Transcript of Webast and Q&A session of Knorr-Bremse's Q1/24 financial results

Date: May 08, 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. I want to welcome you to Knorr-Bremse's conference call for the first quarter results of 2024. Today, Marc Llistosella, our CEO, and Frank Weber, our CFO, will present the results of Knorr Bremse followed by a Q&A session. 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. Welcome everyone to our call regarding the results for the first quarter 2024. We want to keep the call rather short as it is a busy reporting day and we are cautious of your time.

Allow me to walk you through the highlights on chart 2 first. In the first three months of the year, Knorr-Bremse had an excellent start, from an operational as well as from a financial point of view: Our BOOST program is fully on track. With the sale of Kiepe Electric and Safety Direct in quarter 1, we reached important milestones regarding Brownfield. On the M&A side, we recently announced the acquisition of Alstom's North American Signalling Business, which is a good example of our portfolio strategy: "low performing assets out and good performing assets in". In addition, I would classify this acquisition as a signature move for our Greenfield approach. Unchanged is the uncompromised continuation of our dividend policy to distribute 40-50% of earnings to our shareholders. Therefore, we paid a dividend per share of 1.64€ just a few days ago for last fiscal year. Thanks to a solid performance in the recent quarter, we confirm our full year 24 guidance. After the closing of the Signalling deal, which we expect during summertime, we will include this asset in our guidance and we will provide an update.

On slide 3, I want to walk you through the major topics of the announced acquisition, focusing on the strategic rationale. As you all know, we have been sharpening our M&A guardrails last year. Rail - with its resilient market growth, accretive aftermarket business and high profitability - is an important value driver for KB. The acquisition of the signalling business will not only further strengthen our Rail Division but also our exposure to the rail market overall. What do we get on board via this acquisition? The portfolio of Alstom's signalling business in North America incorporates products such as interlocking units including level crossings, train detection and communication devices or onboard train control products. These types of products are characterized by high safety standards - something we have been familiar with for a long time. The business is particularly attractive due to its market leading position in the Control, Command and Signalling segment and its high aftermarket revenue share, which is why it fits perfectly to our existing rail division. Although we will be entering a new market within the rail industry in North America, we have already known its customers - the so-called Class 1 - for decades. What does it mean for Knorr-Bremse? The expansion into Signalling in North America is a step of transforming RVS from a systems supplier of rolling stock only to a system supplier for the whole rail ecosystem. You know that we also strongly focus on digitalization and connectivity. Signalling will add data revenues to our business plus opening up new perspectives for profitable growth, technological expertise and future digital business models. The deal is a tangible step into our strategic direction to transform Knorr-Bremse in total and - very important - it will create additional value from day one. In addition, the deal enables us to further diversify our revenue and profit generation from a regional point of view. What are the next steps? The anti-trust process started and we expect to close the deal in summer 2024. But it needs to be said – obviously this process is not fully in our own hands. Thereafter we will welcome around 1000 new employees at Knorr-Bremse and start the integration into RVS. All in all, the acquisition underlines the efforts of our BOOST 2026 program: we want to carve out diluting businesses and want to add value-accretive businesses to our portfolio. Frank Weber will give more details from the financial perspective later.

Let's have a quick look at the current market environment on chart 4. Rail demand stays solid as expected. Especially Europe, our largest market, sees high order intakes driven by the continuation of the "Green Mobility" strategy in many countries. But also other regions, such as Asia and especially China are developing fine and should see a solid 2024 overall. The same accounts for North America. Aftermarket development is favorable driven by improved ridership levels. Last but not least, pricing of new OE contracts is quite supportive, counterbalancing inflationary headwinds. On the other hand, truck production rates started to normalize across many of the CVS' markets as expected. In the past quarter, nevertheless, development was still on a good level. On full year level, we believe a decrease of production rates in Europe could exceed 10% year over year. In North America the potential decrease should be lower than in Europe, but the number of produced trucks should be still below last year's level. The market in China develops nicely including some growth potential driven by exports into South East Asia. We observe the development in the truck market closely and will be able to react quickly to all changes if necessary, especially in Europe.

Let's turn to slide 5 to discuss the financial highlights of quarter 1, 2024. Revenues amounted to almost 2 billion Euros, representing a growth of around 3%. Rail saw a significant increase of more than 12%, while Truck revenues decreased – nevertheless to a much lesser extent than anticipated and still above one billion euros. Operating highlight of the quarter was the development of profitability. Operating EBIT margin benefited mainly from our efficiency measures and better pricing. Accordingly, the margin rose to 12.1%, which is remarkably 210 basis points higher than a year ago. Order intake was very strong again with both divisions posting more than 1 billion euros each. Book-to-bill was respectively at 1.07. Order backlog increased organically by 226 million Euros to 6.7 billion Euros, which represents a good level of visibility for the quarters ahead. Please bear in mind that the order backlog has been reduced by around 560 million euros following the deconsolidation of Kiepe Electric. Free Cashflow in Q1 was at minus 95 million euros. A strong improvement versus last year's level. Please keep in mind that this development was expected and follows the typical pattern throughout the year - Q1 is always the weakest and Q4 the strongest quarter in terms of free cashflow generation. I would now like to hand over to Frank, who will outline the financial figures in more detail.

Frank Weber:

Thanks Marc, and hello everyone. Let's continue on slide 6. Capex amounted to 72 million euros, representing 3.6% of revenues. It was slightly higher in both absolute and relative terms year-over-year, but well below our targeted range of 5-6%. Net Working Capital slightly reduced year-over-year to 1.51 billion euros, which means our measures were again effective and helped to reduce the scope of days by 2 days or nearly 3% versus prior year. We continue to take action across all working capital areas, in particular further reducing inventories, via our ongoing net working capital optimization program "Collect". Our Free Cashflow – as mentioned before – was minus 95 million Euros. It significantly improved by over a hundred million Euros versus prior year's quarter driven first) by further successes of Collect, which primarily aims to reduce inventories and accounts receivables. Secondly) also an increased EBIT supported this improvement. Full year Free Cashflow guidance is unchanged and we feel confident to reach our target also this year. As a result of improved EBIT and the before mentioned net working capital measures, our ROCE increased significantly from 15.9% to 19.7%.

Let’s take a closer look at the divisional performances in quarter 1, starting with RVS on Slide 7. In terms of order intake, RVS recorded 1.06 billion euros. This is a remarkable figure despite a strong prior year quarter, driven by Europe. Again, at this point, my usual reminder that rail contracts are characterized by a general lumpiness and not every quarter can be above a billion euros. In the past quarter, we benefited from a major order with a volume in the higher double-digit million euro range in Europe, which was originally supposed to be booked in the second quarter. Pricing of new orders have returned to the same good level of profitability compared with the time before inflation started to increase rapidly. Order intake increased in Europe, offsetting a slightly lighter development in the APAC region and North America. Book-to-bill ratio stood at 1.1 and at the same time, it was the tenth quarter in a row with a book-to-bill ratio above 1. As a result, order backlog grew organically by more than 6 percent, reaching 4.7 billion Euros, which gives us a very good visibility going forward. For the quarters ahead, we expect a continuation of good order momentum and we should see a book-to-bill ratio of above 1 on a full year level.

Let’s move to chart 8. Revenues of RVS in Q1 amounted to 964 million euros, an increase by almost 13% year-over-year, despite ongoing FX-headwinds. Organically, the division even increased revenues by 17%. Increasing OE business as well as a better aftermarket business in all regions, including China, supported this strong development. As a result, our aftermarket revenue share in RVS reached 52%, which is stable on a high level year-over-year. Operating EBIT margin increased significantly by 200 basispoints to 15.1%. This development was fueled by better pricing, operating leverage, lower conversion of legacy business, improved revenue mix as well as our BOOST efficiency measures.

Let’s continue with our truck division on slide 9. Order intake in the CVS division once more amounted to more than 1 billion euros, a decline of roughly 11% compared with very though comps. Nevertheless, the past quarter was strong considering the tougher environment in the truck and trailer business right now. Demand in South America and APAC was up, but as expected the markets were weaker in Europe and North America. Order book with almost 2 billion Euros at the end of March remains on a high level and only marks a small decline versus 2023 so far. As mentioned during our Q4 results call end of February already, order intake in 2024 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. In total this should lead to a better development for CVS in the first six months for 2024 compared with the upcoming second half.

Let’s move on to slide 10. Revenues in CVS were slightly down by 4%, but with more than one billion euros still very solid. This development was mirrored basically in all regions, except for South America. At the same time, our aftermarket share increased from 28% to 30%. Operating EBIT of our CVS division improved significantly by almost 17% year-over-year, reaching 111 million Euros in Q1. Consequently, the operating EBIT margin improved from 9.0 % to 11.0%. The main drivers of this improvement were higher prices, which we were able to achieve with our truck customers year-over-year, our strict efficiency measures and also Cojali continuously remains a good value contributor to the business. Overall, I am very happy about the excellent Q1 results of both divisions within the given environment.

Referring to Marc`s outline on the US-Signalling business, let me just add the financial rationale and mid-term financial implications of this acquisition on chart 11. Overall, we see this move as an accretive addition to our business that really contributes to KB's main DNA elements. This includes:

First of all: The support of our strong rail business. Signalling NA will make Knorr-Bremse much more "railish" again as RVS' revenue share will pass the 50% mark going forward. Rail is a resilient business with attractive future growth potentials and high margins due to the safety-critical nature of our products. A clear value driver for us!

Secondly: High profitability levels. We defined in our financial M&A guardrails that we would only buy assets that are value- and margin-accretive to Knorr-Bremse, latest mid-term. Signalling NA fulfils this criteria and supports our focus on increasing profitability in the context of our BOOST program.

Thirdly: A high aftermarket share. Signalling NA comes with a large chunk of aftermarket business, concretely a lot of spare parts business and modernizations. RVS' accretive aftermarket share will therefore further increase. We also appreciate the shift of regional distribution and therefore balancing our business with this deal. Increasing the share of North America and reducing dependency from other regions is a clear improvement - and therefore also a risk reduction going forward. In its last fiscal year, which just finished end of March this year, revenues of Alstom's signalling business in North America amounted to around 300 million euros with an EBIT margin of roundabout 16%. Therefore, the acquisition price of 630 million euros in total represents an acquisition multiple of roughly 13x EV/EBIT – which is from our perspective very appealing. As a reminder, currently, KB stands at roughly the same EV/EBIT multiple, but with a lower EBIT margin. Additionally, we believe that this asset has the ability to grow mid-single digit and also improve profitability mid-term. This improvement will not be linear, but should progress step by step. Overall, we believe, Signalling NA is a great addition to our business and look forward to transforming KB's rail business successfully into the future. Handing over to Marc again.

Marc Llistosella:

Thank you, Frank. On chart 12, I want to highlight one topic that we have been working on intensively at Knorr-Bremse and which is very important to me and my colleagues in the executive board - cultural change. KB needs to develop into a more modern company, being innovative and agile without losing its important DNA of being focused and efficient. I want people to think out of the box, but still being part of the team. In the past months, we therefore implemented a speak-up and failure culture into our everyday work. I am proud of the team spirit of Knorr-Bremse and look forward to continuing the chosen path. Additionally, the Annual General Meeting has approved a change of the bonus and remuneration system of Knorr-Bremse: the impact of profitability and cash will increase, which I guess, is also very important to our shareholders. At the same time, it was important to give the company clear goals. The entire management team implemented this with the BOOST program. We now have a common goal and motivate our employees with clear direction and transparent communication. Looking forward, we want to be measured by the quality and speed of execution of the measures we implement to improve our company.

Last but not least, on chart 13, I would like to make it short and crisp: we confirm our full year 2024 guidance after a strong first quarter. We continue to 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. We want to update our guidance with the publication of the Q2 results and hopefully also take into account our new signaling business in North America.

Thank you very much for your attention and we are looking forward to your questions now.

Q&A Session Knorr-Bremse AG

O	Operator
SW	Sven Weier
ML	Marc Llistosella
FW	Frank Weber
AG	Akash Gupta
VM	Vivek Midha
GB	Gael De Bray
AV	Alexander Virgo

Operator:

So ladies and gentlemen, if you would like to ask a question now, please press nine, followed by the star key on your telephone keypad. In case you wish to cancel your question, please press nine, followed by the star key, a second time. Please press nine and star now to state your question. And the first question comes from Sven Weier, UBS. Over to you.

Sven Weier:

Good afternoon. Thanks for taking my questions. The first one is on the Alstom deal. And Marc, I was hoping you could educate me a bit more on signalling. Because my understanding was that you're kind of buying the conventional part of Alstom's US signalling business. And I was just curious, what is the part that you're not buying? Is that part even more digital? Is that something you still need to acquire going forward from somebody else? And just really like to get a better understanding between the difference in conventional and non-conventional signalling, if there is any.

Marc Llistosella:

Well, that's a question. So to make it very short, we buy exactly the whole operation, what Alstom has in North America. We call it conventional because the data analytics and everything, what is beyond is not included because it is not existing, that has to be added by us. And this is where we see the transformational potential of this asset. So far, and I think you are aware of our BOOST navigator, where we cluster every potential asset on three dimensions. Number one dimension is the X axis, the horizontal one, whether this is accretive business or not. This one is accreted. Number two is the Y, that's the technological and also the market itself where we say we have an access now to a market, which so far was not accessible by our buyers. Second, the profit pool of this respective accessible now for us, except the market is very promising. It's in the range of 15 to 20 plus percent, which so far was not applicable for us. Number three, and that is the most important thing, and this is why we advise also always conventional, is that this asset has a massive transformational impact on us if we play it right. And that means not only to play other regions, if we play this on a more a service oriented, data oriented. Because we have now access to data, we can work with the data and we can convert the data to services which can be packaged. And that's exactly where we say, this is so far not done, this is what we want to do with it.

Sven Weier:

What's driving the 5% CAGR for the outcome business? Is there any regulation change or what's driving the 5%?

Marc Llistosella:

No, this is the normal expectation, which we have roughly 50,000 Stellwerke. And from the 50,000 Stellwerke, which we have in America established over the last 60 years, we are the number one supplier of any form of overhauling and maintenance. That means we have a ratio of three and a half thousand to 4,000 stations to be overhauled. This is the base for our after sales business, which we say where we will focus. On top of that, we have a project which is so far not finalized and signed, but we are very positive and our take rate is above 75%, which is called encore business. And this encore would give us a massive increase in revenues and also in profitability because the profitability was secured by the sell side. So having said so, we have incorporated the overhauling, we have seen it from the last years, so we just extracted it in the future, this is the 5%, plus we have a potential which we see with this, and eventually by the end of the year, we know more that the project is realizing as we expected. And then this 5% would be really the baseline.

Sven Weier:

Second point I had was on the truck cycle because we all know it's hard to predict what's going to happen. But is it fair to say that the kind of, let's call it outperformed gap you had in Q1, which I guess is based on content, which is based on the regional hedge, whatever happens to the truck cycle that you are confident to maintain this?

Frank Weber:

When you're talking about the margin that we are having with a significant increase in the first quarter...

Sven Weier:

No, Frank. So sorry. I meant the gross outperformance. You're clearly doing better in the truck order intake than the market.

Marc Llistosella:

It's both. We have to say we really enjoy our shareholding in Cojali, which is over proportionally winning in Europe. That's a fact. This business is relatively small, but the profitability of this business is significant. So to be very clear here, this asset is massive part of overgrowth. And it shows the future is not only content per vehicle, but also the overhauling, the maintenance, and the professionalization of the maintenance. So this is factor number one. Factor number two, you have seen that we have a slight decreases of revenues. And what we have done is we have focused very, very much on our costs, internal costs. But it means to be more efficient, so to have a better turnover per person and to focus now on that, this is to have the breakeven of our CVS business now more and more in focus. That means we have ceteris paribus to come up with better margins. Now you can say, oh, this is eventually contradicted by the current market development where we are very, very careful and we are also a little bit more conservative than even our customers. And we already said in October last year that we don't see the year 2024 exceeding the year 2023 when it comes to European production rates. And having said so, we already prepared ourselves for everything what is coming from the market. So that means you can see we increased our profit margin by 200 basis points but in Europe, in fact a stagnating market. And that's a result out of it. Can we keep this for the next? If we get a lower market, we can't say, but we are prepared. And that means we are very, very prepared for any form of cyclicality of this market.

Sven Weier: Thank you.

Operator: The next question comes from Akash Gupta, JP Morgan. Please go ahead.

Akash Gupta:

Yes. Hi, good afternoon. I have two as well, please. The first one I have is on your expectation of rail business in China and the recent data points that we got out of your Chinese customers suggesting some uptick in demand for new equipment in China. And I'm wondering if you can provide your thoughts on how do you see the market developing after somewhat slower Q1? And on the same topic, what shall we expect on margins? Because historically, China has been margin equity in rail, so how should we see the margin development for the segment if we see a good Chinese recovery? That's the first one to start with.

Marc Llistosella: If this is fine for you, I think this is answered by Frank, right?

Frank Weber: I try my best.

Marc Llistosella: You try your best, which is always better than mine.

Frank Weber:

Thanks, Akash for the question. We see a good development in the Chinese market for aftermarket as well as for the OE business. We do currently assume that high speed should have some growth potentials in the year '24, even after quite some good numbers in '23. We do think that metro OE business stays on a similar level like we had in '23, and we see our aftermarket to grow within '24 as expected. The ridership levels as so to say the fuelling force behind our aftermarket business has been recently quite good as well. So if you look at the first quarter, there was a year over year up of more than 20% on the ridership levels as well as in urban as well as for the high-speed trains. So that is a good starting point for the year to come. And if you take into account then a certain kind of lead time when this ridership then turns into revenues for us, we have a good belief in the second half of the year, '24 as well in that regard. On the margin side, yes, China is accretive for us and will stay accretive. Of course, in the very long term, as we many times discussed, Akash. We do have pricing issues of course over the next ten years, so to say. But it will always stay very accretive for us as a business.

Akash Gupta:

Thank you. And my follow up question is on change in bonus system. Maybe if you can elaborate on what were the KPIs before? And I think now you're focusing more on profitability, but maybe what was the KPI before and what sort of changes you have implemented? And also how many people in organization and at what level are they covered by this new changing bonus system policy? Thank you.

Frank Weber:

Akash, we have for the short-term incentive system, not changed a KPI but just in large the weight of the profitability now to 35%. So we have not changed the KPIs, just the weight of them towards profitability. For the long-term incentive, we have also added ESG component with 25%, and we added also a profitability component. The return on our invested capital is now included as well with 25%. And this concept of STI and LTI, the incentive scheme covers the first, second, and third line of all managers within the company.

Akash Gupta: Thank you.

Frank Weber: You are welcome.

Operator: The next question comes from Vivek Midha, Citi. Please go ahead.

Vivek Midha:

Thank you very much and good afternoon. I have two questions. Another one on signalling. You've stated your intention to become a system supply of the whole of rail, what's the next steps on the strategy to expand in signalling beyond this, such as into new regions? Given the barriers to entry, is there any possibility of organic growth or will it have to be through acquisitions? Thank you.

Marc Llistosella:

Very good question. Thank you for that. I'll try my best to answer it as much as I am allowed to do, because otherwise we make the potential assets more even expensive, what we don't want to do. So organically, to be very clear, first, we have to make sure that everything, what is in our existing portfolio has to be bundled. Because we have shareholding in Selectron, we have shareholding in Zelisko. Zelisko is owned by us by 100%. And there's some overlap content wise and functionality wise, which we will now bundle and which is called the COC, this means we will create a business unit first. The independence of the signalling business in America will stay, but of course, we will do streamlining and purchase. We will do the classical things in IT and HR and so on, I don't bore you with that. But the potential there is that we can even increase the profitability level of the asset by doing just some brownfield house working. Besides growing into in America, we would not need anyone to grow further. So this would be purely organic. If we now speak about countries like South Africa, we speak of Australia, speak of South America, signalling in the North America would be the hub for it. And so far it was not in the strategy of the current owner to explore export markets that massively. So this is coming now where I call it organic 2.0. Now we speak about two regions which we could address, and that is Europe and Asia, especially China. China, we will first observe before we hear any conclusions. In Europe, of course, we have to make sure that the signalling systems, the functionalities are similar, but the system itself is completely different to the ones which is in Europe. So that means in order to exceed our, our market reach, we have to consider seriously also non-organic growth in this area.

Vivek Midha:

Understood. Thank you. My second question is a follow up on the cultural change. You've talked about improving the internal processes. Could you maybe expand on how the culture needs to change around pricing and how you deal with your customers and how that needs to change to get the right return for your technology? Thank you.

Marc Llistosella:

I would allow us to split this. So first I try to answer it and eventually Frank, he looks at me a little bit like, oh, what is this? I think it's a good question, Vivek. Because we have a certain form of reputation when it comes to pricing that we are very stubborn, very stiff. I am afraid to tell you, and especially our clients, this will not change. But what we will change is how communicating we are. That means transparency has to open up also to the externals. It has to be understood what we are doing, why we are doing it, and it has to be predictable what we are doing, which was in the past, sometimes eventually, sometimes a little bit erratic. But we will focus on that so that we are not only a very good player in this area, but we are also agreeable in this area. But all the cultural change you can imagine it's coming to a price. So even when we have 80, 90% of our top managers leading and also supporting us, we will have to make sometimes a hard call. Some people eventually decipher themselves, that is not the way they want to go. Because that means we are more self-reflecting, and that means you have to be more argumentative and less authoritarian. And this is something which will happen more and more in the next months and also in the next years to come that the authoritarian character of our leadership principle is fading away, hopefully completely and our augmentative is growing, and speaking in positive critics. Hopefully this gives you an idea of what we are struggling or dealing now with. It's not struggling. It's really a very entertaining journey. But eventually we ask the CFO how he feels it and what do you think about this?

Frank Weber:

I potentially come to the same conclusion, otherwise it would be even worse of course. But looking at it from a different angle, the company, it's a very entrepreneurial company. It's a very decentralized organization that we are having, which gives us a hell of a lot of strength and gives the entities out there in the world a lot of strength in the way they are acting and have been acting and did proof over the last two to three years in regards to pricing was really kind of tough and successful. In the end this will not change because we will not give up on any of the DNAs, so to say our company is built up in regards to entrepreneurship. So I don't expect the cultural change, maybe so to say the ways and means how to get the result through in the end might change a bit over time. But we are outcome oriented as a company and this will not change.

Vivek Midha: Thank you very much. Very helpful.

Frank Weber: You're welcome.

Operator: The next question comes from Gael De Bray, Deutsche Bank. Please go ahead.

Gael De Bray:

Thanks very much. Good afternoon, everybody. My first question is on the divestment programme. With the truck production rates coming under the pressure now, this likely makes the process of selling loss-making businesses exposed to the truck market a bit more challenging. So I guess the risk I see is that some of the discussions you have could become rather protracted now. So it'd be useful if you could talk a bit about this and perhaps provide any colour on the discussions you might have with the potential buyers. And the second question is a quick one on the signalling business you've just acquired. You mentioned that you could potentially receive a large contract by year end, I think. So could you perhaps talk a bit about this, whether you will need some specific one up investment to deliver this unusually large contract, or whether all the costs have already been covered by Alstom before?

Frank Weber:

Thanks, Gael. Let me start with the first part. Maybe you know that we have been so far delivering what we promised in regards to the sale of assets. We have been saying to you that towards summer when we do our second quarter disclosure, we'll give you some update in regards what's potentially new on the sale decision side from our side so we don't think that that was it. Like we indicated in that process that we are running currently, the environment is recalled and it was one and a half years ago, a year ago. But we don't see in the sales process currently a lot of headwinds given the fact liquidity is still there. So to say the potential buyers that we are talking to seem to have the refinancing capabilities. So it looks like occasion in the truck side those assets that are on the plate no significant headwinds at this point in time, but we have to carefully watch this of course.

Marc Llistosella:

Just to add to you, Frank. What is also very clear and we are not doing only this for CVS, we're doing the same, by the way for RVS as well. CVS in core, the two third revenues of CVS have a profitability which is exceeding currently 50 to 60%. So we have a third of the business, which is far away from this level. So that means CVS itself can be super profitable. The question is, how will we fix it? When you split the third into two, then you can say from this third, even a third is not contributing currently at all. And that is something which we focus now to have measurements, to have KPIs, to have a tracking tool and also to use externals. Yes, we do. And we can say, you are right, it could be a wrong time or not the best time to sell this asset, but the better we make this asset, the more we get an attraction by the market. So that means it is not only a downside, it's also an upside. Because every asset, which we are now focusing on is getting better, it's not getting worse. That's for the question number one, just an add to what Frank said. Number two, the project itself is relatively big. The project itself, if I'm right, runs between five to seven years and has potential. The amount of this project is roughly two times of the normal revenue of the business of our signalling business. The profit of this could be also very extremely double digit. And the invest, which you asked for, how much investors needed to get it, it's relatively small, and it's not bringing us to any situation where we have to go upfront. This kind of project would really pay in from the very first beginning. And of course, the premium, the top situation would be after three to four years. And that's most, I can tell you otherwise, I think, and everybody's nodding and look at me very seriously, I should not say more to you.

Frank Weber:

Just one side addition that we get it clear. The basic investment we would need to do there is R&D work, engineering capacity. Which according to the contract, which is on the table should be charged to the customer via cost plus method. So there is no so to say hit upfront in the P&L or in the cash flow statement out of that project, so to say upfront.

Gael De Bray: Okay. That's great. Thanks very much.

Frank Weber: You're welcome.

Operator: The next question comes from Alexander Virgo, Bank of America. Over to you.

Alexander Virgo:

Thanks very much. Good afternoon, gentlemen. I wonder if I could ask one question just on free cash flow. Frank, cadence through the year I guess. Just thinking about how we go from the -95 to the guidance for the full year. Appreciate that it's often again loaded, I just wondered if you can give us a sense for timing? Even some sort of indication would be helpful. And then if I could just follow up, I missed your comment on the LTI waiting. If you could just give me those numbers again. I've got 25% on ROCE, but that was all I got. Thank you.

Frank Weber:

Let me start with the second first, because that might be a quick one. The long-term incentive scheme now consists of three components. 50% of the LTI is shareholder value, 25% is ROCE, return on invested capital, and 25% is ESG.

Alexander Virgo: Gotcha. Thank you.

Frank Weber:

Then to your question in regards to the free cash flow. We had a good start into the year or let me put it this way, not as bad as it usually starts since decades for Knorr-Bremse within 95, we expect that somehow the second quarter could be in already around zero, third quarter should be slightly positive and fourth quarter significantly positive. That is the way to look at it.

Alexander Virgo: Okay. Thank you very much.

Frank Weber: Thank you.

Andreas Spitzauer:

Okay. As we see there are no more questions. Thank you very much for your time. If you have further questions, please contact us and have a great afternoon. Thanks and bye.