Transcript of Webast and Q&A session of Knorr-Bremse's preliminary FY23 financial results

Date: February 22, 2024

Andreas Spitzauer:

Good morning as well as good afternoon, dear ladies and gentlemen. I hope all of you are very fine. My name is Andreas Spitzauer, head of Investor Relations of Knorr-Bremse. And I want to welcome you to the conference call regarding our preliminary results for 2023. Today, Marc Llistosella, our CEO, and Frank Weber, our CFO, will present the numbers and later discuss the numbers with you. The conference call will be recorded and is available on our homepage in the Investor Relations section. Here you can find today's presentation and later, transcript of the call. It is now my pleasure to hand over to Marc Llistosella.

Marc Llistosella:

Many thanks, Andreas. Ladies and gentlemen, I would also like to welcome you most sincerely to our capital market call. Before presenting our preliminary figures and discussing last year's financials, I would first like to say a few personal words about the past year. I am positively impressed by the company that I have now had the privilege of leading as CEO for one year. Right in the beginning, I described my initial impressions, mentioning our employees' expertise and strong commitment to performance. Since then, I have visited many of our locations worldwide and met with many employees in person – and my initial impressions have been additionally reinforced. Today, I can sense the willingness to change things across the entire company – and that is world-class. On the Executive Board, we have defined a clear list of priorities that we want to tackle together. This particularly includes cultural change at Knorr-Bremse: We are in the midst of a transformation that calls for clear management and goals as well as new freedom to unleash entrepreneurial spirit. To this end, we have revised our leadership principles, which we will now be actively implementing throughout the company jointly with all management staff. With our BOOST 2026 program, we have initiated steps to give our company even more power in the future. But more about this in a moment. We have already achieved a great deal in a short space of time as Knorr-Bremse team. While other companies are reporting poor figures and had to announce layoffs, Knorr-Bremse is telling a convincing story with historically strong earnings. At this juncture, I would like to express my sincere gratitude to all colleagues who have made this possible with their commitment. Let me now begin with the main economic messages concerning the previous year. 2023, another tough year. Despite global and geopolitical challenges, Knorr-Bremse achieved all of its ambitious goals. One of the most important achievements: We improved our profitability. This pronounced resilience is not merely wishful thinking but can be seen in black and white in our figures: Our order books and order intake as well as our revenues reached new records. Our rock-solid balance sheet gives us the basis for weathering the numerous economic challenges. Presented last year, our BOOST 2026 program is fully on track, with preliminary measures already implemented. With the disposal of Kiepe Electric we have already taken first steps towards streamlining our portfolio. As you can see: We don't just talk but also act. And we are headed in the right direction. Cost discipline is a top priority for us. We turn every euro over twice before we spend it.

On slide 3, we summarized some of Knorr-Bremse's operational highlights this year. Important technical achievements as well as large project wins in both our rail and truck division underline a successful year. Let me give you a few examples: At the end of last year, Knorr-Bremse commenced mass deliveries of the new-generation intelligent electronic trailer braking system. Co-developed with Cojali the intelligent service system permits diagnostics to be performed on trailers fitted with the iTEBS X system. In addition to renowned companies and research institutes, Knorr-Bremse is working as a prime development partner on putting autonomous trucks on the road. Last year, the joint ATLAS-L4 project passed preliminary milestones: Among other things, the safety-relevant subsystems for the on-board power, steering and redundant braking systems required for the Level 4 architecture were successfully tested. Knorr-Bremse is also driving forward the digital transformation in rail transport. At the beginning of 2024, we launched a suite of intelligent products for networked passenger and freight trains in conjunction with our associate Nexxiot, allowing customers to benefit from improved train availability, operational efficiency and punctuality thanks to intelligent data evaluation. Our CubeControl system is already the most frequently installed brake control system on rail worldwide. After intensive development, we presented the new CubeControl last year. This is an intelligent platform that networks numerous elements of the braking system even more intelligently. At the beginning of my term of office, I said how important openness and transparency in the company are. Together with our managers, we defined our new leadership principles last year, setting out how we want to lead the people in this company in the future, with the courage to act entrepreneurially, with trust and in a team spirit. Working together on the Executive Board, we jointly initiated this cultural change and made great progress. This entails a culture of accepting errors as well as the roll-out of a worldwide diversity strategy together with a transparent remuneration system that we want to introduce step by step at all locations in Germany.

I would now like to turn to our “BOOST 2026” strategy program and show you where we currently stand on slide 4. When I joined Knorr-Bremse a year ago, I quickly realized that this company knew exactly what it is capable of and where it stands. The unanswered question, however, was: Where should Knorr-Bremse go from here? We have now provided the answer to this question with BOOST, which defines a clear, joint target. The most important goal is to secure our global technology and market leadership as the basis for consistently improving our profitability and at the same time opening up new future markets for us. Or in other words: Margin is king! And how do we plan to achieve this? First of all, by cleaning up. We will implement “brownfield” measures, also known as “housekeeping” as we first want to put our house in order. The measures that this entails include optimizing the product and investment portfolio as well as boosting the attractive aftermarket business, which provides the underpinnings for our resilience and profitability. In a nutshell, “brownfield” means doing the things we’re already doing even better in the future!
Let's now turn to slide 5 to discuss the financials of Full Year 2023. In 2023, Knorr-Bremse generated record sales of €7.9 billion, representing growth of around 11%. Both divisions were able to achieve significant growth and contribute equally to the Group's development. Europe and North America in particular recorded strong growth, but a recovery in China also had a positive effect. Our operating EBIT margin benefited from operating leverage, our introduced efficiency measures and successful pricing actions. Accordingly, the EBIT margin rose to 11.3% - despite strong inflationary headwinds. Thanks to those successful price negotiations and efficiency measures, our truck division in particular was able to increase by around 100 basis points compared to 2022 and achieved an operating EBIT margin of 10%. Our rail division had a rather challenging financial year due to inflation, ending 2023 at 14.3%, around 60 percentage points below the previous year. Last year, RVS had to deal with many old contracts that were won before the sharp rise in inflation and then suffered from higher costs during implementation. However, in the fourth quarter of the past year, we were already able to record "a turnaround" due to our countermeasures - just as we promised. Order intake and backlog also achieved strong results, underlining the robustness of our markets. I am particularly pleased with the strong improvement in cash flow. We were able to improve the development of free cash flow from quarter to quarter last year, achieving an outstanding EUR 488 million in Q4 alone. Overall, free cash flow for the full year 2023 amounted to 553 million euros. Free cash flow was driven in particular by a

significant improvement in EBIT and the successful implementation of the "Collect" program to optimize net working capital.

Let's bring these results and our financial goals in 2023 into context on page 6. To make it short: In the past financial year, we were able to achieve all of our targets for sales, the EBIT margin and free cash flow. Additionally, we were able to reduce net working capital efficiency by improving the scope of days from 57 to 51 days and improved ROCE from 16.8 to 20.0%. Let us now take a look at the market overview for rail and truck. Looking at the rail market, we can see that underlying demand is very strong in all regions, something that is reflected in the consistently good order intake. On an especially gratifying note, the aftermarket in China in particular is continuing to benefit from rising ridership levels. Tendering in the sector remains strong, resulting in persistently large order books for our global OEM customers. The portfolio of legacy orders heavily affected by inflation has shrunk considerably. The truck market also benefited from continued strong demand in 2023, particularly in Europe and North America. The truck production rate in this period was high in both regions and, in fact, very high in China. This year, we anticipate somewhat slower growth in the truck production rate in China in particular but see opportunities for growth in content per vehicle as well as our service business. We agree with the market assessment of our major truck OEM customers in Europe and North America for this year. If these two markets potentially have to record declines, we will take appropriate countermeasures to safeguard our profitability. I would now like to hand over to Frank Weber, who will outline the preliminary financial figures for the past fiscal year.

Frank Weber:

Thank you, Marc and also a warm welcome from my side. Let’s dive directly into our balance sheet on slide 8. One of our top priorities is and remains to maintain a superior financial profile, being rock-solid and providing a high level of flexibility at the same time. That means that we have a high focus on a strong equity level, represented by almost 3 billion euros and a very good equity ratio of 37% at yearend 2023. Our liquidity also stood at more than 1.4 billion euros at the end of 2023 despite redemption payments of almost 120 million euros. Consequently, net debt could be reduced by 14% to 627 million euros. This led to a net debt to EBITDA leverage of 0.51, which is also a further improvement by more than 20% year over year. Overall, we consider our balance sheet as a solid backbone for our operations. At the same time, it is much healthier compared to many other industrial players in the current environment of elevated interest rates and sometimes tougher market conditions. Also, our credit ratings with A3 and A- remain on a very good level, underlining our strong resilience.

Let's move to Slide 9. With 370 million euros, representing 4.7% of revenues, we have invested in our organic growth in 2023 once again. It was slightly higher in absolute terms year-over-year, but lower in relation to revenues. With that, we reached the lower end of our targeted range of 5-6%, a level we also prefer going forward. Net Working Capital was strongly reduced versus the third quarter of 2023 and remained stable year over year despite an 11% revenue increase. This underlines what is important to us, namely the improvement of our capital efficiency: we reduced the scope of days significantly by around 10% from 57 days to 51. This result was fueled by our successful net working capital optimization program "Collect". We took action across all working capital areas, in particular achieving significant improvements in claim management, which led to higher customer payments and we were also able to reduce inventories very significantly from 57 to 52 days. As a result of improved EBIT and the mentioned net working capital measures, our ROCE increased from 16.8% to 20.0%. Please bear in mind that ROCE will become even more important for the Knorr-Bremse organization in the future, as we plan to include this capital efficiency KPI in our bonus system.

On Slide 10, I would like to provide you more details regarding our Free Cashflow. We could improve the free cashflow sequentially last year, reaching an outstanding 488 million Euros in the last quarter alone. Overall Free Cashflow came in at 553 million euros on a full year level, reaching the upper end of our guidance. It was driven by a significantly improved EBIT as well as by the before-mentioned net working capital measures. We are glad that we have come back to a strong free cashflow level again. As you all know, one of my favorite KPIs is the cash conversion rate. It reached 93%, thanks to a strong second half year and especially a remarkable Q4. As promised, we are back – even slightly above - in our target range of 80-90%, a level we would also like to achieve in 2024. Despite all measures in customer receivables and inventories, we still took care of a solid supply security for our customers. This customer first strategy is a cornerstone of our operational success. The before-mentioned Project "Collect", which is made up of cross-divisional teams such as direct/ indirect purchasing, logistics, supply chain as well as sales and aftermarket will continue this year. The purpose of "Collect" is to systematically improve KB's net working capital efficiency – and we are not done yet.

Let's move to the development of our fourth quarter. Overall, we are very satisfied how we finished the year 2023: we achieved what we planned and delivered on our promises. Revenues in Q4 also increased by 6% to almost 2.1 billion Euros. Our operating EBIT margin benefitted from operating leverage, our implemented cost measures as well as our successful price negotiations. It increased solidly by 70 basispoints to 12.3% - the best result in the last nine quarters. Order intake was down by 7% year-over-year, nevertheless reaching more than 2 billion Euros, which is a strong figure in the current business environment. The decrease is mainly attributable to RVS, where we must take into account the extraordinarily strong prior-year figure. However, order book slightly increased by 3% to a new record level of 7.1 billion euros. This level will support a high degree of capacity utilization in the upcoming quarters. As mentioned before, Free Cashflow amounted to 488 million euros, resulting in a Cash Conversion Rate of extraordinary 247% in the quarter.

Let’s take a closer look at the divisional performance in Q4, starting with RVS on Slide 12. In terms of order intake, RVS recorded roughly 1 billion euros. This is a strong figure but compared to previous year – which was extremely strong at 1.16 billion euros – a decline of 14%. At this point, I would like to remind you of the general lumpiness of orders in the rail sector. Not every quarter can be above a billion euros, a level we posted in the last five quarters. Please note that since the fourth quarter of 2022, orders have returned to the same good level of profitability as before the period of high inflation. Order intake decreased in Europe and North America. In contrast, the Aftermarket developed positively. Nevertheless, the book to bill ratio was 1. The past quarter was the ninth quarter in a row, which posted a book to bill level of 1 or above. As a result, order backlog reached 5.1 billion Euros, an all-time high at year-end levels. The order book gives us very good confidence for the quarters ahead and underlines the very good rail demand overall, especially in Europe and the APAC region.

Let’s move to Slide 13. Revenues of RVS in Q4 amounted to 1 billion euros, an increase by 5.6 % year-over-year, despite ongoing FX-headwinds. Organically, we even increased revenues by 9%. The growth rate is again fully in line with our communicated long-term growth targets. Increasing OE business in Europe and North America as well as a stronger aftermarket business in all regions supported this development. APAC also recorded growth. Especially the development in China is particularly pleasing with increasing high-speed and metro business as well as an increase in Aftermarket. In Q4, Aftermarket share in RVS was 51% and improved by 3 percentage points. Our operating EBIT margin increased solidly by 70 basispoints to 14.8% in Q4. This development was fueled by operating leverage, our efforts to fight inflationary headwinds, pricing actions as well as by the increased share of aftermarket.

Let’s continue with our truck division on slide 14. Order intake in the CVS division amounted to more than 1 billion euros, a strong figure considering the slightly tougher environment in the truck industry.

Demand was very good in APAC, which compensated the slightly weaker markets in Europe and North America. Especially the Chinese market recovery further continued. Order book with almost 2 billion Euros at the end of 2023 was on a very high level almost stable year over year. In 2024 order intake is expected to decrease in Europe and North America, after a strong 2023 overall. China is expected to post a stable to slightly higher order intake year over year. We also expect that our development in the first half of 2024 should be stronger than in the second half.

Let’s move on to slide 15. Revenue development in CVS was positive once more, growing 6% to more than 1 billion euros in. In this respect the last quarter reached a new record level of revenues. Main drivers for this were the strong truck production rates especially in APAC as well as the benefit from price increases Organically, revenues grew even higher by 8%. OE business in Europe, North America and APAC increased. Aftermarket business was up in Europe, North America and China. Its revenue share overall was almost stable at 28% year over year. Similar like for order intake, we also expect a stronger development of revenues in Half year one 2024. Operating EBIT of our CVS division improved to 118 million Euros and 16% higher year-over-year. Consequently, the operating EBIT margin improved from 10.1 % to 11.0% in Q4, due to the successful implementation of our efficiency measures and higher customer pricing. In addition, we were able to harvest the fruits of the good integration of the Cojali acquisition in the aftermarket business which also supported our profitability in the quarter. Overall, I am very happy about our strong Q4 results and the strong team spirit within Knorr-Bremse. With that I hand over to Marc for the 2024 guidance and an update of our BOOST program.

Marc Llistosella:

Thank you, Frank. On Slide 16, I would like to walk you through our guidance for 2024. We expect revenues of 7.7 to 8.0 billion Euros, an operating EBIT margin between 11.5% and 12.5% and a Free Cashflow between 550 and 650 million Euros. Let me give you some additional comments: Slightly lower revenues are expected due to the sale of Kiepe and the lower truck production rates, expected by the truck OEMs. On the other hand, revenues in RVS are expected to increase. Operating EBIT should increase in both absolute and relative terms. Especially the rail margin will contribute to this development. Here, the lion share of orders, which we gained before the inflation started to increase, already translated into revenues. In addition, cost measures and the sale of Kiepe will support the margin development of RVS. Overall, our actions will positively impact the margin development in both divisions in 2024.

Last July, I presented our BOOST program for the first time. Part of BOOST is Brownfield, our streamlined efficiency program that includes measures entailing total revenues of 1.4 billion euros. We systematically embarked on portfolio optimization and the fix-it program last summer and are currently on track. As a basic principle, we are scrutinizing all business areas including those that are currently earning very good money – because: There's room for improvement for everyone. Obviously, we are taking a more critical look at those business lines delivering weaker earnings. Here, we have defined clear requirements: Wherever the analysis indicates that we are not the best owner of a particular line of business, we will initiate a consistent separation process or implement a firm turnaround plan in the relevant parts of the company. We are aligning everything towards ensuring sustainable value creation. Here, too, we have already started to implement the things that we have announced. The sale of Kiepe Electric has been successfully completed. The next sell-it and fix-it measures are in the pipeline and will be launched and implemented in the first half of 2024. The planned measures are expected to improve our operating EBIT margin by around 200 basis points by 2026. At the same time, we are also working on "greenfield" options for further growth for Knorr-Bremse. Here, we will be broadening our company's existing scope in order to create additional value. Our current business model is working very successfully. We don't have to reinvent ourselves, because Knorr-Bremse has an excellent base. However, we must continue to develop so that the company remains successful in the future. The greenfield activities will spur our growth by means of digital business models derived from partnerships and acquisitions. We want to drive forward the digital megatrends in the Rail and Truck divisions as well as in related and attractive business lines. Please let me emphasize one important topic at this stage: We will be completing this development of our company in a sustainable, targeted and risk-optimized manner in accordance with our clear financial guidelines.

Let me walk you through the just-mentioned two very successful KB investments we did recently: Nexxiot and Cojali. What do we like about them? Both are active in new business fields, which are close to our activities and they enable us to grow faster, more diversified and more profitable. They are a perfect fit to important future fields on which we want to concentrate on more going forward - software, big data and digital. Furthermore, they are also an ideal match to our existing product portfolio by providing additional benefits to our customers and supporting our profitability at the same time. With Cojali, we strengthened our existing aftermarket business by investing in a commercial vehicle-specific diagnostics solution that will open up new business opportunities for us in the fields of big data and predictive maintenance based on big data. The connection with Nexxiot's digital ecosystem provides access to platform and subscription business models. At the same time Nexxiot brings our products to the next level by generating data. This information will enable us to find smart solutions for our customers: increasing vehicle availability, optimized lifecycle costs and greater operational efficiency. In short, both investments opened new, future-relevant, accretive business fields for KB. Exactly what we are looking for in the future.

Let me give you other examples how we want to grow our company further. Our aftermarket business has proven to be very resilient, especially in difficult economic times. Even in the Covid crisis or other economically difficult phases, such as the constraints caused by global supply chains, we registered only a brief dip in revenues in the Truck division, while revenues in the Rail division remained even stable. Aftermarket business is a success story in both divisions, making a very favorable contribution to our company's profitability today. Looking forward, we want to additionally widen the share of aftermarket business in total revenues from around 40 percent today at the Group level. Here as well, we are prioritizing digital business models as well as sustainable solutions for our customers. To secure our large market share in service business, we will be globally rolling out best practices that have proven themselves in individual regions. In the Truck division, we are strengthening our very good partnership with Cojali to significantly expand our core business in the field of digitization and to tap a larger customer base with new service solutions.

The second example showing our growth potential is India, a market which, as you know, I am very familiar with thanks to my own experience in the country. We see India as one of the most attractive markets of the future for Knorr-Bremse: A strong trend towards urbanization and related infrastructure spendings are currently driving growth in this country. The Indian market is developing very dynamically. And the national government has defined the rail industry as a strategic priority. Accordingly, this sector is attracting the corresponding funding. India thus has everything it needs to be an important growth engine in the coming years, especially for our Rail division, including modernization, infrastructure expansion and growing demand for rolling stock. In addition, the operators are striving to significantly improve comfort and safety in trains. We are already well positioned to capitalize on this strong demand: Rail has more than 1,500 employees in India and it already holds a firm position in the market as a long-standing established partner of Indian Railways. So, we have local capacities that we can scale up even further in the future: To this end, we will be investing around 60 million euros in expanding our capacity. We recently invested in the expansion of the Knorr-Bremse Technology Center India in Pune to additionally boost our innovative and technological strength in the market. Looking forward, 1,300 experts will be working on the development of innovative and revolutionary transport technologies at this new center. Ladies and gentlemen, may I now conclude by briefly returning to our core messages: What we have set out to do. What our shareholders can expect from us. We will be focusing on our strengths with BOOST. And continuing to scale them up. Our BOOST program is clearly aligned to unlocking value – all our initiatives aim to increase the value of Knorr-Bremse: Our profitability has top priority. In specific figures, this is what BOOST means: In 2026, we want to achieve revenues of 8-9 billion euros, an operating EBIT margin of over 14% and a cash conversion rate of 80-90%. The figures that Frank and I have presented to you today show that we are heading in the right direction. If we improve the things we are already doing even more and position ourselves today for success in new fields of business in the future, this will generate benefits for everyone – our shareholders, customers and our employees at Knorr-Bremse. Thank you very much for your attention. And now back to you, Andreas.

Andreas Spitzauer:

Thank you. We will now end the webcast and the Q&A session will start in a minute or two. Please make sure to register for the conference call to receive the dialling details. Please mute the webcast while asking a question on the phone and it would be great if everyone asks just two questions. Thank you.

Q&A Session Knorr-Bremse AG

AS	Andreas Spitzauer
ML	Marc Llistosella
FW	Frank Weber
O	Operator
SW	Sven Weier
AG	Akash Gupta
CL	Claire Liu
VM	Vivek Midha
WM	Wiliam Mackie
DB	Delphine Brault
AV	Alexander Virgo
LF	Lucas Ferhani

Operator:

We will now start with the Q&A session and if you want to ask a question, please press nine and the star key on your telephone keypad. If you would like to cancel your question, please press nine and the star key again. Please press nine and star to ask a question and we'll wait a short minute to reopen the first question. If you would like to cancel your question, please press nine and the star key again. Please press now nine and the star key if you want to ask a question. And we'll start with the first question. The first question comes from Sven Weier, the floor is yours.

Sven Weier: Good afternoon. Can you hear me?

Frank Weber: Yes, perfectly. Hi, Sven.

Sven Weier:

Hi. Thanks for taking my questions. The first one is on the rail margin trajectory. If I follow your guidance, we're probably looking for op. EBIT margins above 15% this year, and I was just wondering about the dynamics throughout the year, so if there's improvement, something you see quite backend loaded or should we expect a relatively steady improvement in the rail margin already also in Q1? That's the first one. Thank you.

Frank Weber:

Sven, very generally speaking, we have seen a development in '23 that was getting better each and every quarter. We expect for the year '24, a more stable development of the overall profitability in the rail division throughout the quarters.

Sven Weier:

That sounds good. Thank you. And the second question is also on rail and was just wondering around the order outlook whether you see also positive book to bill, a chance for a positive book to bill in rail this year. I know it's a lumpy business, but more directionally how you see it and maybe also you can talk a little bit about the main regions and the order pipeline. I guess also people were probably interested what's happening in China at the moment. I saw you mentioned higher sales in metro. So does that mean for example, that the China metro market for you guys has already seen a trough? Thank you.

Frank Weber:

In regards to order intake as you rightfully referred to our statement that the rail business as a project business is a more lumpy business, we would like to say for '24 that we think about a book to bill ratio in the year 2024 of above one. That's what we are clearly targeting. We have good hopes and good signals looking at our current markets. To go into specifics for the individual markets doesn't make any sense at this point in time because there you just multiply then the lumpiness through it all. But a book to bill above one I think is a fair assumption for the year 2024 for us.

Sven Weier:

And maybe just some colour on China, how it develops currently and the different verticals there?

Frank Weber:

China, we see a stable to slight increase when it comes to the OE business and a slight increase that we see in the aftermarket business. So we don't see yet a turnaround in the real estate development in China overall. That's why we expect rather stable metro developments going into the new year. And on the high-speed side, I think year over year should also be at least stable kind of.

Sven Weier: Okay. Thanks for the colour. Thank you, Frank.

Frank Weber: You're welcome, Sven.

Operator: The next question comes from Akash Gupta. The floor is yours.

Akash Gupta:

Hi, good afternoon, everybody. The first one I have is on trucks and the question about regarding how to think about operating leverage in the business. A few years back when your competitor Wabco was listed, they told us that the operating leverage in the business is not linear as everybody tried to have flexible cost base to address technicality in truck demand. I know we are coming off from very high industry volumes in 2023, and if you look at the 2024 truck outlook from your customers, that is also above the trend line or replacement levels. So maybe can you talk about the cadence of operating leverage based on different truck production rate scenarios in 2024? Thank you.

Frank Weber:

Thanks, Akash, for the question. We have since many years outlined and we have no need for changing that assumption that overall, we think that we are able to deliver in positive times at 20 to 25% operating leverage going into the future for the truck business, which is lower than in the rail division. When it comes to the market, the potential market downswings that lie ahead of us in Europe and North America, I would say that you shouldn't assume that linearly, I agree, to potentially the statements of Wabco that you just mentioned. We have flexibilities in our plants basically everywhere in this world, including even the more stiffer regulatory wise countries like Germany, Europe what have you. We have enough flexibility to counter steer that in a positive manner. We have proven in South America, in the year after the election where the market was tremendously down, that they were able to prove that, that it's not linearly going down. And we are therefore quite optimistic that we can manage that throughout the year 2024 in that way. So it's not linear. You have to also consider that we have a good level of aftermarket business in those regions actually that are now confronted with some market weaknesses like Europe and North America overall, we have globally 28%, we have less of that aftermarket share in APAC. So you can assume we have more than 28% in those two regions. That should help us as well in order to achieve a certain resilience in that year.

Akash Gupta:

Thank you. And my second question is on the legacy project backlog in rail. So I see you have ended 2023 with higher than expected revenues, and therefore, I'm wondering if you can provide an update on where do we stand on the overall legacy backlog and what is left in 2024 and 2025? Thank you.

Frank Weber:

Akash, our plans and the schedule has not changed significantly. Of course, you always have a bit of push outs then from one quarter to another, but it holds true that more than half of what we had as old order backlog that is burdened by inflation is gone throughout the year '23 now. And there will be, like I said, maybe some 500 to 600 million left for the year '24 to come, which is roughly half, so to say, of what we already swallowed in '23. And then there is another 250 to 300 million that's maybe then out there in the year '25. So nothing changed to our assumptions and the original schedule for the invoicing.

Akash Gupta: Thank you.

Operator: And the next question comes from Claire Liu, the floor's yours.

Claire Liu:

Hi. Thank you for taking my question and congratulations on a great set of results. My question is on CVS midterm growth. You mentioned at the strategy update there's 4 to 5% CAGR for CVS over the medium term. Now remember you talked about things like constant growth as an important driver. But how do you see this target now in the context of your expectation for 2024? How confident are you with this implied mid-single-digit to high single-digit growth in '25 to '26? And what would be the key drivers of that? Thank you.

Frank Weber:

When we around summertime gave our midterm longer term targets for CVS, we were anticipating throughout the year's kind of a market, a slight growth overall of the market, meaning the truck production rate plus on top, we would as the company deliver content per vehicle growth, so to say, year over year that would then lead to the, you mentioned 4 to 5% CAGR each and every year. So that is the assumption. Now we have the year of '24, which makes it a bit difficult, let's say from a market standpoint alone, to assume a market growth in '24. So potentially, globally market will even be a bit weaker. But still our content per vehicle growth is in place. We are, so to say, confident to achieve that respective content per vehicle growth over the years. And that opinion has not changed compared to last summer. And it's also nothing that is directly related to a certain market situation. It's about our importance in the market and the way we are perceived as the innovator, as the market leader. That is what's driving us in the end because then we are picked, our products are picked by the customers when it comes to, so to say, the new vehicles that they have. So we are still confident on that, we will achieve that.

Claire Liu: Thank you.

Operator: And the next question comes from Vivek Midha, the floor is yours.

Vivek Midha:

Thanks very much, everyone, and good afternoon. I'll just stick to one question, a bit of a follow up on Sven's question, focusing just on the China aftermarket. You had a very strong 2023 in the China aftermarket. You're calling for slight growth in the aftermarket there. So what gives you the confidence that it's going to stay at a very strong level and how have you seen that develop over the early part of 2024? Thank you.

Frank Weber:

Thanks for that question. Slight growth is something that would be a good number because we have seen already high ridership levels in the year 2023. We have seen the urban ridership levels that were dramatically already above the 2019 levels. And also in the non-urban ridership levels, we have seen increased numbers above 2019. So we expect that this ridership levels should slightly grow into the new year, and we should participate on that. And that is I think a very resilient business. It's not each and every time a new tender, you are basically locked in as you very much know with the aftermarket business, basically once you do the OE sales. And that makes us pretty confident that we can follow the market and don't lose market share and that aftermarket.

Vivek Midha: Thank you very much.

Operator: The next question comes from William Mackie, the floor is yours.

William Mackie:

Good afternoon. Thank you for the time, gentlemen. A couple of questions. First of all, I'd like to touch back on the discussion of the change in leadership principles that you highlighted and focus back onto the shift in the remuneration system. And you called out centring on ROCE as one of the bonus targets. Could you put a little more colour on how you plan to align the remuneration system with the operating managers and how that feeds back into the corporate objectives? That's the first question. And the second comes again to the BOOST strategy. Now, Marc, a year in the job, I'm sure you've had a line of investment bankers offering you ideas for M&A. Could you talk a little more about the greenfield opportunity set? You've given us some very detailed focus on service and digitization and automation, but what sort of scope of opportunity to deploy capital do you see in the years ahead or the year ahead?

Marc Llistosella:

I come to both questions. Changing leadership culture, we need a fail culture, fail fast. We hadn't added, that's number one, which is now encouraged. We are working very transparent on numbers and figures. Nobody has the right to exclude the information from the management, and this leads more and more to a change of thinking. So instead to be a local hero and to exclude the global leadership team, we are becoming more and more a sounding board, which makes it much easier to stop when something goes in the wrong direction. In terms of remuneration, the board has decided that we have five to six targets, which are absolutely aligned. So we have all the same targets, and we are now bringing this targets to the next management level. So that means we have all the same targets to make this company more profitable. So it's no longer the question how did I perform, giving a damn on the others perform, it's now the team or nobody. And the remuneration is now more and more in this term. That means the board is already aligned in this regard, and the ML1, this is the next level, the vice presidents, the 18 who are falling, we have now aligned more and more the same kind of target setting. Number three, BOOST strategy. Yes, there were a lot of bankers telling us how we should do it, what we should do, and what we should buy. And in fact, this is already an indication that the asset is damaged good, because if an asset is good, it should not be supplied or offered to you. So that makes us a little bit suspicious already when someone is coming around the corner and said, "You should buy something." We are now very, very particular and very, very specific in three dimensions, and this is very easy to follow. And do you understand, eventually we have the chance to speak about it. The one dimension is, is it EBIT accretive? That is more of the same. It could be companies, providers who are doing very similar business as we do, in the same logic and in the same industrial logic. Here we are very clear, the multiples for this business are purely depending on the profitability of the past and the present. So any form of future forecasting that the EBIT or EBITDA will double or whatever is completely denied. So that means here we are only interested in companies who are accretive and then we are willing to pay in the future the same evaluation as Knorr-Bremse would be. Number two, if the company provides the technology, which is not currently in the portfolio of the company, we call it technology and market activity. It's accretive to our business in terms of the product and the market. It's interesting because it brings us on a no level in terms of technology. Then we are willing to look at it if we understand the business logic, which in the past we did not, and if we see a path for Knorr-Bremse to be the best owner, that's number two, technological based growth. Number three, and that is something which is now clearly defined. Is the business, the asset transformative to the company as it is? What does it mean? Is the business logic and the scope enlarging to the business model what we have? Is it more than just what we have already? Is it bringing us a different subscription model, for example, in reach? Is it giving us a data model in reach? If it gives us new services, which we have not provided so far. Here, we are willing also to take more investment into the hand because we know that this kind of businesses can be extremely, extremely profitable. Cojali itself has a completely different profitability than our core business. Completely different means more than triple as high. So that means this kind of business is for us now the most interesting one. Instead of focusing not only on more of the same, we are thinking about this kind of third dimension more and more because it has this potential to have. Otherwise, we will not accept any form of very high multiples, which we are sometimes offered even with business, which is not as profitable as we are.

William Mackie: That's Great. Best of luck for the journey. Thanks.

Frank Weber:

Just one final clarification, William, in regards to the ROCE question in the remuneration system, just to make it clear. All financial KPIs are identical in the remuneration system between the board and the management team of Knorr-Bremse. That is already a given. Now we propose for this year for the annual shareholder meeting to also in the LTI include ROCE as a target, which would then also be for the board as well as for the whole management team, to make it clear.

Operator: And the next question comes from Delphine Brault, the floor is yours.

Delphine Brault:

Hello. Good afternoon. Thanks for taking my question. I would like to come back on your aftermarket business. First, can you detail a little bit the competitive landscape in the aftermarket segment? And second, how should we think about the growth going forward? Can we extrapolate for the coming years the top line growth mentioned in the slide 20 for each division? So low double digit for CVS and mid-single for RVS?

Frank Weber:

Delphine, the competitive landscape is of course totally different, when it comes to aftermarket versus the OE business where there are basically for rail tenders being held. In the aftermarket, the entry barriers once you have an installed system, especially talking about the brake system already in a train, there are so high entry barriers for any other competitor to over time, once the lifecycle of the train goes on to come in. So you are pretty steady for the next 20, 30, potentially even 40 years of the lifecycle of such a train. On the truck side, a bit different story. Of course, you have certain ages that the truck will become over time. The sweet spot for us is in the years between two and seven, eight, and then the third life of a truck basically begins where you then have somehow usually the truck is even shipped and sold to another country. And then potentially you don't buy genuine parts anymore for such an old truck. So that's a different mechanic there. And there, the high-quality names basically loose then market share when the trucks are getting very, very old, so to say. That's a bit the dynamics. And please, given that what I just said, don't extrapolate based on revenue figures of the past, aftermarket business of the future. The extremely strong correlation is of course, the unit in order and the population of vehicles that are out there in the market. And then there are ones being scrapped in the new year and new revenues come on top, new deliveries, new track production rate as an example or newly built trains come on top. And that's the formula, how the market derives for the aftermarket business.

Operator: We have the next question from Alexander Virgo, the floor is yours.

Alexander Virgo:

Hi. Thanks. Thanks very much for taking the questions. I wonder if you could comment a little bit on pricing and then in particular, thinking about truck. And then on truck, I wondered if you could just give us a little bit of a help around the moving parts on underlying market versus content per vehicle, and the interplay between those two, given the guidance.

Frank Weber:

I assume you are asking about 2024 revenue and how that compares with content per vehicle and the market. Is that the question?

Alexander Virgo: Yes, exactly. Thank you.

Frank Weber:

We have empirically proven it, we have the capability to deliver roughly 4% in a nutshell of content per vehicle growth. That is a blended rate across the globe. It's significantly lower, that's growth rate in Europe. It's somehow maybe on that level as the global leverage in North America, and it's above that in Asia-Pacific. And once you move forward, so to say, you have to assume always where the respective markets are, but we do believe that we can perform on that level also throughout the year 2024. That's our performance that we bring into the market or on top to the market development. And for the market development, we expect same like our customers. On the OE side, market reduction in Europe and North America, and the slight increase of market in China. That's what we see. Those are the two dimensions.

Alexander Virgo:

Okay, great. Thank you. That's helpful. And then on pricing, just any indication or colour around the quarters or year just gone and any indication for us to think about with respect to the guidance?

Frank Weber:

We are pretty happy that we have achieved the two waves that we have done in truck ahead of the time where first kind of darker clouds arose at the horizon. So, we have not planned in order to achieve our 2024 guidance to go for a holistic new round of price increases with our customers. Of course, we will do each and every move that it takes. Once something gets more expensive for us, we would potentially also not get the one or the other door, but we have not planned a holistic way for new price increases moving into the year 2024, which we of course gained a lot of profit with that in the year 2023. As you rightfully said, we were really happy about that development, but for 2024, no risk that we might not be able to push through further price increases as we have not planned with those.

Alexander Virgo: Okay. That's very helpful. Thanks very much indeed.

Frank Weber: You're welcome.

Operator: And we have the next question from Lucas Ferhani, the floor is yours.

Lucas Ferhani:

Hello. Good morning, and thank you. So I'll have two. The first one is on Kiepe Electric. I'm just wondering how we should understand the guidance 2024. You said in 2023 there was a 20-bps dilutive impact. Does that mean that potentially as you kind of divert and fully close rest of the year, you could kind of come back with the guidance, including people that could be higher at the margin level? And also if you could explain what has changed? I think at the time of the CMD in 2021, you highlighted 60 to 90 impact from the divestment. Is it just kind of the margins are changing in both businesses? And then the second one is just following that question on pricing. What do you see in terms of inflation? When it comes to the burden, you've had two years with 300 million plus across labour, energy suppliers. Do you see again a year where inflation will be higher or much more normalized as is what you've seen before? If you have any numbers there? Thank you.

Marc Llistosella:

So Mr. Ferhani, I try to understand what you say, it was a little bit hard for us to get. The inflation and impact for the year 2024 is around 100 to 150 million euros straight. That's question number two, I assume. Question number one I assume is... Can you just rephrase your question number one? I didn't get it.

Lucas Ferhani:

Yeah. So your guidance for 2024 on the margin does not include Kiepe. And you said that in 2023 the margin excluding Kiepe was at 11.5. So I'm just starting to understand if the 11.5 to 12.5 could change once you include Kiepe, because you said you included at revenues, but maybe I'm...

Marc Llistosella:

Oh, now we get it, Mr. Ferhani. It's very simple. In the year 2023, we reached an EBIT margin of 11.3 incl. Kiepe. Without Kiepe, to make it comparable, it would be at 11.5, excluding 2024, is already excluded Kiepe, is between 11.5 and 12.5. So that's the result.

Lucas Ferhani: Okay, perfect. Thank you.

Operator: And the next question comes from Sven Weier, the floor is yours.

Sven Weier:

I had two follow-up questions, please. The first one is regarding the remaining seven disposals that you outlined in the presentation. I was just wondering how you look at these relative to the Kiepe disposal. Should we assume that those disposals are probably not easy, but easier than Kiepe? And what do you think is going to be the closing of the last one of these? And the second question is just in terms of use of cash, you had strong cash flow. I was just wondering if you already had something to share with us on the dividend that you plan to provide for 2023? Thank you.

Frank Weber:

Sven, first of all, I think it's fair to assume that Kiepe was potentially the toughest from a pure sales perspective in that process, given all the complications that we talked about over time. There are also some other assets in there where you would have operationally some issues to do, like carving things out, businesses out. And so it's not easy, simple necessarily, but it's fair to assume Kiepe was the most complex one going forward. Second of all, I think we have been since many years now, since the IPO, always kind of extremely predictable when it comes to our dividend policy. And we see no reason to change the policy we had over the last years when it comes to our proposal to the annual shareholder meeting this year. I think that's what you can assume.

Sven Weier:

And can I just follow up on the disposal? I was just wondering, do you have a specific date in mind, closing in mind, when you aim to close the last disposal? Should that be by the, let's say end of next year or earlier?

Frank Weber:

No, we have no clear date in mind because for some of the businesses, it just easily can't be set at this point in time. But like we always said, starting with last year in summer when we made the strategy update, we don't go for a kind of backend loaded process where we would only start the disposals and the stuff and the actions in '25/'26. And I think we delivered on that. We have done now Kiepe, and with other assets, we are in the midst of the process. But a clear timeline, we can't do at this point in time.

Sven Weier: Understood. Thank you, Frank.

Frank Weber: Welcome, Sven.

Operator: We have one more follow-up question from William Mackie, the floor is yours.

William Mackie:

Thank you very much. I'll follow that format too. So the one is just following up from Sven's question about scope. You were kind enough to flesh out or define the Kiepe impact, but when we think about the remaining seven deals, just when we think about the other side of this, can you give a ballpark around the scope on the revenue impact or the margin impact to enable us to think about the underlying base in comparison to your eight to nine billion target for 2026. The first question. And the second question is about commercial vehicles. Again, looking at the backlog, you've highlighted the cadence will be skewed H1 rather than H2. What sort of level of volume cover do you have for the European and North American operations with your backlog? And what are the sort of latest indications you've received from your OEM customers about how Q2 and Q3 might develop?

Frank Weber:

First of all, we indicated also in summer last year, that we intend with the fix-it measures. So bringing some of the businesses back to profitability or even to a higher level of profitability. And the sell-it elements, like the portfolio adjustments would all together bring us roughly 200 base points of margin improvement throughout the years to come. Obviously, it's a bit easier once you finally then conclude on an M&A transaction and you get rid of a dilutive business to improve your margin instantly. So, we roughly said that maybe two third of the 200% margin rather come out of divestments and the rest are out of the fix-it programmes. That should answer your first question. Second question is the coverage of orders. This is difficult to say because here the orders of course, as you know in truck, won't stay forever. Basically, in rail division, to give you an insight on that, since three years since COVID started, we have not seen a single cancellation of orders throughout those three years. Of course, we have seen some push-outs from one quarter to another that basically happened on the truck. It's totally different. And therefore, any answer I would give you in that regard would be completely, so to say, unrealistic potentially.

William Mackie: Thank you very much.

Frank Weber: You're welcome.

Andreas Spitzauer:

Okay. As you see, there are no people in the line left. Thank you very much for your time. We wish you a great afternoon. If you have further questions, please get in contact with us. Thank you, and bye-bye.