



Transcription

Knorr-Bremse AG – Conference Call Q2/20

EV00113224 – 96 Min

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PRESENTATION

00:00:00 Operator

Ladies and gentlemen, welcome to the call “quarter earnings Q2 2020” of Knorr-Bremse AG. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen only mode. If any participant has difficulties hearing the conference, please press star key followed by zero on the telephone for operator attendance. The call will be led by Frank Markus Weber, CFO of Knorr-Bremse, and Andreas Spitzauer, Head of Investor Relations, followed by a Q&A session together with the other two members of the executive board, Dr. Peter Laier, Head of CVS, and Dr. Jürgen Wilder, Head of RVS. May I now hand you over to Andreas Spitzauer. Please go ahead, sir.

00:00:50 Andreas Spitzauer

Thank you, operator. Good afternoon as well as good morning, ladies and gentlemen. My name is Andreas Spitzauer, Head of Investor Relations of Knorr-Bremse AG. I want to welcome you to Knorr-Bremse's conference call for the second quarter results of 2020. As a reminder, the conference call will be recorded and is available on our home page: www.knorr-bremse.com in the investor relations section. There you can find today's presentation and later, a transcript of the call. It is now my pleasure to hand over the call to Frank Markus Weber, our new CFO of Knorr-Bremse. Please go ahead. Mr. Weber.

00:01:32 Frank Markus Weber

Thank you very much, Andreas. Dear ladies and gentlemen, I warmly welcome you to our conference call for the second quarter results of Knorr-Bremse in 2020. This conference call is very special for me as I am speaking to you for the first time as the new CFO of Knorr-Bremse. Today's call is made up in three parts. First, I'd like to briefly introduce myself. Then I will present the financial results for Q2, and later I will give you an update of our guidance for 2020. Thereafter, with my two colleagues in the executive board, Dr. Jürgen Wilder and Dr. Peter Laier, we look forward to your questions and comments.

So, turning to Chart 2. Let me quickly introduce myself. My name is Frank Markus Weber. I am 51 years old and I just recently moved to Munich with my wife and my two children. I have a business and financial background and studied Business Administration at the University of Tübingen. After a stint at an auditing company, for the past 21 years I have had various management positions at the Daimler AG overall in the finance and controlling area. The most important tasks after several controlling positions at Mercedes-Benz during my time at Daimler were: 1) Head of Corporate Development and Strategy. I was able to gain valuable experience outside the financial sector, but at the same time I was able to contribute important financial aspects. 2) Head of Transformation and the driving force behind the efficiency program 'Move' with the scope of roughly 95 billion cost at the Mercedes-Benz AG. 3) Last but not least, for many years, I was CFO of Mitsubishi Fuso Truck and later on of Daimler Trucks Asia, based in Tokyo, Japan. The experience I gained



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in these positions supported my entry into Knorr-Bremse very well. I also headed the M&A department at Daimler for the last four years.

Looking back on my professional career, I have led many different finance departments in a company that has been listed on the stock exchange for decades. It is precisely this experience and knowledge that I would like to bring to Knorr-Bremse to help develop the company's strong entrepreneurial culture further. My key responsibilities inside Knorr-Bremse are finance, controlling, IT, legal affairs, investor relations and compliance. My focus will be on fostering and enhancing a culture of high performance, ensuring the continued support by the Finance Department for the development of Knorr-Bremse as the global market leader for breaking and other safety critical systems.

I have completed my first two months at Knorr-Bremse and would like to share my first experiences with you. I was extremely positively impressed by the following: first, I have been able to get already into a high number of exciting projects. I have found a highly committed and very customer focused team at Knorr-Bremse. Second, the new colleagues are characterized by a high performance culture and a strong cost focus in the true sense of the word. Third, at Knorr-Bremse there are many entrepreneurial people who are located close to the customers all over the globe and have a high level of P&L responsibility.

I have also found the following topics that I have potential to improve and on which I would like to concentrate on going forward. Earlier reporting is a standard and is very important to me. I consider the IFIS migration so far as unstructured and will take care of this going forward. The profitable growth of the company was great so far, but it has to be secured going forward. This means that we have to develop further on both aspects, growth and profitability at the same time. Our operational excellence needs to be even further enhanced by stringent standardization of processes and organizational alignment. Even more important, we have to improve our conversion rate on the cash side. Cash conversion rate is a very important topic for me.

So let me continue with the financials of Knorr-Bremse AG and the highlights of the second quarter 2020 on Chart 3. Following a very sound performance at the beginning of the year, Knorr-Bremse was able to give an impressive demonstration of its resilience, particularly in the face of the market turbulence caused by the Covid-19 pandemic in the past quarter. First and foremost, our financial results have been solid in both our rail and truck division. The implemented countermeasures against the impact of Covid-19 paid off and supported our operating leverage. In this respect, our European and American operations benefited greatly from the experience of our Chinese colleagues. Our aftermarket business was also affected by the pandemic, but to a much lesser extent compared to the OE business. Accordingly, the sales mix increased significantly in favor of the aftermarket. Overall, we confirm the guidance for 2020 and we feel confident enough to slightly raise the lower bandwidth of the guidance. I will give you more details later on.

Chart 4. Let me continue with the market development in the second quarter of 2020. On the rail side, global markets recovered faster than expected. It is especially important to mention that OEM customers have postponed orders in the OE segment, but we have not received any cancellations. Capacity utilization rates at the train manufacturers plants are again almost back to pre-crisis levels and in the latest press releases, they have tended to publish rather bullish statements. In addition, numerous governments around the world have initiated stimulus packages to provide financial support to the rail industry while promoting green mobility. On the other hand, our sales development is clearly influenced by the postponement of projects which will have an impact on the development of RVS in 2020 and 2021.



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Long term, however, we do not expect any negative sustainable impact on the division sales development. The Covid-19 pandemic has certainly had a greater impact on the sales markets of our truck division. Nevertheless, all relevant markets e.g. North America, Europe and China recovered relatively quickly, but at different speeds. In China, new records in truck production figures were already achieved in April and May. In Europe and North America, the recovery is proceeding more slowly but continuously on an upward path. Overall, however, the last two regions I have just mentioned should face significantly lower volumes compared to last year. It was therefore important and the right position to introduce adequate efficiency measures in the truck division at a very early stage.

I will proceed on page 5. A lot of things were positively driven and Knorr-Bremse in the past few months. At the virtual annual General Shareholder Meeting at the end of June, Mr. Thiele, Mr. Enders and Mr. Weimer were elected as new supervisory board members with high approval rates. Thereby, the level of knowhow and experience in the supervisory board increased significantly. The Rail Division won a major order in Egypt for brake systems with a volume in the mid double-digit million euro range. A total of around 1300 passenger cars will be equipped in this populous country until year end 2022. In addition, during the Covid pandemic RVS was able to clearly demonstrate its modern and intelligent HVAC systems, which can significantly improve the distribution, filtering and cleaning of the air in passenger cars.

The truck division was able to secure the previous scope of delivery with Schmitt's Cargo Bull for the future by extending frame contract with an order volume in the upper double-digit million euro range. Knorr-Bremse will continue to supply Schmitt's Cargo Bull with the current pneumatic trailer disc brakes in the coming years. The European legislator wants to make roads safe, traffic safer. Therefore, a mandatory turning assistance for busses and trucks is planned for new vehicle types from 2022 and for all new trucks and busses from 2024. With retrofittable turning assistant 'ProFleet Assist Plus' CVS makes an effective contribution for the truck manufacturers to meet these requirements.

Let me continue with the financial highlights on Chart 6. On July 16, Knorr-Bremse released preliminary results for the second quarter of 2020. The final results are basically in line with the preliminary figures, even slightly better. Overall, Covid-19 had a major impact on our results in the past quarter, as the pandemic mainly affected Europe and North America, where Knorr-Bremse generates around 60 to 70% of its sales. Nevertheless, our performance, especially the divisional profitability, was still very solid and showed a high level of resilience. Let me take you through the most important KPIs. Orders received were at 1.1 billion, a decrease of minus 32% compared to the same quarter last year. On the other hand, with 4.4 billion, our order book was only slightly lower compared to the previous year, which is the foundation of our guidance and gives us a good visibility for these challenging times. At 1.4 billion, revenues decreased by minus 23% compared to the second quarter of last year. The development was driven predominantly by CVS. Our operating EBITDA margin, consequently, decreased, but only from 19.1% to 17.2% in Q2. Given the current adverse economic and market environment, we consider this to be a very solid level of profitability and a proof of our resilient business model.

Let me dive deeper into our results on Chart 7. Order intake on group level in Q2 declined by minus 33% to 1.14 billion compared to the same period in the previous year. This development was not supported by the FX development or M&A on a net basis. Therefore, the organic development was slightly better, with a reduction of roughly 30%. Due to the extensive lockdowns in Europe and North America in April and May, customers of rail and truck were very reluctant to place orders. With the easing of the curfews in June incoming orders also improved. Our book to bill ratio in Q2 was impacted as well, reaching 0.8 versus 0.9 in the previous year's quarter. The development of the order backlog in the



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second quarter of 2020 was particularly pleasing compared with the previous year's figures. The development of the order backlog was only insignificantly lower. It reached 4.36 billion, end of June 2020 and increased significantly beyond Quarter 2 towards August.

Let me continue with our revenue development on Chart 8. The quarter April to July 2020 revenues on Group level decreased by minus 23%, or in absolute numbers by minus 418 million to 1.43 billion euros. On an organic level, we saw a decline in the same magnitude. Worth mentioning was a development in the APAC region which entered the Covid pandemic first but gaining most of the experience how to handle it. As a result, APAC was able to grow by more than 4% year over year. The regions Europe and North America recorded the greatest impact of the pandemic in the second quarter of 2020. Accordingly, our Group revenues fell by a clear double digit percentage.

Let me continue with the development of our profitability on Chart 9. In the second quarter of 2020, the Group's operating EBITDA was 245 million after 350.2 million in the previous year's quarter. The operating EBITDA margin amounted to 17.2% after 19.1% in the previous year. This decrease mainly resulted from volume effects of a declining OE business, with corresponding impact on the operating leverage. This margin impact was mitigated by contributions from the accretive aftermarket business. The aftermarket share increased from 32% in the second quarter 2019 to 38% in the second quarter of 2020. In absolute figures, nevertheless, aftermarket business was not immune to effects of the pandemic and recorded a decrease of 8% to 549 million euro. This decrease was more driven by CVS. The Group's operating EBIT of 174 million euros also saw a decline of 112 million euros at 12.1%. The EBIT margin was below the previous year's level of 15.5%. The higher deviation compared to the EBITDA of the previous year quarter comes from higher depreciation due to increased investment activities. In summary, we consider Q2 2020 to be a rock solid proof of Knorr-Bremse's business model in the currently challenging market environment.

Turning to Slide 10. While we have initiated a CapEx management program and watch spending closely, we realized an increase of CapEx in sale to 4.7% in the second quarter of 2020. Nevertheless, the level of 4.7% is very much in line with our long term goal to spend 4 to 5% on an annual basis. A substantial amount was invested in supplier tools and future growth options for both divisions. A large part of the increase year over year derives from the continuous expansion of the capacity for air disc brakes in North America to support our market leading position in this segment. We also made strategic investments in further software development in our global steering business. Networking capital at the end of past quarter showed an increase to almost 1.2 billion euros. This development was mainly driven by measures to ensure the ability to supply our customers. Our corporate policy 'customer first' is very important to us and has been a cornerstone of our business success for decades. Accordingly, we have kept the higher level of inventory to support our customers in difficult times and prevented a potential disruption of their supply chains. As a consequence, we also accepted that working capital will be higher in the short term in order to strengthen our long term customer relationship. Nevertheless, from the CFO perspective, I would like to clearly emphasize that this flexibility towards our customers is, over time, limited despite our strong balance sheet and we are working consistently to reduce working capital over time. Annualized operating ROCE was impacted by lower profitability and increased working capital. But with 22.2% well above most other companies in the capital goods sector.

On Chart 11, I would like to continue with the cash flow KPIs on the bottom. Our free cash flow in the second quarter 2020 was positive, reaching 48 million euro after a minus of 61 million euro in the very first quarter of this year. The year on year decline is predominantly due to lower profitability and at the same time slightly higher capital expenditures and



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increased working capital. Based on measures we started already, free cash flow will improve accordingly in half year two of 2020. As mentioned at the beginning, the cash conversion rate is very important to me. My definition of this KPI is free cash flow before M&A, means as reported in relation to the respective net income. The level of slightly above 40% achieved in quarter to 2020, which we deliberately accepted to cope with the pandemic is not a satisfactory level going forward in normal times. In the long term, I expect Knorr-Bremse should be able to achieve a cash conversion rate of roughly 70 to 80% during a normal growth phase.

On Chart 12, I would like to give you an update on the impact of Covid-19 on our two divisions. Compared to the Quarter 1, 2020 presentation in which we needed a total of five charts for explaining this topic, this time we believe only one chart is necessary. This should also be seen as a sign that we know very well how to deal with a pandemic. Nevertheless, we continue to monitor the situation very closely and are prepared to act quickly if necessary. With the exception of India, demand in the global train market segment has recovered significantly, and our customers from the train manufacturing side have almost returned to pre-crisis levels, although the important customer segment of train operators has not yet reached normal levels again. We see continuous and steady improvements regarding trains in operation and no cancellations of contracts, only postponement so far. What does this mean for our rail division? Our suppliers have also almost returned to pre-crisis level, which also applies to our own facilities. For example, we have ended short time work at RVS in Europe.

I would now like to move on to the truck situation. The key sales markets have recovered significantly from the lows and are also showing a steady improvement month after month. This assessment has been confirmed. Even after the summer break, our customers have kept their commitments. Similar to the rail side, only India is still strongly affected by the pandemic. This has a corresponding impact on our suppliers and our own plants, which are also experiencing improved capacity utilization, albeit significantly below the prior year's levels overall.

Let's move on to the divisional view, starting with RVS on Slide 13. In the second quarter of 2020 order intake of rail vehicle systems was at 790 million euro, a decrease of 11% in total and 7% on an organic basis. This development can be attributed primarily to the lockdowns at our customers as sales activities were significantly restricted. This led to postponements of meetings and contract awards, as well as calls from framework agreements affecting the OE and aftermarket business. In July and August the situation eased considerably again. Next to it, I would like to remind you that developments in the rail industry, with its long cycles, do not go well with quarterly reporting. There are always fluctuating large orders in individual quarters, which make comparisons difficult. Projects in rail are generally independent of seasonality or cyclicity. All regional markets experienced postponements and lower demand, which could not be compensated by the development in China. The book to bill ratio was developed accordingly to the lower order intake, but it was flat compared on an annual basis. It moved from 0.92 in the second quarter of 19 to 0.93 in the second quarter of 2020. The order book, on the other hand, increased by 7% compared to the same period in the previous year to 3.5 billion euro, which provides good visibility for the rest of the year and shows the confidence of our customers in the long-term trends in the rail industry. We assess the order backlog of our rail division as very solid and do not expect any order cancellations going forward. Nevertheless, we do selected shifts of tender biddings.

I am now moving on to the revenue and profitability for the rail division of Chart 14. In the second quarter of 2020 RVS recorded revenues of 849 million euros, which decreased by minus 10% year after year and only minus 9% on an organic basis. Europe, which was affected by the pandemic mainly in the past quarter, contributed about 70% of the year



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on year decline in the division's sales. Both the OE and aftermarket business were affected by weeks of closures of customer plants and depots. In the OE segment, only the locomotives and passenger business were growing. In North America, we have recorded an overall decline. Lower revenues, predominantly in freight, could not be mitigated by the almost stable development in the service business. APAC, including China, also declined overall. The lockdowns had a negative impact on most countries outside China and revenue segments like High-Speed locomotives and the aftermarket business. The very positive growth of the Chinese metro business, which more than compensated for the development in other customer areas, led to an overall growth in China but not in the entire APAC region. On RVS Group level, noticeably lockdowns of depots and significantly lower number of trains on the tracks in the second quarter had a bigger impact than the pull effects from the second half of 2020. Overall, this led to a decline in the aftermarket business in the past quarter, but this was significantly less than the decline in the OE business. The profitability of RVS in the past quarter was certainly the most remarkable KPI of all of our KPIs. EBITDA of RVS came in at 204 million euros in the second quarter and was down only minus 6% compared with last year. The EBITDA margin increased from 20.5% to 24.0%. This margin improvement is based on the following topics: Covid-19 measures had the largest share in supporting profitability in Quarter two, 2020. Please keep in mind that the measures are predominantly of a short term nature. We have sold the loss making power track unit by the end of Q3/2019. A creative aftermarket share increase in Quarter two, 2020 due to OE postponements and some pull-in effects. Fast recovery in China supported operating leverage in the country. Many of these positive topics arose specifically in the second quarter of 2020 and would only have a limited impact in the second half of the year. Accordingly, we expect a positive overall development of RVS profitability until year end, but at the more normalized level.

Let me finish the rail part with an overview of current market announcements on Slide 15. The rail market is currently still showing a certain degree of volatility. Accordingly, it is still too early to give a longer term outlook. However, there are some indicators in the market that should support a general positive development longer term. In contrast to the financial crisis in 2009, the rail market is now benefiting from supportive programs around the world, which are being launched by many governments to contain the pandemic. Many of these measures pursue the goal of reducing CO2 emissions, which can be summarized very well under the term green mobility. The rail industry in particular can make a valuable contribution in this respect, as it has by far the lowest CO2 emissions per passenger in km driven compared to air and road traffic. On the right side of Chart 15 I have summarized some examples of this. RVS will clearly benefit from the implementation of these measures, but due to the long lead times between the definition of the tender details and the delivery of our products, we do not expect a significant impact on sales in the next 18 months, but generally the programs will be positive for our rail division.

On Slide 16, I'd like to continue with the development of our truck division. The order intake for CVS was 346 million euros in the second quarter, which is a decrease of minus 57% year over year, more or less in line with the organic development. This development was expected and reflects most of all the strong negative effects of Covid-19 pandemic in Europe and North America. In addition, the underlying demand in both regions further normalized after a period of strong growth in the last two years. In May and June, we saw the first signs of stabilization in both markets, which has continued to stabilize since then. The increases are rather slow but steady. In APAC, the development of order intake was very well supported by record levels in China, driven not only by recovery demand. The order book of our truck division amounted to 880 million euros at the end of June 2020, which is a decrease of minus 32% year over year.

Let's move to Slide 17. Our CVS division posted 579 million in revenues for the second quarter of 2020. Compared with



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last year's figure, this is a decrease by minus 34%. Driven by a lower truck production rate in the last quarter due to the pandemic, customer demand was predominantly weak in the European and North American truck market. Both top-lines, are more than 40% lower compared to the previous year's level. The APAC region again recorded revenue growth in the second quarter 2020 year over year, well supported by China. Our truck division recorded aftermarket sales of 168 million euros in the second quarter of 2020, a decrease of only 13%. At the same time, the share of sales improved from 22% in the previous year to 29%. In the second quarter of 2020, CVS achieved an operating EBITDA of 51 million euros, which is significantly lower compared to the same period of the previous year. The operating EBITDA margin amounted to 8.7%, compared to 15.9% a year ago. Considering the 34% drop in sales, this is certainly a good indication of the resilience of the truck division.

On chart 18, I have summarized our expectations regarding further market developments in the most important truck markets. These expectations are also the basis for our outlook up to the end of the year. The key message here is that the revenue development of CVS in every major region strongly outperformed the respective truck production rate year over year in the second quarter. A repeat of the outperformance as in the first quarter of 2020. This clearly shows our market strength as well as the support from growing content per vehicle and the solid development of the aftermarket business. In the coming quarters, we expect the positive trend in truck production rates in Europe and North America, compared with the low levels in the second quarter of the year. In China, which accounted for roughly one fourth of CVS sales in the past quarter, compared with around 10% in the previous year, we expect the truck production rate to continue at a good level.

Let's move on to Chart 19. Knorr-Bremse closed the acquisition of R.H. Sheppard and Co. on June 1st of 2020. The purchase price amounted to 150 million US dollars. Shepard is one of the two leading manufacturers of steering systems for commercial vehicles in the North American market. With this acquisition, we took the step in becoming a global supplier of commercial vehicles' steering systems by further strengthening our position as a global supplier of integrated steering and braking system systems, as a basis for driver assistance and highly automated driving systems. Following the acquisition of Hitachi's steering business in early 2019. In 2020, we expect a revenue contribution of more than 50 million US dollars by Sheppard and a target margin of EBITDA break even, driven by the Covid-19 pandemic and the fact that the KB way of efficiency is not implemented yet.

Dear analysts and investors, with all that being said, we are convinced that Knorr-Bremse has proven to be very resilient during this very extraordinary year so far. As market leader with presence in more than 30 countries and high market shares in both divisions, we feel well-positioned to shape future trends and continue to set standards. We continuously focus on the expansion of our product and service portfolio in order to drive the business. Based on our standards, we are always working on implementing innovative solutions that deliver clear customer benefits and meet industry wide standards for safety, efficiency and reliability and best quality. To continuously strengthen our position and to address the industry trends in our two major markets, we invest an above average percentage of our revenues, around 5 to 6%, in innovation. In our rail division, we are developing solutions that follow the need for increasing the number of trains on existing rail infrastructure, especially against the background of sustainable mobility. We are clearly focusing on the megatrends: urbanization, sustainability, digitalization and green mobility. In the CVS division, we focus our R&D efforts on future trends such as traffic safety, emission reductions and e-mobility, as well as automatic driving. Operationally and technologically, both for RVS and CVS, we face the future with a broad chest. For RVS we believe that we can benefit from future stimulus programs predominantly in Europe, which will drive green mobility and long term, our strong



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aftermarket business too. For CVS, we see great potential in the area of driver assistance systems. We expect that content per vehicle will grow, will continuously grow globally. Our truck division, with its innovative product, is well positioned to support the truck OEMs in meeting future regulatory requirements. As a result, since the IPO Knorr-Bremse has clearly created value and it is our goal and duty to continue to do so.

Let's move on to Chart 21, my concluding slide and potentially the most interesting one for many listeners. Overall Knorr-Bremse performed strongly in the very turbulent first half of the year. Our rapidly implemented countermeasures were very well able to cushion the market downturn in both divisions. In the second half of 2020, we expect that the positive market trends will generally continue, albeit to a moderate extent. For the Chinese truck market we expect a normalization in the second half of 2020 after a very strong Q2 2020. In Europe and in North American region, we see the market recovery ongoing, but still well below last year's level. The rail OE market is almost back at pre-Covid-19 levels, which should continue in the second half of 2020. Please keep in mind that there were some pull-in effects in the rail aftermarket business in the first half of 2020 and therefore we could see slightly lower aftermarket sales in the second half of 2020. We also expect the positive OE aftermarket mix to change slightly with a corresponding impact on the development of revenues and profitability of the rail division in the second half of 2020. We published a new outlook for 2020, together with the preliminary figures of the first half-year 2020 in July. Barring further lockdowns due to the Covid-19 pandemic and the resulting negative impacts on the business up to the end of the year, we now expect revenues of 5.9 billion euros to 6.2 billion euros and an operating EBITDA margin of 16.5% to 17.5% in the full year of 2020. As you can see, we have slightly raised the lower bandwidth of both KPIs as the market environment and our expectations have continued to improve slightly since July.

Last but not least, in these challenging times, we continue to focus, apart from cash flow and costs, on the people around us. The health, safety and well-being of our colleagues and our business partners remain our first priority. And I would like to acknowledge all of them for their dedicated efforts in this unprecedented quarter. With this, I would like to thank you very much for your attention. Now, Mr. Laier, Mr. Wilder and myself are looking forward to your questions.



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Q&A

00:37:52 Operator

Ladies and gentlemen, we will now begin our question and answer session.

One moment for the first question.

And the first question received is from Philippe Lorrain of Berenberg.

00:38:30 Philippe Lorrain (Berenberg)

Yes, thank you very much. Philippe Lorrain from Berenberg here. I've got three different areas to cover. The first one on CVS, then that would be RVS and then a bit more general. So I'm going to start with CVS. In the outlook section of the interim report, you mentioned truck production forecast numbers. Are these truck production forecast numbers that you mentioned, the ones that you get from market forecasters? Or are these your own estimates? And also, are these numbers then used already in your current outlook?

00:39:07 Dr. Peter Laier

Hello, Phillippe, this is Peter Laier speaking. Just to answer that as traditional in Knorr-Bremse, we use inputs from the markets together with own sights and create our own TPRs. So the TPRs which we have indicated here, are based on official institutes and additional information, which we receive out of different sources, including economists. And we have reflected them in our outlook.

00:39:46 Philippe Lorrain (Berenberg)

Okay, perfect. So the question that I have here is basically regarding the truck business. How should we think about the content related growth for this year as a whole, because you've posted a very strong outperformance in revenue terms versus the specific truck production rates in the different regions in Q2. At the same time, you're just increasing the low end of your guidance range. But if I understand that correctly, the TPR outlook has significantly improved probably over the past couple of months.

00:40:25 Dr. Peter Laier

At first we need to say, if we look to our business in the related markets, we have the OEM business and the aftermarket



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business in those markets. So if we compare truck production rates with our business development, we have as a first part the resilience of aftermarket, which is helping us in the respective markets. In addition, you're right, we gain market share specifically in China, which is helping us. You see that very well with the TPR development on the one side and the related CVS revenue development. Besides these market share gains, specifically in non-European regions, content per vehicle is helping us. And that is coming mainly from new regulations coming into place.

00:41:16 Philippe Lorrain (Berenberg)

Okay, perfect, but just to come back to this question on the volumes. It seems like the volume trend has, since you published the preliminary numbers for Q2, that it has improved by quite a margin. However, you are not really turning extremely bullish if I understand that on the CVS revenue outlook. Is that correct?

00:41:42 Dr. Peter Laier

What you need to take in mind, Philippe is, just to do a short recap of what happened in the last few months. When the Covid-19 crisis hit the different markets, what we have seen in our figures, which are orders from customers, you could not rely at all on that. So we had to adjust the figures from the beginning. And we are still in a period where the figures in the systems are volatile, not as volatile maybe as in Q2, but they are still volatile. And what you need to have in mind is we have in the moment the actual figures, which we are seeing, we have some bounce back effects due to the situation in April. In Europe and North America, none of the truck OE produced, without some few exceptions. So it's very hard to predict the truck production rate for the remainder of the year and we have taken some increase assumptions into account for Q3. For Q4, it is still a little bit volatile and we reflect our own perspective in there by considering as well that we see overall GDPs and in relation to that as well, transportation volumes lower than pre Covid crisis.

00:43:11 Philippe Lorrain (Berenberg)

So it's not like you are taking numbers very strictly and you just like mathematically increase the whole forecast just because these volumes go up.

00:43:21 Dr. Peter Laier

No, we adjust the TPRs and accordingly the volumes, according to our best guess, based on the inputs I explained before.



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00:43:30 Philippe Lorrain (Berenberg)

Okay. Then the second question on the rail business. So on Slide 15, it seems like you expect this commuters program to only help the situation to go back to normal. And also you mentioned that you don't expect like a major improvement within the next 18 months. I do appreciate that the long-term growth potential for the division, perhaps is a little difficult to call, but do you expect these stimulus programs to, let's say, bring the trend line of the RVS revenue up over time versus the base narrow that you had last year? Or is it more a kind of a one-off effect?

00:44:11 Dr. Jürgen Wilder

Well, it is a little bit of both, so to say. I mean, first of all, you need to keep in mind that the tender cycles and the awards in the rail sector, they are all long term. Tenders sometimes take a year or something like that to be structured, and to get into the market, and to be awarded. So short term reaction in the rail sector is always, at least on the OE market, very difficult. And we also had the times during the months in the second quarter, for example, in Europe, as you might have realized when you took a train or something like that, that the trains were still running, but, you know, they were mostly empty. There were times when you could choose which car you would like to take a seat because they were all empty. You can imagine that that led to major losses on the operator side. And those stimulus packages, to a certain extent, whether it is the U.K. or whether it is Germany or other countries, they had to ease that situation because it was so important for also governments, let's say, in individual states, to keep up that infrastructure running. That costs a lot of money. And therefore, there was a lot of stimulus money required. The good thing for us is that also if you put it in black and white, that also empty, trains need to break. And therefore, there is continued service business and also infrastructure planning. So basically the procurement of trains is rather long term. I think whether there will be additional trains to be bought, or not, really depends on the ridership that we will see over the upcoming years, whether they're just really going to improve dramatically or not. We have seen, as we pointed out before, also during those crisis months that we could benefit at some point or at some spots even from that, because they was a time when operators said, "you know, I'm afraid that I'm running out of spare parts, I don't know how the supply chain will develop, so let's basically buy additional parts". And that's also the reason why we benefited in the first half a year. But mostly the question to your answer whether it will secure the numbers that we have mentioned before, that is more the case then, let's say, in the next 18 months, additional potential or something like that. That would be my clear answer to that.

00:47:02 Philippe Lorrain (Berenberg)

Okay. Thank you very much. And the last question is for Mr. Weber. It's about the free cash flow conversion target. If I remember correctly, from the time of the IPO, the target range was more something like 80, 90%. And if I understood you correctly, you mentioned something like 70 to 80% in this call today. So I was just wondering whether has been a change to any of the items that would be influencing the free cash flow conversion? And the second question is here, would be as well whether your free cash flow definition will include the lease payments that were previously included in the KPIs prior to the adoption of IFRS16, since it doesn't seem to be the case right now.



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00:47:51 Frank Markus Weber

Thank you very much, Philippe, for your question. I do say, first of all, the range is 70 to 80%, 80 to 90% somehow in the same similar ballpark, but of course, 10 digit points away from each other. In regard to the definition, I was not considering to readjust the strategic targets going forward to a lower level. I just wanted to make sure that somehow, at sometimes free cash flow and credit cash conversion rates are used in different definitions. What my internal definition and focus area inside the company definitely is all about, and I will, of course, ensure that there will not be a readjustment that is lowering the aspiration levels of free cash flow generation going forward. I think that is a very important message. Second of all, in regard to the definition and in the end, when it comes to free cash flow, it's basically somehow an all-in figure that you usually look at, and also, I am not a fan of excluding and adjusting too many items going forward, as it makes things too complicated once you want to really completely implement a certain philosophy of KPI steering in the company with the management, with the colleagues and with the employees all over the globe. So I am rather looking for a figure that is rather simple but fits to the point of having basically all aspects in.

00:49:40 Andreas Spitzauer

Okay, thank you, Philippe. Maybe moving to the next one in the line. It would be great if you could limit the number of questions to two, please.

00:49:56 Sven Weier (UBS)

Good afternoon, gentlemen. Thanks for taking my questions. And for the first one would be on your order intake guidance. I saw in the quarterly report that you gave an order intake guidance for the year where you basically say you expect the backlog to be up somewhat year on year, and that the order intake should fall less than revenues. Of course in the first part we had the complete opposite, right? The order intake was more than 300 million lower than the revenue level. So, my question would be, of course, this major turnaround in the second half, then, is that driven by both divisions and should we see order intake exceeding revenues in Q3 already? That's the first question. Thank you.

00:50:41 Frank Markus Weber

Thank you very much for your question. May I answer from my point of view, first? To my understanding, we have no guidance anymore out there for order intake for the year 2020. We have just had in, since July, the renewed guidance on the revenue side, on the EBITDA margin side and we renewed that for the Knorr-Bremse AG or the Group level just now. So, we have no order intake guidance. It is, I think a figure that you referred to from the annual report, which is already from the very beginning of the year 2020. Nevertheless, so let me let me answer your question content wise: I think, yes, you are right. We have order books currently reaching a level 4.3 billion. But to tell you, order intakes looking at the months of July and August have risen compared to the levels of 2019. So our order book in total, was positively



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impacted and we are now back by the end of August to a level that is very close to 4.5 billion again. So order intake in July and August was over all some 20%, even slightly more than 20% higher than the order intake that we received in the year 2019, which I think is a very strong result and also very strongly driven by CVS. So it is a very good situation we are in currently looking at these summer months.

00:52:43 Sven Weier (UBS)

I was referring to the quarterly report and the page 17 in the middle of it. So if I understand you correctly, there is a guidance on order intake, but yes, let's maybe leave it there. And then as far as your commentary on aftermarket was concerned, the pull-forward effect that you mentioned was a slight one. I mean, was that more in Q1 and would you actually expect your aftermarket revenues in Q3 to be lower than in Q2?

00:53:19 Dr. Jürgen Wilder

Maybe I want to answer that. It is Jürgen here. On the rail side, at least I can say that the impacts of the crisis on the operators, the first reaction, so to say, very practically speaking, is they are concerned at the beginning of how do I keep my feet running? And that is what impacted them at the end of Q1 and also during Q2. And the second concern they had was, I'm not really sure whether during those crises, how the supply chain will develop, whether I will be able to get all the spare parts, for example, that I will need when I need them. So, there was a time that supported the aftermarket business, where operator said, for example, I had better put some extra spare parts on the shelf, so to say, then facing the situation later on that I might run out of them and then I'm in trouble. And then there was another impact of it, where in the overall business there was less utilization of the trains, and when you have a little bit of a backlog in terms of maintaining those trains, that was a great opportunity to do it at that point in time. That also happened during Q2 and partially Q1. And as a result, of course, since we took all kind of measures internally in terms of being able to deliver when customers need anything, I think that was a very successful initiative that we had in Knorr-Bremse. We were able to deliver and we happily delivered and that was a benefit for our aftermarket business. And then the supply chain maybe was not as difficult as the one or the other expected it to be. And therefore those spare parts are still partially on the shelf and the result in the next few months is a little bit that there might be fewer demands on the spare parts level for the second half year. So you have a little bit this counterintuitive effect that during the Covid months, or the peak of the Covid months, you had a higher demand and later on you have a little bit of a lower demand. Now, I am not saying that that is a dramatic effect, but it will be an effect that can be noticed. Let's put it that way. That would be my answer.

00:56:00 Sven Weier (UBS)

Is it an effect you still expect or is it something that you've seen now, now that we are almost at the end of September? Have you seen that in July and August happening in reality, that the demand is lower?



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00:56:15 Dr. Jürgen Wilder

No, we see that to a certain extent, a little bit. And we also expect that for the rest of the year to a certain extent. But that is essentially reflected also in our guidance. That is what is covered in there, to the best of our knowledge, what might happen there.

00:56:36 Sven Weier (UBS)

And then CVS, that was not really a major factor.

00:56:40 Dr. Peter Laier

No, we have seen in regard to aftermarkets a little bit similar behavior as Jürgen said in specifically the month of May partly. But he sees aftermarket being back on normal. Aftermarket business was, as I mentioned before, for us, the stability factor in Q2. But for sure, you have a situation when transportation volume was going down and we had transportation volume reduction in Q2. You see that as well in aftermarket demand. That's why April was weak. Why is April not so good? Because a lot of garages were closed. So when garages are closed due to legislations in different countries, you cannot make so much revenue. And then there is a little bit of a kickback effect. But overall, aftermarket we see stable, as well for the remainder of the year. You know, there is some seasonality in, so Q3 is usually a strong aftermarket or stronger aftermarket quarter because the distributors are filling their pipeline for the winter season and winter season is usually higher aftermarket demand than in spring and summer.

00:58:03 Sven Weier (UBS)

Okay. Thank you.

00:58:14 Ingo Schachel (Commerzbank)

Yes, thanks for taking my question. I think the first one would be, despite the obviously very nice numbers on your CEO search and situation, whether you could give us a quick update on where the process stands, what your impression is, or understanding how the process works: whether it is primarily run by Mr. Mangold or whether other board members like Weimar and Enders are actively involved as well? Just to get a quick update on that one.



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00:58:43 Frank Markus Weber

Thank you very much, Ingo. As we just talked recently, there is a very professional process, which is led by the chairman of the supervisory board, Mr. Professor Mangold, and there, it is I think, two months standing towards a short list. And we are overall, I would say, very convinced that the supervisory board will find a good candidate and a proper CEO and we will let you know as soon as the company has found one. Please accept that I cannot elaborate further on that process, only to say it is in the professional hands of our chairman of the supervisory board. Thank you, Ingo.

00:59:42 Ingo Schachel (Commerzbank)

Sure. And maybe, and of course Mr. Weber, we will give you a bit more time before you have to take strong strategic viewpoints on very specific matters, but I guess with the background in M&A and in the commercial vehicle sector and of course, steering systems being a very important area of M&A for Knorr-Bremse in the last years, so I was just wondering whether you already have a view on whether the portfolio that Knorr-Bremse has put together is the right one to tackle the technology shift in the future. Or do you think you need to be present in more geographies or with an even stronger market position, or maybe even with a broader product offering or deeper product offering in this area?

01:00:21 Frank Markus Weber

Yes, also, I think a very good question. What I have found coming to Knorr-Bremse that there is a professional team in very close alignment with the divisions already focusing on, not only the organic side of the business and searching and seeking for growth options, but also on the inorganic side, on the M&A side. We have, I think, a pipeline of more than 140 potential targets screened, but I have to say that our current focus is more on the adjacent businesses side. So there are currently no silver bullets in regards of the big growth additions to the company. But we are very professionally managing and discussing the lower double-digit number of potential targets going forward. You also know that we have a very profound balance sheet liquidity situation in the company so that the company per se is, needless to say, going forward. But there is nothing at this point in time that I would specifically highlight, neither on a technology side of things, nor on specific region or a specific division. We are, as a team of three, very closely studying, discussing and making the decisions, going forward, taking it very seriously, the growth aspect in both dimensions, organic and M&A-wise.

01:02:12 Ingo Schachel (Commerzbank)

Great, thanks very much.



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01:02:24 Akash Gupta (JP Morgan)

Yes, hi, good afternoon, everybody. Thanks for your time. I have one question on rail and one question on truck. So maybe if I start with rail, and this is for Dr. Wilder. Maybe if you can talk about if you have seen any of your customers and maybe customers' customer or I mean by rail operators who are potentially asking to delay deliveries because of running out of cash. I mean, you earlier said some of the customers have received bailout money. But I'm just wondering whether they have received enough money to also cover for the CapEx as well. So anything you would like to add on that front?

01:03:03 Dr. Jürgen Wilder

I mean, of course, we have gotten some customer reactions just because of the Covid crisis and the closure of their manufacturing sites temporarily, and the schedules of deliveries are adjusted. But we have not really seen customers approaching us and saying they are so short on cash that we need to majorly postpone projects or something like that. As we have said before, we haven't seen any cancelations on orders. That seems to all go rather stable. The disruptions that we might have had in terms of deliveries, they are for other reasons, they were for very temporary reasons when the workshops and the plants were closed and trains were not built for a certain period of time and that was very different from customer to customer, I would say. Some customers were almost not facing any plants and depending also where their plants were, they were facing, let's say, extended times, extended meaning weeks of plant closures, but by now they are all up and running and we hadn't heard of cancelations or anything like that because of cash problems.

01:04:29 Akash Gupta (JP Morgan)

Thank you. And my second question is for Dr. Laier, and this is on hydrogen. Since we last spoke at Q end results, there is a lot of hype surrounding hydrogen on both sides of the Atlantic, and I'm wondering how this move to hydrogen in the medium to long term would impact your scope of trucks, by particularly, if you look at your portfolio outside of braking systems. I think one of the things you have got is that these hydrogen trucks are going to be quite expensive. So, is there any opportunity for you to grow in that side, to increase your content per vehicle substantially. Any thoughts on that front would be great.

01:05:11 Dr. Peter Laier

Yes, thanks Akash. I would like to answer that way. At first, very general, I think the next decade or one and a half decades in the truck industry is characterized by a mix of powertrains. You will still see combustion engines, you will see battery electrics and you will see hydrogen trucks. Here we have to distinguish between fuel cell and hydrogen engines. I assume if you talk about hydrogen, you talk about fuel cell. If you look to battery electric vehicles or fuel cells, the only difference is where the energy is coming from, both are electric driven, and that is why for us and our technologies



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where we are in, there is no difference if there is a fuel cell truck or a battery electric driven truck. We have an electric motor and based on that, we have some changes in the requirements of trucks. And I think in our last couple of market days, I already showed you that we are preparing on the one side our product portfolio for that. We are, I think, very successful with, the example the last time was our compressor strategy, where we have e-compressors, which we are bringing into the market very successfully, could give you more. And on the other side, as I mentioned, we are investigating growth opportunities in electric motor driven trucks and busses. For that we have built up a special activity which we call the e-cubator. The e-cubator is an engineering team which we separated from the standard approach and activities in two separate buildings. We are building up the team right now to work beside this adaptation of product portfolio on growth opportunities in the e-mobility arena. And we are working, and in that regard very close, with our customers right now and discussing with them where they maybe are seeing further interactions with Knorr besides the existing product portfolio.

01:07:39 Akash Gupta (JP Morgan)

But overall, do you see there is an opportunity for Knorr to increase its content per truck? How do you see content per vehicle opportunity when it comes to hydrogen and electric trucks?

01:07:59 Dr. Peter Laier

In principle, that depends on the technology changes. I'll give you an example. If you look to steering, for example. Steering is still hydraulic power steering, as you know, in trucks. So the question is just, is the truck industry moving similar like the Pesca industries some 10, 12 years ago from hydraulic steering into electric, pure electric power steering? If so, does that mean that electric power steering is maybe more expensive per unit than hydraulic power steering? Then you would see an increase in content per truck. You see with the ifs in there, yes, there are opportunities to grow content per truck further. Yes. But that depends very much on principal technology decisions and those decisions will be taken by the truck manufacturers, maybe together with their system suppliers like us in the upcoming 18 to 24 months. And I just can tell you, we are in extremely close discussions with all the customers about those technologies.

01:09:08 Akash Gupta (JP Morgan)

Thank you.

01:09:21 Alexander Hauenstein (DZ Bank)

Yes, hello, Alexander Hauenstein from DZ Bank. I also have two questions, please. First of all, let's start with RVS. I



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would like to come back to the Q3 discussion here. I understand that the reversal of the positive mix and also the broad forward aftermarket from Q2 and Q1 is obviously an issue here. My question is, how should we think about the margin development path here for Q3 and Q4? Are we probably looking for a similar margin levels in both quarters at around 2020 level, or are we going to see, let's say, more of a margin impact on the downside in Q3 versus Q4 or maybe even vice versa? And why? Is it possible to give us a certain flavor here?

01:10:11 Dr. Jürgen Wilder

I mean, first of all, I would say the margin development from quarter to quarter, is like we won't be tired to emphasize, that really depends on the business mix we see in that quarter. So we see slightly different margins in the two quarters, most likely because of the different mix we can see there. But I would really caution to extrapolate from that sort a certain trend or something like that because it has much more to do with mixes that we see. What if, I mean, as you know, in rail we have very different portfolio elements. We have breaks. We have doors. We have HVACs, we have aftermarket. We have all of that. And as you can imagine, they don't have all similar margins. They have different margins, and that is not because they are performing very differently, but it is because with those different portfolio elements you can earn different kinds of money in the market, so to say, if I say very simply. And it really depends on what the mix will be in a certain quarter. So I would expect slightly differing margins in the two quarters to come, but I would really caution to derive from that a trend or extrapolate it into the future or something like that. That would be very difficult.

01:12:05 Alexander Hauenstein (DZ Bank)

Yes, I understand that. And that is also where I am coming from, because it is difficult to see whether there will be a relatively sharper drop in margins from almost 24% down to maybe 20 and then from there on, maybe a slight recovery or the other way around. It is more of a smooth development going step by step a bit more down to the downside without, let's say, deriving from anything for 2021. But that is why I am asking here. So that is where my question is coming from.

01:12:40 Frank Markus Weber

Dear Alexander, if you allow and if I may add, Frank Weber speaking, I would not assume that we will have in the second half of the year such a steep decline on the EBITDA margin side, on the rail business based on the descriptions that Dr. Wilder has just given. I would say, as you can also calculate, there will be mix effects in those two quarters coming up, but the reduction will not be that significant, just to be a little bit guiding you to our Q3 and Q4, will not be 20, but as he explained, we will have some effects that will occur going forward.



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01:13:34 Alexander Hauenstein (DZ Bank)

Okay. Thank you. That is helpful. Then I come to my second question, please. It is also for you, Mr. Weber. I am wondering, what do you personally see as your most pressing three tasks in your new role here? What is the focus on in order to bring Knorr to the next level here?

01:13:58 Frank Markus Weber

Thank you. Very good question. I personally think, number one, very clear, which is the highest priority for us going forward, keeping the profitability level and improving the profitability level going forward of Knorr-Bremse with the aim of improving the excellence standard of this company by improving the contribution margins and the cost positions going forward. You know that we have articulated that we want and will improve on our margin side going forward. So this is number one. Number two for me is clearly seek for any kind of growth options that we could find trending with my colleagues. So grow the company. And based on what I just said prior to that, profitably grow the company into the future. Third, I would say is improve the focus and also the groundwork in the company and throughout the company on cash flow. Good cash flow work in focus and I think we got a lot of elements that we can trigger here. So you asked me for three, these would be the three points.

01:15:28 Alexander Hauenstein (DZ Bank)

Okay. Thank you for that.

01:15:43 Iris Zheng (Credit Suisse)

Hi, good afternoon, everyone, and thank you for taking my question. My first question is to Mr. Weber. And many thanks for the rung of those first impressions hour and those are the key areas of focus. They are very useful. And if I could check, at the Q1 presentation I remember there were some like 200 million measures related to cost and cash mentioned. Is it possible for us to get an update on that? And if some of those measures may have been in reversed now the situation is turning better? And also on the 2020 guidance. It looks like it is based on FX as of mid of July and we've had some FX movements since then and wonder what is your latest view on that? I mean, if it is not available, then if you can maybe run more on the transactional side of the business, i.e. if we see any further euro against dollar movements, then how that would have an impact on the margin?

01:16:41 Frank Markus Weber

So in regard to the first question that you raised, the colleagues have - I have not done it as I was not part of the



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company - the colleagues have very early and very decisively started cost programs in both divisions. One roughly with a volume of almost 130 million and the other roughly 60 million, which you cannot immediately calculate and draw the conclusion that one has only half of the aspiration level than the other because it has a different base, but these are the 200 million that you talked about. Those programs are on very good implementation levels so far. And we already saw a significant amount of positive effects implemented cost measures starting in the first quarter already, but specifically also in quarter two and quarter three and quarter four to come, so will bring those with those respective measures throughout the year 2020 and further things to come. Partially, of course, as you also know, some of the cost measures, where you would also go, the support of the government, like the 'Kurzarbeit' measures in Germany would be measures that would not be sustainable throughout many quarters or even years, I think that is pretty clear. But the vast majority of the cost initiatives driven by the colleagues and initiated by the colleagues are very good on its way.

01:18:28 Dr. Peter Laier

Could you please repeat the second question, Iris?

01:18:32 Iris Zheng (Credit Suisse)

Oh, yes, sure. Just on the guidance, 2020, because I see on the presentation slides the assumptions are based on the FX rates as mid of July. So I'm just trying to get a view if we use the latest assumptions, then is it going to have any implications on the margin side?

01:18:54 Frank Markus Weber

No, I think as we are pretty close to what is written there as the date of the assumptions. I think, you know, I don't know the hedging situation that we are having. Of course, we have translationary issues going forward, but we, at this point in time, feel rather comfortable that we will not see significant deviations as of now compared to what we considered in end of July when we had the outlook where we based our forecast and guidance upon. So I think, to answer your question, at this point in time, I don't see a significant change based on that premises that we outlined.

01:19:53 Iris Zheng (Credit Suisse)

And if we see any further movement on euro against the U.S. dollar, is it going to have any impact on the margin. Just mechanically from your hedging and transactional base?



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01:20:11 Frank Markus Weber

You know the business model of Knorr-Bremse, due to your experience, potentially even better than myself, just here for eight weeks. But you know that we have a very global and decentralized footprint of Knorr-Bremse all over the globe and also in the United States. We have a very high level of value add in the country or in North America. So the level of natural hedging that we have all over the globe and North America is quite high. So I would, based on also the hedging rates in regard to the U.S. dollar for this year, close to 100% already at Knorr-Bremse, I see a very limited impact out of that and as I just mentioned before my forecast currently we rather think towards the 115 direction.

01:21:14 Iris Zheng (Credit Suisse)

That's very helpful. And my next question is on the truck side to Mr. Laier, if I may. So I appreciate that you've mentioned your M&A aspirations. And currently, there is no big deals to be announced at this stage. But if you could maybe give us a longer term picture and what you see as the end game for Knorr as the world is transitioning towards autonomous. And do you think if steering plus braking would be a good enough offering or you think in order to maybe get a bigger share, then it would be logical to ask some other assets or at moment steering plus braking is what you are looking for?

01:22:06 Dr. Peter Laier

That is a rather difficult question to answer, because that means that first we need to take into consideration how automated driving needs to be split up. Automated driving, you have, always explaining the three levels you have, the perception level, the level where the truck is looking around and getting a picture of what is going around the truck. Then you have the decision level where, based on your perception around the truck and the way you want to go forward and the target you want to go for, you decide where to move and how to move there. And then you have the actuation level where you realize what is coming from decision level. We at Knorr-Bremse are coming from the actuation level. And both main actuators to have vehicle dynamics under control is braking and steering. Based on that, we always build our base on that and move that a little bit upwards to decision level where we said we have a special layer of truck motion control, where we have a combination of braking and steering, we have the full vertical dynamics under control. Based on that, we think we are here in a perfect position with our steering and braking position to participate in the growth opportunities of automated driving. Besides that, you maybe remember that I talked several times about the related so-called redundancy requirements. So in automated driving mode you need to have the opportunity to move the truck further, even if one of the safety relevant components is failing. You cannot just let them stay on the highway on a lane or something like that. You need to move them to the next garage. This redundancy concept was something we developed heavily in the last few years. And we have here now a concept with our braking and steering and clever combinations of that, which is highly accepted at the customers, and we got first awards in that direction, as well for redundancy concepts. Based on that, we see ourselves very well positioned for this end game. In regard of system supply, I clearly want to say that similar like in past car business, the systems for automated driving will be realized in consortia with different partners in there and we are getting invited by a lot of those discussions right now. That shows our attractiveness. And so I'm quite convinced that we are in a good position.



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01:25:18 Felicitas Bismarck (Deutsche Bank)

Yes, thank you very much. I hope you can hear me. One question, could you give an outlook for your free cash flow expectations for this year or give an indication of the key drivers that you're seeing in H2?

01:25:33 Frank Markus Weber

Thank you so much. I think, needless to say, the second half of the year 2020 will be dramatically better on the free cash flow side than the first half of the year. I think where we still, within the next month, work on the working capital side, on the days of inventory, outstanding days of receivables, outstanding days of sales, outstanding also on the DPO side, significantly, but whether we can achieve the original targets towards the year end like in a clean year where you would be able to implement certain excellences or that you will manage the supply chain side remains to be seen. So we are a little bit cautious on that, also we are potentially some inventories for Brexit precautions measures. And so the answer is we will significantly improve on the working capital side compared to the status that we have as of 30th of June. Going forward, that should give us a significant uplift towards the second half of the year. And I think also on the Capex side, we are still prioritizing the biggest capital expenditures project throughout the company. So also this should give us some tailwind going forward. So having said this, I wouldn't, in addition to the losses that we might be facing on the EBITDA side, you might need to deduct some more on the working capital side in order to come to a cash flow delta for the full year. So we will loosen the free cash flow side maybe a little bit more than we lose on the profitability side. That's more that ... more I don't want to say at this point in time, I don't want to mention a concrete figure. As you know, we are already, I think, pretty precise at an early stage of the year with July mentioning our EBITDA and revenue targets or guidance. So I don't want to be more precise or can't be potentially also more precise on those figures. But this would be my direction.

01:28:14 Felicitas Bismarck (Deutsche Bank)

Thank you. Thank you very much. And the other question is on governance and I'm sorry, but I'm struggling a little bit with understanding what a new CEO could bring to the table that would be considered a good fit for all parties involved. And I'm just wondering if you could give us any indication what he needs to bring, so to say, and more generally, maybe, are you also considering an internal solution and might you also even consider a joint leadership solution in that sense?

01:28:46 Frank Markus Weber

Dear Felicitas, if you allow, we ask our IR Head to answer that for you, Mr. Spitzauer.



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01:28:57 Andreas Spitzauer

Yes, thank you, Mr. Weber. No, I think what we have shown already last year is that we are even, only with three board members, are very active, bring forward the company, bring down the costs and drive the company. And as you can see, we are doing so already right now. As you know, the search has started for a fourth board member and this is how we'd like to move forward. And as Mr. Weber had mentioned before, there is a shortlist. In the next couple of weeks, this will be narrowed down from a long list to a short list. And I think we are on a pretty good way. And we have enough things to do here and we look forward to this situation and welcome a new CEO once in the future.

01:29:44 Felicitas Bismarck (Deutsche Bank)

Maybe I can ask it a bit differently, but do you think there is a real room for a separate group CEO next to all of you. Like the CFO and the strong divisional heads?

01:29:58 Andreas Spitzauer

I think this would be a reaching too far right now. I think we have shown that we are working fine, that we have good results and that's what we're working on.

01:30:06 Felicitas Bismarck (Deutsche Bank)

Exactly my point!

01:30:08 Andreas Spitzauer

Let's put it this way, we enjoy the question then we have the announcement and are happy to share with you our thoughts.

01:30:14 Dr. Jürgen Wilder

In the room next to me there is a free chair at least.



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01:30:18 Felicitas Bismarck (Deutsche Bank)

Thank you very much.

01:30:33 Alfred Glaser (ODDO BHF)

Yes. Thank you for taking my questions. I wanted to ask you again on the business outlook in the railway business. Currently, as you underlined, there are fewer trains running. The occupancy rate is low, too. Do you see a risk there that this is ultimately impacting your aftermarket and service business. I think just fewer trains running and therefore fewer mileage, fewer hours of train usage. And my second question relates to hydrogen in the rail business. Do you see any kind of particular change to the ways to do business or your product offering in that context? And conversely, would you see some new opportunities for either product development or acquisitions related to the emergence of hydrogen powered trains?

01:31:39 Dr. Jürgen Wilder

Well, starting with your first question, will we see an impact? I mean, this year, obviously, we already see an impact in terms of sales and also to a certain extent, of course, in order entry based on the Covid crisis, but as I said before, you could think of the model where the biggest impact, first of all of that is with the operator, because they see a lack of ridership right away in their revenues that they have. But we are pretty much, in most of the countries and the regions back to a certain schedule. Maybe a little bit of a spinned up schedule in rail operation. And that helps, of course, the development of our business. If you apply a model where you see when we will be back where we were pre Covid times in terms of ridership, that might take a little while. That might take even another one and a half, two years or two and a half years. It is really hard to predict. But that does not mean really that we see on that same timeline the impact because the trains are still running, tenders are issued, further trains are ordered. So we see this short-term impact right now, but we expect that the long-term outlook in the rail business, as we pointed out before, is very, very positive. A CO2 discussion won't go away just because we had a Covid virus. That will all come back and that is a very, very good outlook, mid-term and long-term outlook for the rail business and also for our development. I would say whenever that would be, but I would say, there will be a point in time in the future when we will look back and say, okay, there was a Covid ... I mean, from the point of view of our business I am talking only ... there was a Covid-19 crisis, but we have pretty much overcome it and now we are going back onto the growth rate. That is what I really see long term.

Your second question, hydrogen, if I remember correctly, hydrogen technology. Well, you know, obviously, there is a discussion that, say, in some parts of the world, also in Germany, there is, for example, non-electrified lines, 40% or something like that of the overall rail network. And there are still a lot of diesel locomotives or even some diesel multiple units that are running around those tracks. And of course, with the sensitivity towards CO2 emissions, there is also opportunity for us to, for example, keep a business to put in more modern attraction systems, hybrid traction systems in those locomotives or trains. That is also a business that we pursue. Hydrogen, of course, is another trend where the rail industry in experimenting right now with. We need to see where that goes. But, you know, the components that we offer



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towards trains, they are mostly not that dependent on that. So we also serve that market, of course. That is your answer there.

01:35:11 Andreas Spitzauer

So thank you for everybody taking part of the call. Great afternoon, unfortunately we have to conclude because we have to continue with other things to do. We wish you a great afternoon and looking forward to staying in touch with you. Thank you very much.

01:35:34 Operator

Ladies and gentlemen, thank you for your participation. This call has been concluded. You may disconnect.