KNORR-BREMSE

Quarterly Release

Financial Results

BERND EULITZ I CEO
RALPH HEUWING I CFO
NOVEMBER 27, 2019

Q3

January 1 to September 30, 2019

Bernd Eulitz – new CEO of Knorr-Bremse

Business experience

- Member of the Management Committee of Linde plc, Executive Vice President Americas
  P&L responsibility for USD 9bn revenue & 20,000 FTE
- 15 years of senior management positions in EMEA, Asia Pacific & Americas
- Management consultant at A.T. Kearney
- Strong technical and engineering expertise
- Diploma in Process Engineering from Karlsruhe Institute of Technology

Responsibilities with Knorr-Bremse

- Chairman of the Executive Board of Knorr-Bremse AG
- Business Development & Strategy, M&A
- Digitalization and Knorr Excellence (Processes)
- Human Resources
- Corporate Communications and Marketing

Financial highlights 9M/19 – well on track towards FY targets

Order intake
€ 5.15bn
-2.1% yoy

Order book
€ 4.40bn
-1.0% yoy

€ 2.79bn
+6.0% yoy

€ 2.52bn
+6.8% yoy

Revenue
€ 5.31bn
+6.4% yoy

Operating EBITDA margin
18.8%
PY: 17.9%

21.7%
Op. EBITDA margin

16.3%
Op. EBITDA margin

EPS[1]
€ 2.69
-6.9% yoy

1) Powertech disposal impact on EAT: € -82m

Knorr-Bremse Q3 market highlights

Supply contract for braking and HVAC systems for Alstom high speed trains

Partner in electrification of bus fleets in Milan & Modena

Turning assistant extends CVS product portfolio

50 braking systems for regional trains in Italy awarded

Knorr-Bremse Q3 operational highlights

Successful test of self-operating freight train

ADB capacity expansion in the U.S.

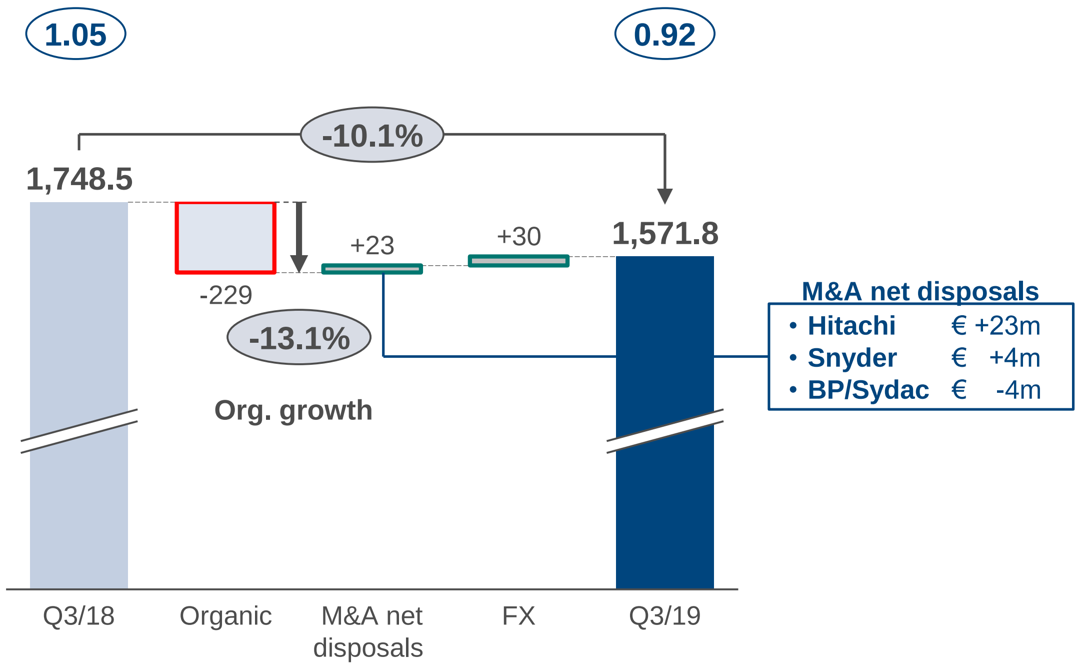
Disposal of Powertech to Radial Capital Partners

Platooning demonstrator completed with Continental

Continued strong order book despite slowdown in CVS order intake

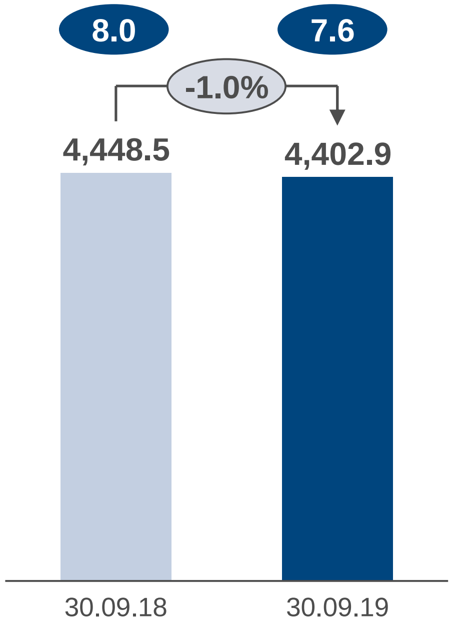
Order intake

€m



Order book

€m



Book-to-bill

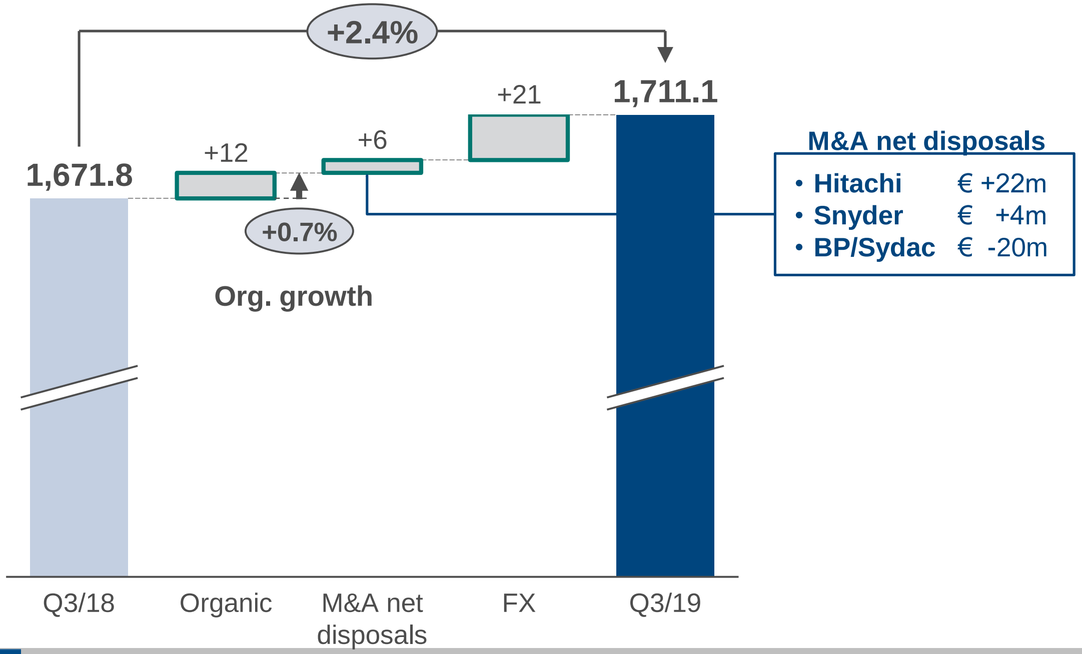
Visibility in months defined as $\frac{\textit{Order book}}{\textit{FY guidance (mid)}} \times 12$

Revenue growth continues in Q3 – strong support from NA and AP regions

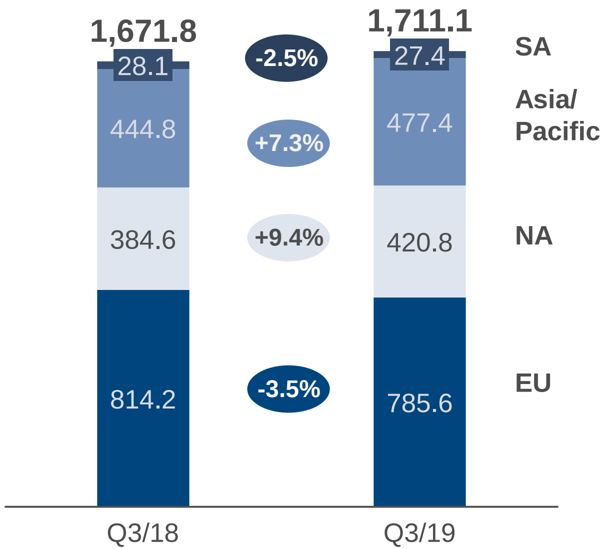
Revenue

€m

By type

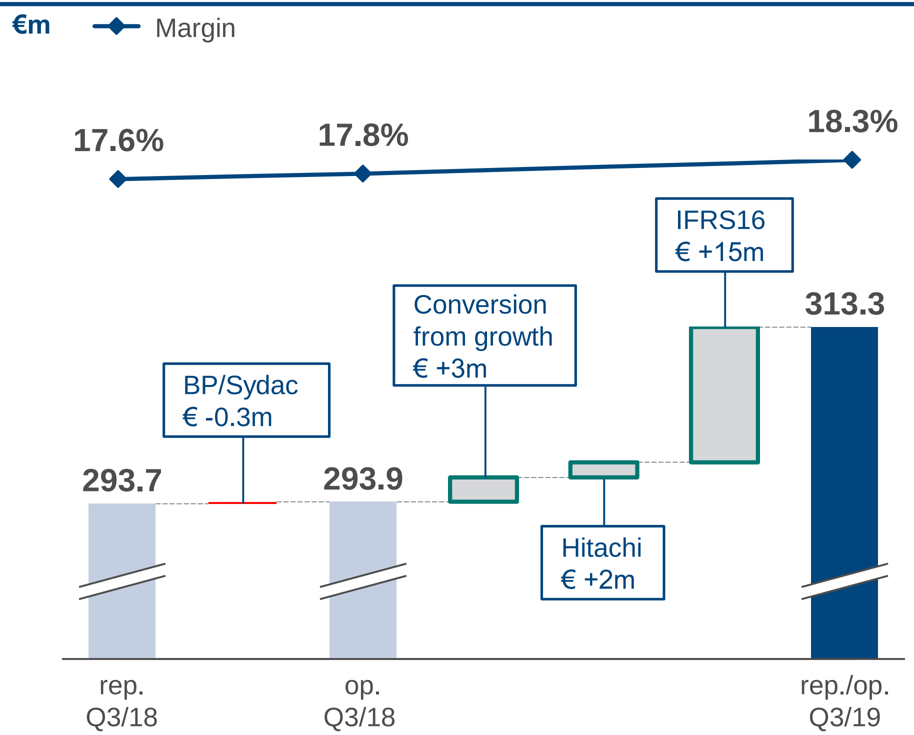


By region



Margin expansion continues in Q3 – despite challenging business environment

EBITDA



EBITDA increased by 6.7% yoy (vs. revenue growth of 2.4%)

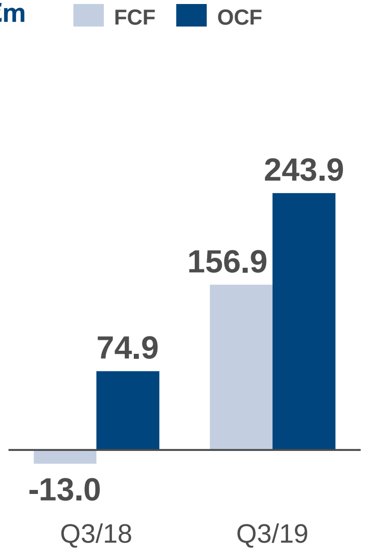
- Continued EBITDA margin expansion, helped by growing AM share (up to 37.7% from 34.3%)
- CVS: Cost measures starting to pay off
- RVS: Negative mix effect from Kiepe Electric general contracting business, final operating losses from Powertech and strong AM

EBIT pattern following EBITDA

Strong cash performance driven by EBITDA and NWC improvements

FCF & OCF

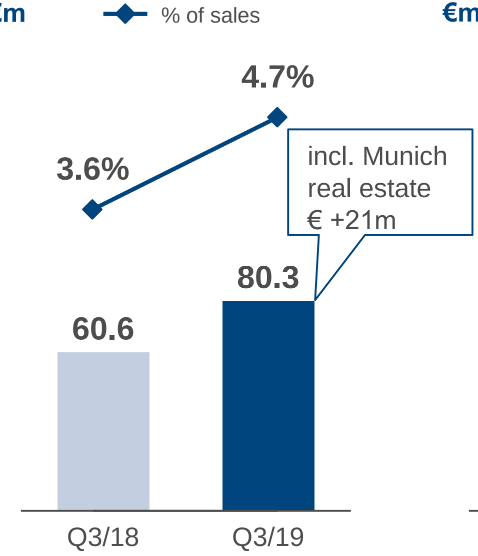
€m



Strong increase in FCF & OCF, reflecting positive EBITDA development and strong cash conversion

CapEx[1]

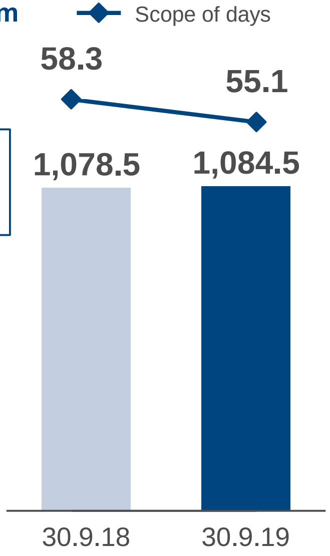
€m



Capex in line with guidance, Munich real estate disposal to support asset light approach

NWC

€m



Significant improvement, further progress expected in Q4/19

Op. ROCE[2] (annualized)

%

Operating ROCE at continued high level

1) Before acquisitions and IFRS16

2) Before Wülfrath/Powertech and IFRS16

Sale & lease back transaction of Munich property supporting asset light strategy

Asset light strategy of Knorr-Bremse

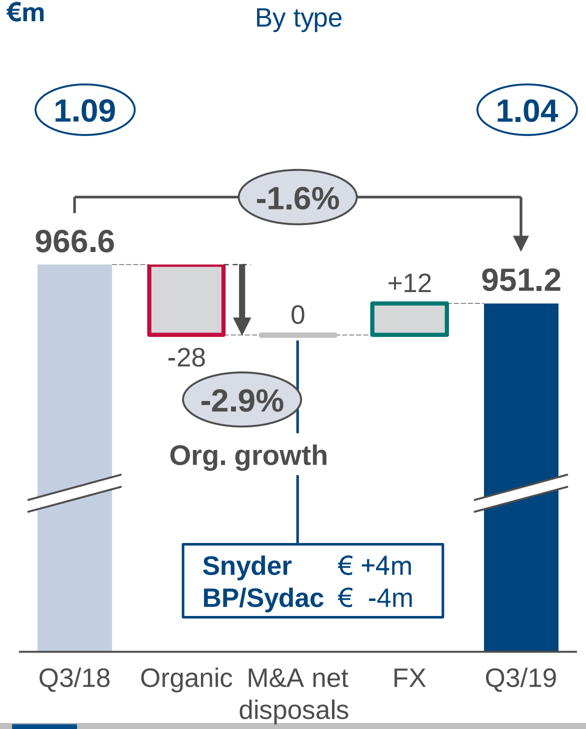
- Important cornerstone for strong ROCE performance
- Capital allocation prioritizes higher ROCE projects

Transaction details

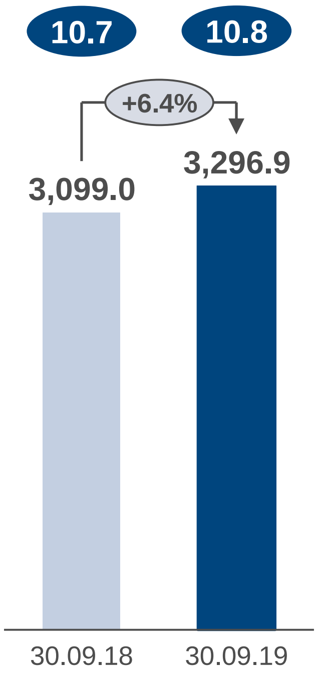
- Sale of real estate and predominantly office space in Munich to OPES, a real estate management company of Mr. Thiele
- At arm's length transaction confirmed by expert opinions
- Cash inflow of € 200m (€ 134m in 2019 and € 66m in 2020/2021)
- Book profit of appr. € 46m (IFRS) and € 63m (German GAAP), respectively with positive EPS impact for 2019
- Closure of the deal expected at YE19
- Proceeds to be used for higher-return M&A and R&D projects

RVS: Good book-to-bill provides healthy visibility

Order intake



Order book



Book-to-bill ratio improved sequentially from 0.92 in Q2/19 to 1.04 in Q3/19

- Asia main driver: China Metro and AM, India passenger coaches
- EU stable growth: positive momentum across EU
- NA freight significantly impacted by decreasing transportation demand and lower freight rates

Solid growth in order book continued: € +200m

- Visibility of appr. 11 months remaining on high level

Book-to-bill

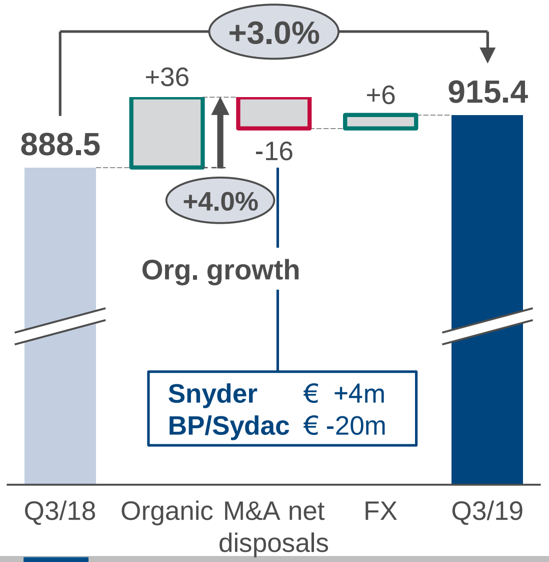
Visibility in months defined as $\frac{\text{Order book}}{\text{FY guidance (mid)}} \times 12$

RVS: Solid margin performance in Q3/19

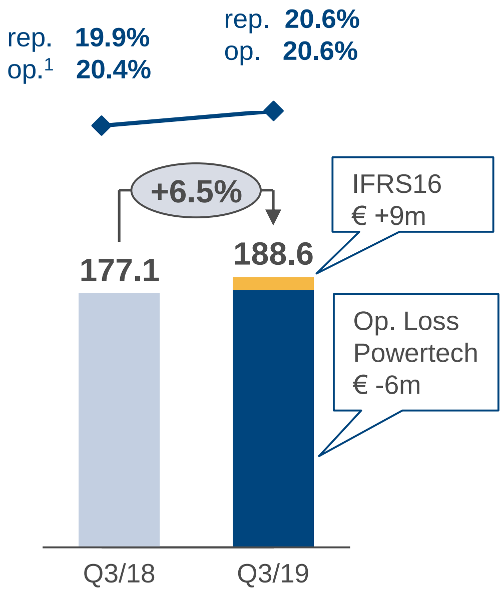
Revenue

€m

By type



EBITDA



Revenue growth by € +26.9m yoy

- **EU:** growth driven by OE in commuter, freight & LRV business
- **Asia:** Solid support from passenger and service
- **China**: Metro and AM strong, locomotives lower
- **NA:** Growing service business overcompensated headwind in freight
- AM share improved from 41.0% to 44.2%

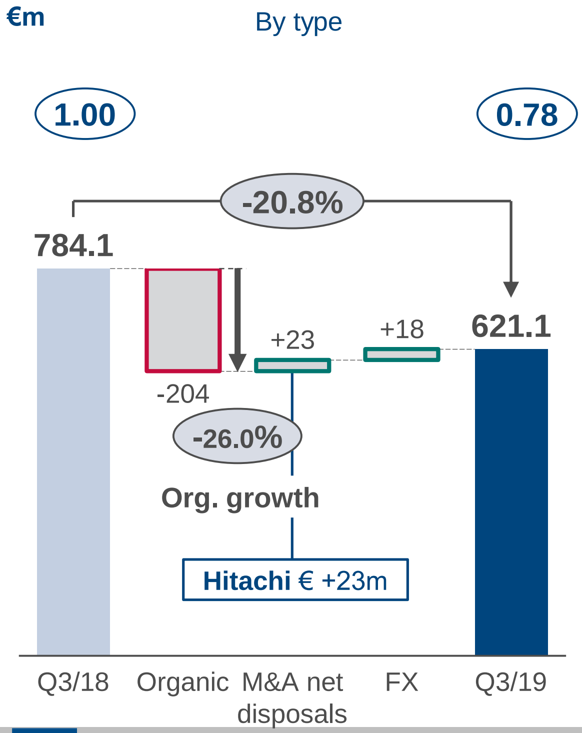
EBITDA margin of 21.7% in 9M/19 within guidance

- H2/19 expectedly weaker than H1/19
- Q3/19 with final operating losses at Powertech
- Negative mix effect, primarily due to higher share of general contracting business from Kiepe Electric – phaseout planned in 2020

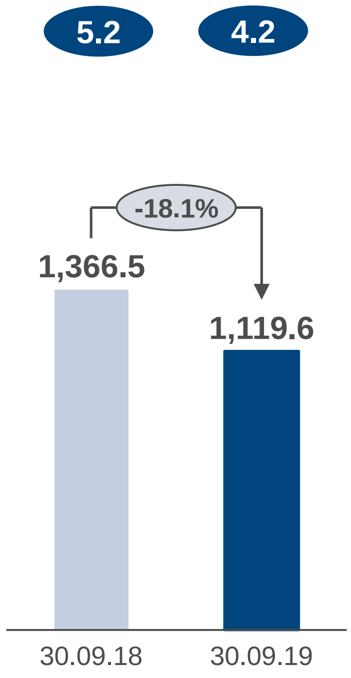
1) Q3/18 operating EBITDA margin adjusted for disposals

CVS: Post-summer order correction led to weak order intake in Q3/19

Order intake



Order book



Organic order intake Q3/19 down significantly

- Low order intake of truck OEMs led to correction in order intake in CVS across regions
    - EU & NA order intake down significantly
- Asia order intake only slightly lower
- Q3/18 with push effects driven by higher demand
- Q3/19 with pushouts after summer break
- Recovery in October

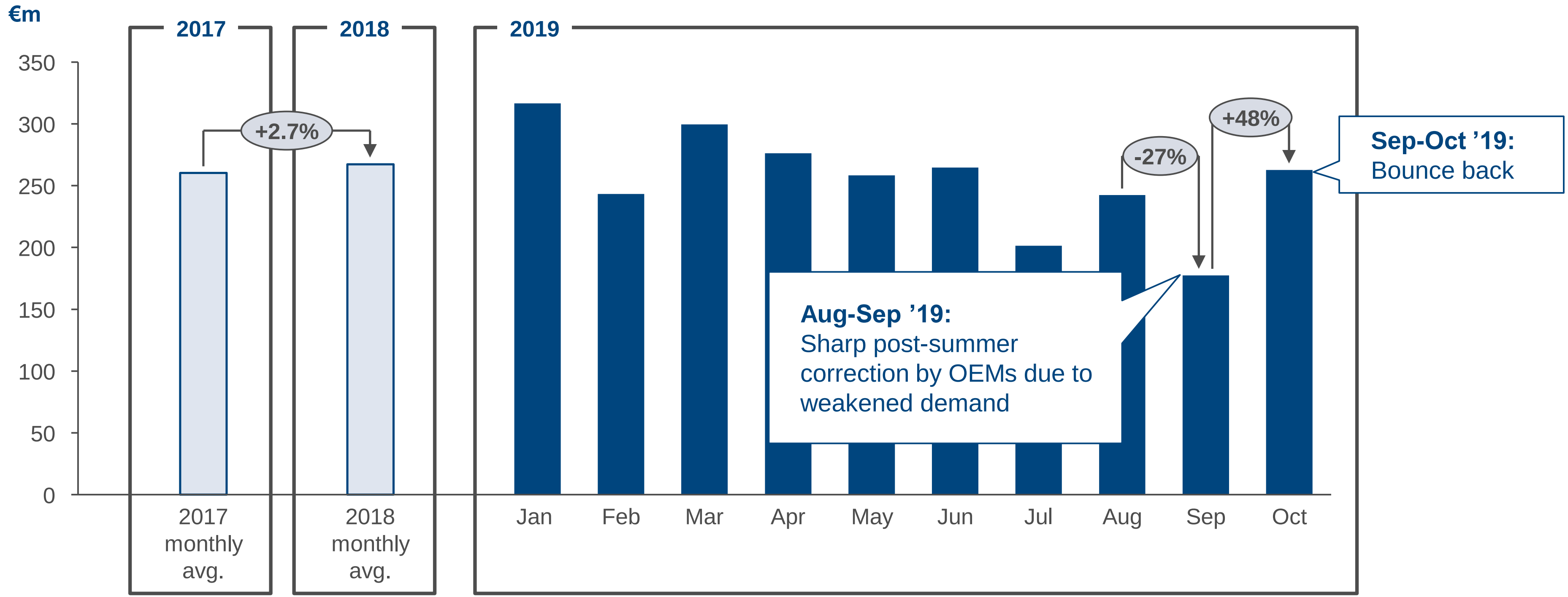
Order book down, but continued decent visibility

- Reduction by 1 month

Book-to-bill
Visibility in months defined as $\frac{Order\ book}{FY\ guidance\ (mid)} \times 12$

CVS: Our take – magnitude of order correction in Q3 seems exaggerated

Order intake 2017-2019

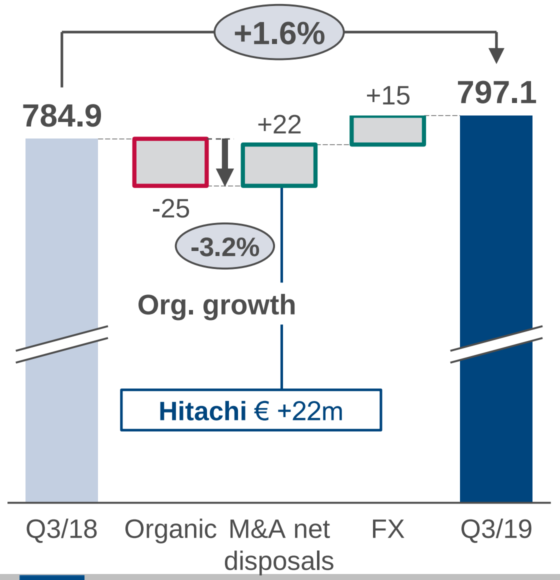


CVS: solid margin performance despite organic revenue decline

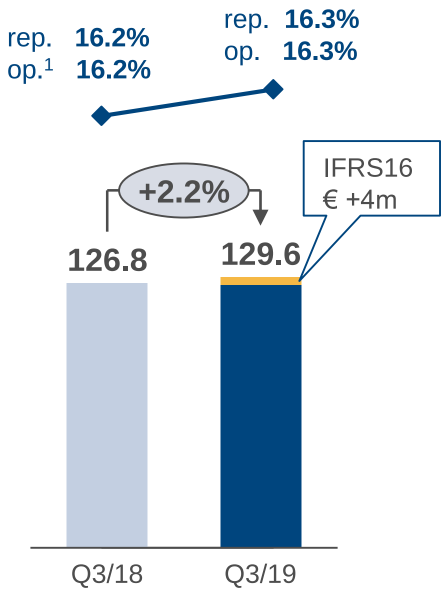
Revenue

€m

By type



EBITDA



Global truck production development still holding up

- EU: Moderate OE growth vs. decreasing AM
- Asia: OE growth
- NA / SA: Growth predominantly in OE
- AM revenue share up from 26.8% to 30.2%
- Continued market share gains

EBITDA improved by 10bps in Q3/19

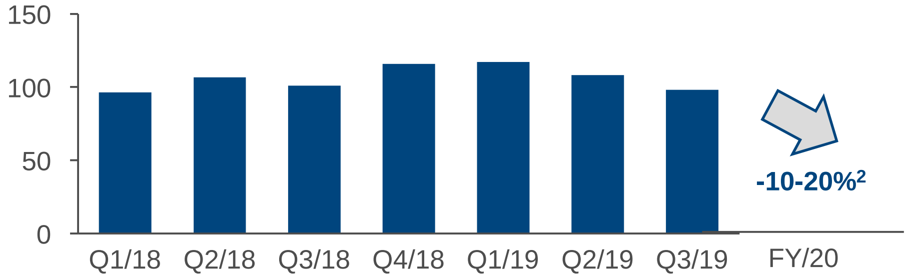
- Material cost and supply chain situation still challenging
- Continued R&D outspending in megatrend technologies and ADAS/HAD
- Efficiency measures starting to show results

CVS leadership fully prepared to protect margins during slowdown

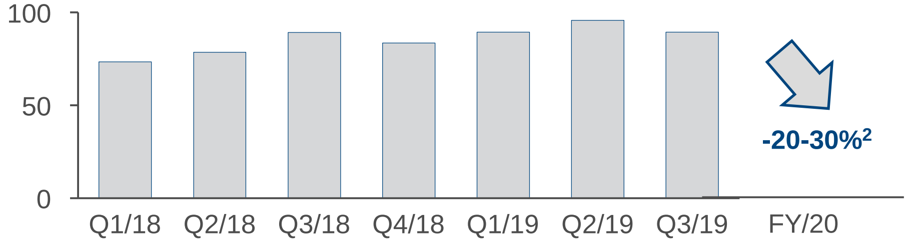
Truck production rate[1]

In 1.000 trucks

EU



NA



Cost measures already implemented

- Premium freight & overtime reductions
- Hiring freeze, reduction of lease personnel, replacements partly not filled
- Localization of manufacturing and supply base
- Rigorous management of overhead costs, capex reduction
- Restructuring of Wülfrath plant proceeding on track

Cost measures ready for execution

- Further capacity reduction (temporary workers, direct labor, indirect/overhead)
- Supplier management, material cost management
- Non-personnel overhead cost reduction
- Focused R&D

 1) EU+2 HDT; NAFTA Class 8. Source: LMC Automotive Global Commercial Vehicle Forecast Q3/19 2) As estimated by bank analysts 11/2019

Guidance confirmed for 2019

Market developments and KB response

RVS

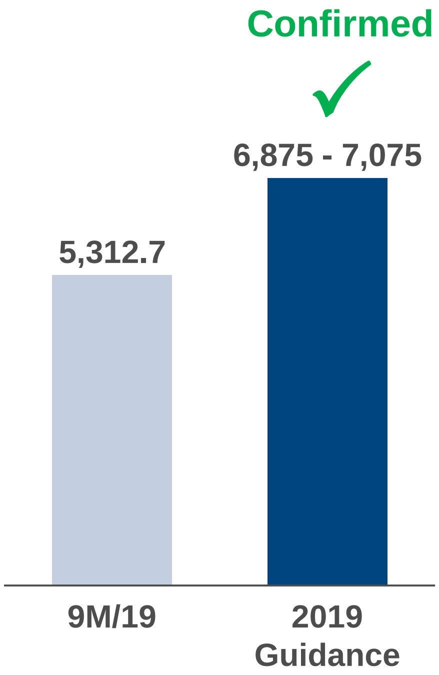
- Rail industry providing resilience in challenging economic environment
- Customers with continued strong demand
- Further measures to support margins

CVS

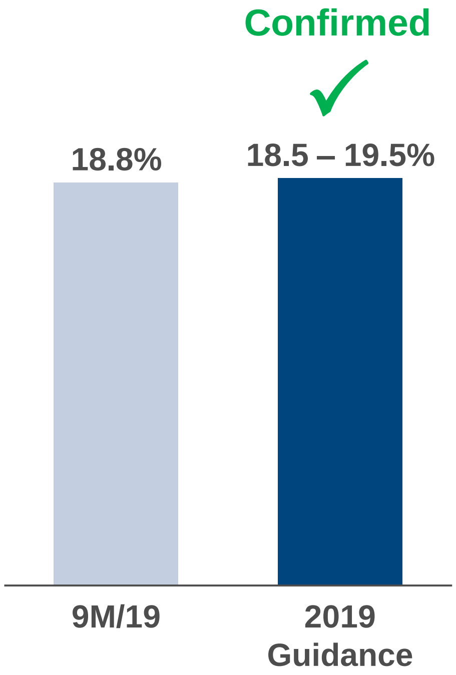
- Resilient AM business supporting revenue
- Content per vehicle growing independently from truck production cycle
- Cost management: well prepared for market slowdown

Revenue

€m



op. EBITDA margin[1]



1) Operating EBITDA margin excl. restructuring costs and book profit from sale & lease back in Munich, but incl. IFRS16

First thoughts on 2020 – robust group performance through CVS slowdown

	Market outlook	Strategic focus KB	First financial indications
	▪ Solid growth continues, primarily in passenger rail ▪ Further maturing installed base driving AM business	▪ Build on strong market positions in high-growth countries ▪ Phaseout of low margin general contracting business at Kiepe Electric ▪ Strong AM focus ▪ Innovation agenda	▪ **Revenue:** Slightly higher[1] ▪ **EBITDA margin:** Slightly higher
	▪ TPR correction to continue through 2020 ▪ Market expectations - NA: -20 to -30% - EU: -10 to -20% - AP: 0 to -15% ▪ AM market recovering	▪ Continued content and share growth ▪ Resilient AM growth ▪ Rigorous margin protection program ▪ R&D increase, but more focused prioritization	▪ **Revenue:** 5-15% decline ▪ **EBITDA margin:** Moderate margin decline including R&D increase

1) Impact from elimination of Powertech and Kiepe Electric general contracting revenues: € 120-140m

Q&A

Q3

January 1 to September 30, 2019

Financial calendar

Upcoming events

Event	Date	Location
Roadshow	28.11.19	Paris
Goldman Sachs 11th Industrials Confernece	2. & 3.12.19	London
Berenberg European Conference	4. & 5.12.19	London

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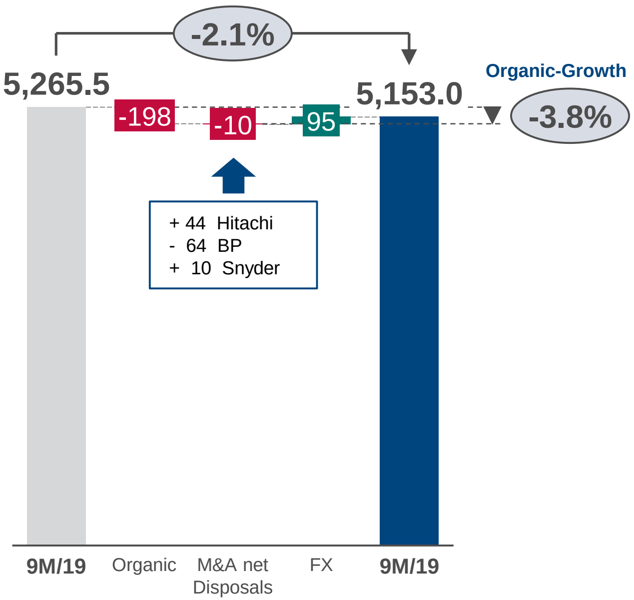
Order Intake for Group, RVS & CVS 9M/19

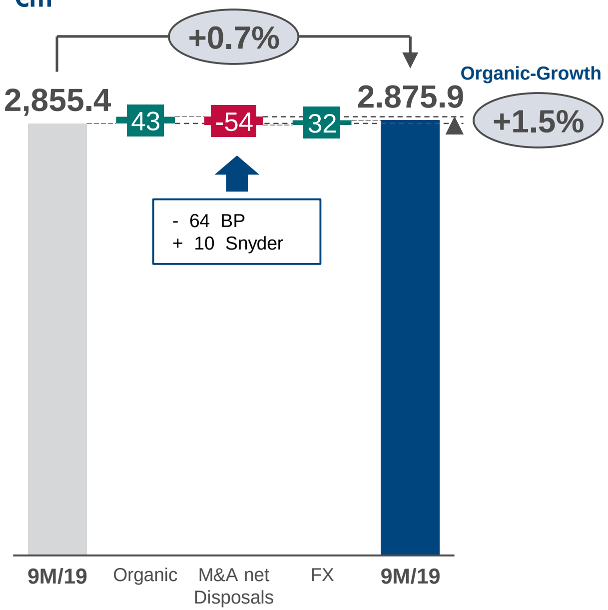
Group

€m



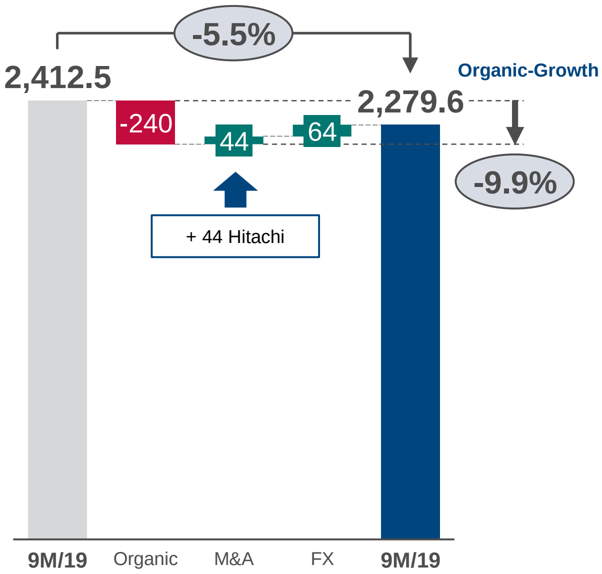
RVS

€m



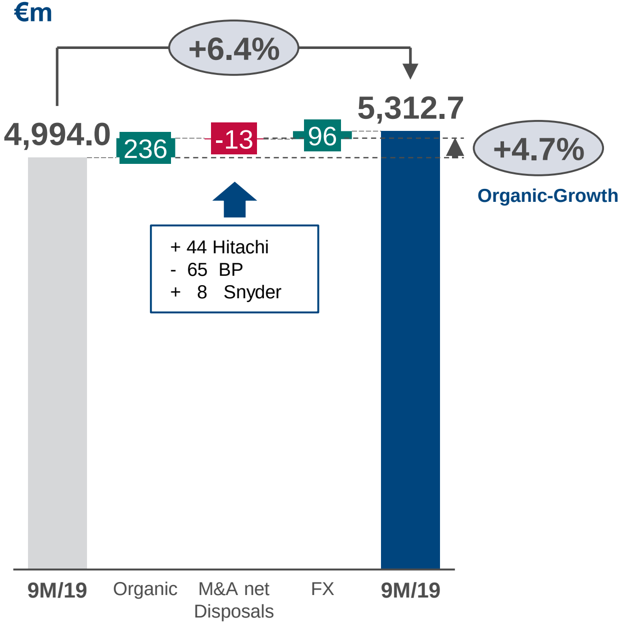
CVS

€m

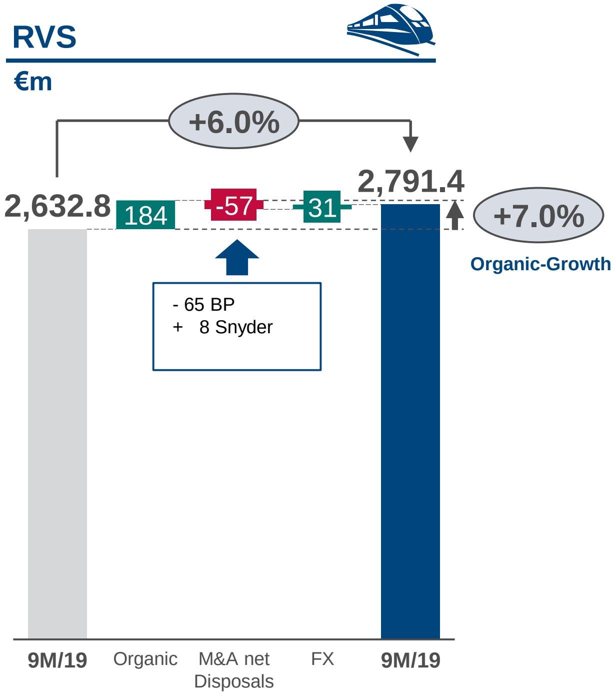


Revenue for Group, RVS & CVS 9M/19

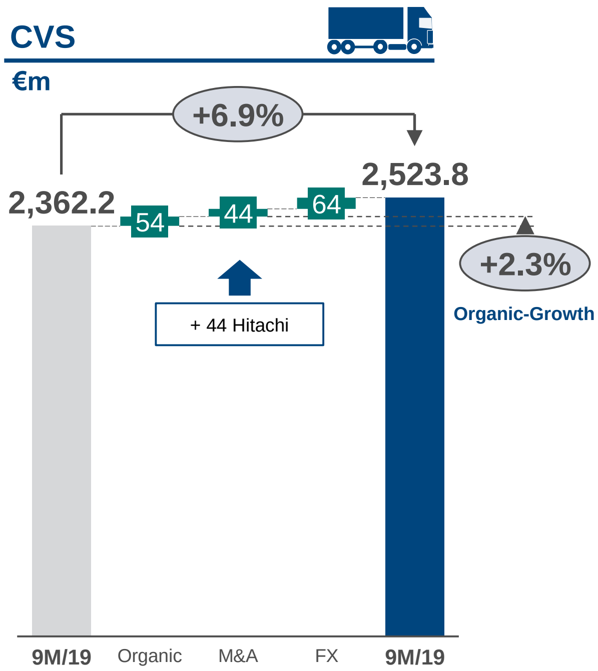
Group



RVS

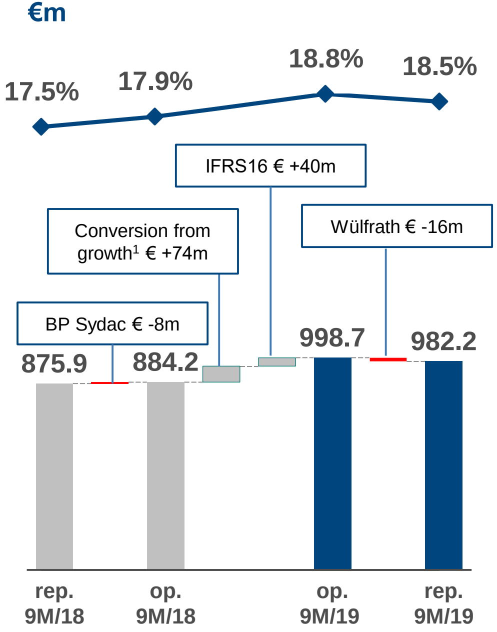


CVS

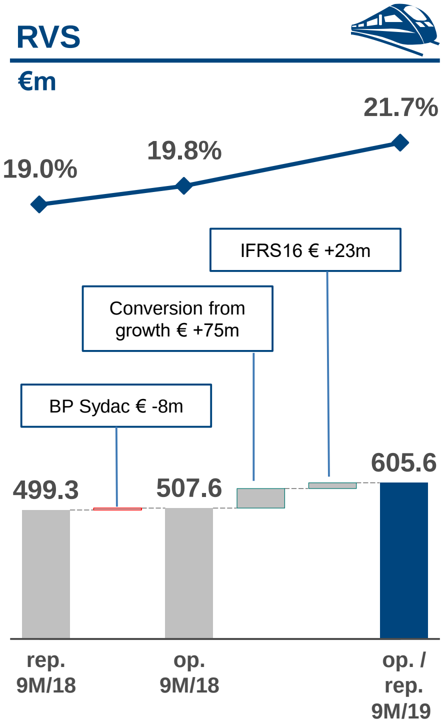


EBITDA for Group, RVS & CVS 9M/19

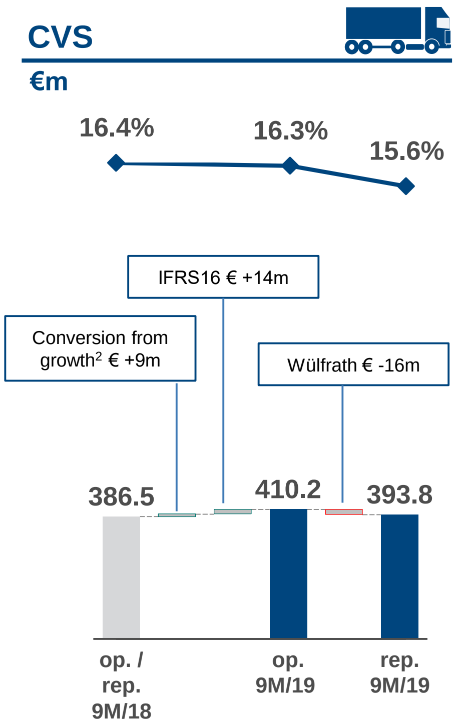
Group



RVS



CVS



EBITDA Margin

1) Incl. central costs

2) Incl. Hitachi € +4m

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