on the US and, obviously, the stimulus bill, which, certainly there's a benefit for yourselves. I just wanted to get an understanding of your thoughts on how you would expect it to play out and then, on the other side, whether you've got some idea of the offset with the increased taxation there, and whether you think you'd still be a net beneficiary or it's something more neutral because of that. What are your thoughts on that?

01:15:05 Dr. Jan Michael Mrosik

You mean, taxation of what?

01:15:10 Arsalan Obaidullah

The broader corporate tax increase in the US, and if there's any impact on yourselves operating there.

01:15:19 Frank Markus Weber

Thank you for that question, Arsalan. I have to say that I'm expecting this not only for North America, but also, to be precise, for Germany and for some other countries going forward since quite some time. That's something that we deal with in our corporate planning. To be clear, this should give us a kind of headwind, all companies, by the way. That’s just an overall effect. There is nothing that I think will materialize within the next month, but it's definitely something that we have to deal with. That's the answer from my side. How much this will be, neither in North America, nor in Europe or Germany, I can't say. But we have to deal with that, I think, all companies, all industries, all countries.

01:16:21 Arsalan Obaidullah

And do you see the offset in terms of increased stimulus investment? Or do you see that that will almost outweigh that from your side?

01:16:40 Frank Markus Weber

This is definitely true, Arsalan, your expectation that the stimulus packages, the billions of dollars being put on the Amtrak support side in North America, the green deals, hundreds of billions, once this is properly sorted out, where the money directly goes, that should have and will have – we all very much convinced – an additional tailwind effect on our business that is anyhow already on the Green Path, if I may say so. And we do definitely expect to benefit from that going forward. As you know, the ways and means, those decisions where the money should go will be made. What's going into the infrastructure, what’s just supportive, what really goes to the systems and the component business, that's not clear yet. But we expect that to happen over the next one two years. And due to the lead times we usually have when it comes also to tenders and then, in the end the revenue generation with us, we should not see revenue hits in our P&L before within one and a half years or so, in a nutshell.

01:18:06 Arsalan Obaidullah

Thanks very much. That's very helpful, thank you.

01:18:12 Dr. Jan Michael Mrosik

So it takes a while. Budget needs to be freed up first. Then we all know the planning phase starts. Rail tracks need to be defined. Programs need to be defined. Then RFQs are being sent out. Then the OEM is going to be identified. And then, later on, the OE defines who's going to be the sub-supplier. And you might appreciate that this will take, as I said, one and a half years. I think that’s kind of the shorter version of how long that takes until it really hits our books. That could well be two, three years and more. So these are all long-term projects that make our market in the long term extremely attractive. But don't expect in the next quarters any kind of revenue updates because of exactly these mechanisms.

01:19:11 Operator

The next question received is from Ingo Schachel of Commerzbank AG. Your line is now open, Sir. Please go ahead.

01:19:32 Ingo Schachel (Commerzbank AG)

The first question would be on the China autonomous policy. And I'm trying to understand whether your assessment has changed at all in the last quarter. So I think at the Q3 phase you said consulting studies are showing it could be a risk. In Q4 you said you think it could be a key challenge. I think this time you're saying you see very limited short-term impact. Of course, it might mean the same thing, just from a different perspective. But the tone sounds as if you're a bit more positive on this challenge or more positive on your ability to mitigate it. And so I’m just curious to understand whether your assessment has changed. And also when you spoke about creative ways of tackling this, in which areas that creativity would be directed, should we primarily think about your go-to-market and the sales that go through your joint venture, for example?

01:20:19 Dr. Jan Michael Mrosik

Ingo, thank you very much for this question. I think China's business development on the Knorr-Bremse side has a couple of different aspects to it. The first one is the consideration about the aftermarket. When it comes to aftermarket, we always need to keep in mind that assets in the rail industry – and you know that very well; I'm just mentioning this for completeness' sake – are staying on the rail tracks for 30 years, sometimes 40 years or more. And during that period of time, they need to be maintained. And they're usually being maintained by the one who supplied the equipment. And this is the major basis of our aftermarket business in China. And even if a couple of rail systems, rolling stock has been put into operation just recently, it now comes into the time where maintenance is being required. And that will continue as a stable business for quite a while.

On the OE business side, there's the two aspects of high speed, where we all know that investments in China, to some extent, are saturating, and also this is a lower part of our current OE business in China. And their autonomous policy, obviously, plays a role. And there's a clear political role to become, as much as possible, independent from external parties. And then there is a business in the metro fields, where we're enjoying a very good position and market position because of our very convincing and technically advanced and very reliable products that will dynamically also develop in China, as we know. That's one of the key areas where Chinese infrastructure and rolling stock investments will go into. And that's a part that we're also closely looking at when we are participating in market development.

So what are we currently doing? We're obviously in discussions, keeping our strong technical and innovation position in mind, with the government entities in order to find the right and creative ways to mitigate the risks that are emanating out of that. That's ongoing as we speak. And that obviously, as we all know, with all the political aspects and discussions, takes the time it needs in order to come to conclusion. But I think it's very important to state that a very important part of our business is extremely resilient in terms of its long-term perspectives. And the other parts there, we are in active discussions.

01:23:31 Ingo Schachel

Okay, that's very clear. And just maybe on your M&A strategy, can you clarify – and I think we haven't spoken about this, at least with you, Jan – on rail signaling, is that an area in which you would consider opportunistically bigger M&A

opportunities to provide a more holistic contribution to digitalization and efficiency improvement in rail traffic? Or would you rather not compete with the clients in this area?

01:23:56 Dr. Jan Michael Mrosik

You might imagine now that the statement there would be that we are looking into each and every opportunity that presents itself in the markets on a continuous basis. And we're looking into all opportunities that fit together with our business, both on the rail and the truck side. I think it needs to be close enough to our business to justify that we are the better owner of such kind of configurations. And it needs to fit with our business model and the profitability expectations. Under these pre-conditions, we're looking into any kind of opportunity that presents itself.

01:24:45 Operator

And the next question received is from Alfred Glaser, ODDO BHF. Your line is now open, Sir. Please go ahead.

01:24:53 Alfred Glaser (ODDO BHF)

Hello. Two questions, actually. One is on your cost management. So you said that you still benefited from cost savings in Q1. You indicated before that this is going to be fading out over the next few quarters. Can you update us on what you expect in terms of cost base evolution for the full year compared to last year? And then I had a question on the rail market outlook again. You said you didn't expect traffic to get back to pre-COVID levels before 2023. This might look a bit pessimistic. Where exactly do you still see underperforming market as such until 2023?

01:25:50 Frank Markus Weber

Thank you. Maybe I take the first part. As you know, we've, on several locations, been talking about our countermeasures, especially what we initiated in 2020. We've been reducing our budgeted cost levels across the board by EUR 160 million by the full year 2020. I back then, somehow, occasionally said that I still believe that it should be possible, going towards a normalized phase in the future, to keep roughly 25% out of that overall amount so forth sustainable for the time to come after such a crisis. And this is definitely what we are working on. You know that we still have not, in each and every part of the business, already normalized levels. But in some parts, we do have even more. So if you look, for example, at the truck business, with revenue growth rates of 50% year over year, it's very hard to not open the gates, to a certain extent. And you can't keep potentially your cost levels on the absolute same amount, so you have to accept some cost increases. But I do think that this 25% going into the future is something that we, as the management, are continuously striving for, not completely opening the gates and being very strict, especially when it comes to fixed-cost ingredients going forward.

01:27:51 Dr. Jan Michael Mrosik

And regarding the second question, it is indeed a very, very difficult exercise to exactly predict when ridership will be back to normal pre-COVID levels. But the general thinking is that there is two effects that are working against each other. The one is the COVID-related ridership reduction, which yields into a situation where, at the end of the day, more people will work from home than they did previously. There will be a recovery in that space. If you look at Knorr-Bremse in Munich, we have 2,200 people roughly usually working here in our headquarters. It's currently roughly 300 that come each and every day. So that gives you the order of magnitude. And I think that's probably representative for a lot of office-related working environments that we see. In manufacturing plants, this is obviously different. There, most of the people go to work. But that tells you something about of the mode of magnitude that things go back. We expect, also judging from Knorr-Bremse as a company, that we'll probably reduce another 10% to 15% in the medium to long term in terms of home offices. So that's an effect where people will not commute to that level anymore.

On the other side, we'll see an increase in general economic activity, so the GDP goes against this. Therefore, more people are going to work there, so that increases ridership. Urbanization is going to increase the number of people that will worldwide use public transport. And CO2 and the likes will do the same, and push in our direction in terms of more mass transit, in terms of more public transport. So now the question is, how are these effects going to add up? Our conclusion at this point in time is that, probably, the old ridership levels are going to be regained by 2023. But you're right. It can be debated at length whether it will be earlier. It could be that some optimistic forecasts are going to be earlier. And if it was earlier, then we would not object against it.

01:30:24 Alfred Glaser

Okay, thanks for this comprehensive answer.

01:30:31 Operator

The next question is from William Mackie of Kepler Cheuvreux. Your line is now open, Sir. Please go ahead.

01:30:38 William Mackie (Kepler Cheuvreux)

Hello. Good afternoon, Jan, Frank and everyone. Thanks for the time. So a couple of questions to follow up. Firstly, with regard to M&A, your balance sheet and capital structure is exceptionally strong. And I hear what you've just said around looking at everything, but could you perhaps provide a little color on the realistic range or opportunities set of inorganic growth opportunity that you see across both divisions after the Sheppard deal and a number of other smaller deals you've achieved in the past year or so?

The second question is, again, CVS. With respect to your comments on the aftermarket development, it sounds like you're being quite conservative. When we look at the opening up of economies and the rising level of freight rates and truck movements in the transportation sector, I would have expected your aftermarket growth this year to be quite healthy. So maybe you can comment a little bit about the framework of how you expect the aftermarket to develop.

And then the last question – and we've talked a lot about China as critical for your business, at nearly 22% or 23% of sales last year – can you just again help us by putting a little quantification around it? In RVS in China, scoping the level of business in OE versus aftermarket would be quite helpful. Thank you.

01:32:23 Frank Markus Weber

Hi, William. Thanks for asking this question. Let me at least tackle the very first, and the second maybe jointly with Jan. So on the M&A side, you mentioned the balance sheet strength that we're having. So maybe somebody said before that he's always trying to read between the lines. I have some useful you in that regard. If you read the lines of our quarterly report, there is already the indication that we have, so to say, signed on an M&A transaction on the rail side. But we can't disclose at this point in time, as the closing is still outstanding, and we have confirmed that we will not do so. So we have already done something in the recent past. I can't mention to too many details on that. Please forgive me. But here you can see that, in a high double-digit amount, we are going to acquire a company soon that is perfectly fitting into those kinds of characteristics that we usually mention when it comes to adjacent fields, broadening the product portfolio of Knorr-Bremse, etc., and which feels really, really good and adjacent to the existing businesses. So that's one thing.

And that doesn't limit my answer to your question, that we are only looking into double-digit million purchase of companies, but I would say we are open for everything that makes sense. As Jan rightfully said, we have certain criteria that we are looking at, of course. We want a certain margin, want to avoid a certain margin dilution. We want to be in segments that are future-oriented, that are really adjacent, etc. We're also looking at aftermarket opportunities, at software opportunities, and whatever that brings with it. We are open for everything. And our balance sheet is strong enough. If we would go for certain rating criteria as a ceiling, we would be able to finance billions, as you know. But we only do something if we are really strategically certain.

01:35:15 Dr. Jan Michael Mrosik

On the aftermarket development, I think your comments are right on the spot. On the other side, we have to keep one thing in mind. First of all, even truck mileage has been, to some extent, influenced negatively by COVID. And therefore, the wear and tear also on the truck side has been affected by these developments. And there is a second thing that I would like to mention here as well. Whenever it comes to supply shortages, the big question is, given the fact that there's a limited number of pieces, and therefore we reuse parts as available, where to ship it? Do I ship it into the OE channel in order to get trucks built? Or do I ship it into the channel for aftermarket business, where it goes into the spare parts pool? And this is the consideration, where it's hard to predict how the shortage of electronics components is going to hit us in the next couple of months, as already pointed out, and secondly, how the effects of the pandemic are going to influence economic development within specific countries when it comes to usage of trucks, and therefore, the requirement to get spare parts and to get the trucks maintained. And therefore, we are rather on the cautious side here, as far as the outlook for the aftermarket business is concerned. This might give you a little bit of a background as to why the numbers are as they are today.

01:37:06 William Mackie

Thank you. I'll pose the question on China differently, given the importance it has in your strategic priorities. Could you just help us understand how you see your market position in China developing – or changing, rather – over the next two to three years, since its [inaudible] after-strategic agenda? It would be interesting to see your insights as to how the strategic position is at risk, perhaps. Thank you.

01:37:46 Dr. Jan Michael Mrosik

So, as I said before, the answer has three components. The component number one is that the aftermarket is a rather stable long-term business, with long term contracts. And the delivery of the services is usually taken over by the one who shipped and actually produced the products that went into the system. That's a topic of decades rather than quarters or years that I'm talking about here. Secondly, high speed, in any case, is a market that used to be very hot in China for the last couple of years. And even if the build-out is continuing, the importance of that market in terms of percentage of the overall infrastructure and public transport in activities in China is going down. And the metro market is the one where strong investments are going to be undertaken in the years to come.

These two aspects and areas, that’s where we are having the discussions now with the responsible institutions in China. Given the fact that the policy has just been released a short while ago, I would say it's too early to talk about a clear quantification of potential impacts here. But keep in mind that a huge part of our business is very, very stable and resilient for the future to come. And in the other part, the creative solutions have to be put in place and the negotiations need to take place.

01:35:48 Frank Markus Weber

Just one quick addition to what Jan aid in regards to facts and figures, profit and loss accounts, so to say. I mentioned to Sven before when we talked about the solid versus the very solid growth aspect in regards to our revenues, and I have to say, the very solid figure doesn't come if aftermarket wouldn't also grow on that level, somehow. We shouldn't be able to have that figure. So, aftermarket, we expect to increase somehow, not fully in line with but in the direction of the OE business.

01:40:40 Operator

And the last question for today is from Iris Zheng of Credit Suisse. Your line is now open, Madam. Please go ahead.

01:40:48 Iris Zheng (Credit Suisse)

Thank you very much for taking my questions. And if I could squeeze in three, if I may. The first one is on your comment on the rail traffic not expected to go back to the pre-COVID level until 2023. Could you give us a bit more color on that, more in terms of the indications for your RVS divisional revenue? Do you think that your RVS revenue should be able to recover back to the 2019, pre-COVID level before 2023, maybe by 2022, which I think is currently the market expectations?

And secondly, on the truck side – and apologies if this has been asked before because I missed the first 10 minutes of the Q&A – it sounds like you're suggesting maybe a slightly weaker Q2 for trucks. But then for the full year it's looking still very solid, quoting your words. So can you give a bit more color on maybe the Q2 indications that you are so far seeing in your own channels?

And last, but not the least, a bit longer-term-looking question is on the hydrogen, because you operate in both rail and trucks, which are the two earlier adoptions for the hydrogen technology. And I think in the past you've mentioned that the content per vehicle for trucks, when it comes to hydrogen-powered trucks, it could be dependent on which system you go for. And if you could maybe give us a bit more update on that and if there's any progress, and also similarly on the rail side for the hydrogen trains as well, if there's any different patterns that we should be aware of? Thank you.

01:42:36 Dr. Jan Michael Mrosik

I would like to start with the first question, then hand over to Frank. And let me take the last one as well. So RVS ridership, what we always need to keep in mind when ridership is being translated to our business, we need to always understand that that for Knorr-Bremse the most important factor in this whole business is the question how many trains are actually running on the tracks. The good thing about an empty train is that also an empty train needs to use the brakes. And whenever it brakes, its brake is being used and friction is being applied. Whenever a door opens, whenever an aircon system is being used, when any of the other systems of Knorr-Bremse on the train are being used, they need maintenance. They need to be overhauled. They need spare parts. And they need to be, by the way, even if a train is not being used, timewise be recertified in order to keep their license. So that means ridership, even if it might take a while and one might debate whether it's going to be sooner or later, what really counts is the number of trains that are being used. And as ridership goes up, as public transport is being used because of increased commuting activities and travel by people-- we will all go on holidays, probably, in summer this year, or at least that's being suggested by some politicians in Germany. I hope that that this comes true and that in other countries of the world this will apply as well, to some extent at least, where the pandemic is not too bad. Then the number of trains being used is going to increase. And that will then result in a relaxing situation as far as our aftermarket business is concerned. So always keep in mind, it's not just ridership. There are even more important factors and KPIs that are more important to our business than that. And we believe that these might even recover sooner than the ridership itself.

Now coming to the second question, Frank?

01:45:04 Frank Markus Weber

Maybe one addition to the first. We had a concrete question in regards to the growth scenario, in regards to pre-COVID levels. We think that in the rail division we should be able, within the full year 2021, to achieve the pre-COVID levels in terms of revenues already in this year. I think, given that situation that was now outlined in detail, we do think that this will happen the next year.

In regards to your CVS question, where the direction would be for the full year, I think we elaborated also a little bit about the uncertainty in regards to the semiconductor and the supply situation in very general terms. Let me draw your attention, maybe, to our disclaimer. At the beginning of the year, or in March, at our annual press conference, we had the disclaimer where we said we do, due to different knowledge, assume at this point in time that all potentially lost revenues due to the supply chain issue of semiconductors will fully be caught back in the year 2021. And now we are saying that the most of it should be caught back. That means implicitly an improvement in the quality of our forecast, respectively the guidance. We are knowing things better on a daily basis in regards to what really the supply situation is, what the availability of parts from brokers, etc. And we can't clearly say what the quarter two, quarter three, quarter four situation will be. So give us some time. The more we know, the more visibility we have, the more we will share with you. And towards the disclosure of Q2 in August, we will be for sure updating somehow our guidance, or narrowing down the guidance for your further thoughts. Thank you, Iris.

01:47:28 Dr. Jan Michael Mrosik

On the hydrogen side, I think it is very important to mention that a lot of the components that we deliver into truck and railway are pretty much independent. In terms of whether they're being used or not or whether they’re necessary or not, they’re independent of the way of acceleration is concerned, or how the drive train technology that is underlying is being built. So a lot of the products need to be, of course, adapted to the new applications and the way how they're being used. But a break is necessary. In a new scenario, a climatization is required, a door is being required – just a few examples that would indicate that our business model is also quite resilient as far as changes in the development of the underlying drive trains is concerned. And only a very small fraction of our business would be affected there.

To the contrary, what we're seeing with both electric drive trains, as well as hydrogen drive trains, dependent on how they're being operated, in fact, also in electric drive trains, by nature, we're seeing opportunities coming up there with a higher content per vehicle, with attractive content on trains. And it might well be that there could be – and we're looking into the new product areas and product ranges where we can use our core competencies – in these, future hydrogen scenarios as well. So one could be, just to mention an example, valve [inaudible 0:49:30] for hydrogen flow in these systems, where we have a high level of expertise in valves today already. And one could probably think of transferring our knowledge and know -ow in that field into the new area and into new systems. But once again, this is something that we need to look at, investigate very thoroughly before we do the investment. We see this journey as an area of additional opportunities.

01:50:02 Frank Markus Weber

So thank you very much for your time. We hope you stay safe, healthy, and we wish you a very, very great weekend.

01:50:13 Dr. Jan Michael Mrosik

Have a good weekend. Thank you for your time. Bye-bye.

01:50:18 Operator

Dear ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.