Transcript of Webcast and Q&A session of Knorr-Bremse's Q3 2023 financial results

Date: October 31, 2023

Operator:

Dear Ladies and Gentlemen, welcome to the Knorr-Bremse Q3, 2023 earnings call. At this time all participants have been placed on a listen-only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host Andreas Spitzauer.

Andreas Spitzauer:

Thank you, operator. Good afternoon as well as good morning, 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 third quarter results of 2023. Today, Marc Llistosella, our CEO, Frank Weber, our CFO, and Nico Lange, our new head of RVS, 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, www.knorr-bremse.com in the Investor Relations section. Here, you can find today's presentation and later a transcript of the call. It is now my pleasure to hand over to Marc Llistosella, please go ahead.

Marc Llistosella:

Thank you, Andreas, and welcome everybody to our conference call. Today's call is made up of four parts. First, I will present the key takeaways of today, followed by an introduction by my new colleague in the Executive board, Nicolas Lange. Thereafter, Frank Weber will discuss the quarterly figures in detail and at the end we are looking forward to your questions and comments. Let's kick it off on chart 2 with our key takeaways for today: We continue to see strong customer demand across all regions especially in the rail division. As a result, order book reached record level, which provides a very solid foundation for future utilization rates. Our BOOST 2026 program, which I presented at the Strategy Update in July, is gathering momentum. Cashflow has improved and moves in the right direction. CVS was able to successfully complete the 2nd wave of price increases within 12 months. The first successes can already be seen in Q3/23. As we said in July, we have identified a revenue basket of € 1.4 billion we are not satisfied with. We are now systematically working to increase profitability in these parts of our business. At the end of September, we started the process of selling two more businesses that together generate around €200 million in annual revenue. We are confident to sell both units within the next 9-12 months. We are very pleased to introduce to you today the new RVS board member Nicolas Lange. In addition, the Supervisory Board extended the contract of Claudia Mayfeld, responsible for integrity, legal, IP, data and HR. Personally, I am very glad that we now have a strong executive board with a great team spirit. Last but not least, we confirm our Guidance for 2023. Now I would like to hand over to Nicolas.

Dr. Nicolas Lange:

Thank you, Marc, and welcome everybody from my side as well. My name is Nicolas Lange, I am 55 years old, and I'm now Head of RVS and a Member of the Executive Board of Knorr-Bremse since October 1, 2023. As some of you probably noticed during the IPO process, I'm not new to the company. I have been with Knorr-Bremse for more than 20 years. I have been part of the European Management Board of Rail for seven years, whereof five as the Chairman. During this time, I was responsible for the Rail division's global brakes business, roughly 2/3 of RVS's total revenues, as well as its European business, which generates around half of the division's turnover. Therefore, I have a very broad and deep understanding of the rail market, the rail OEMs and other business partners in the industry. I am convinced that the successes in brakes business that my team and I have achieved in recent years are also possible in other units of RVS. We generally have everything in RVS that helps us return to our old strength: excellent engineers, long-standing customer relationships and strong products and systems - plus the record order book mentioned already by Marc. At the beginning, I'm deeper analyzing the areas in which our profitability is not satisfying. It is clear to me that all possible cost levers together with a portfolio re-balancing must be addressed first. I will also start a review of our long-term product strategy, including cooperation with CVS, wherever possible. I am very happy to be part of the Executive Board of Knorr-Bremse and look forward to working closely with my colleagues. Together we will successfully realize BOOST2026 and thus bring Knorr-Bremse back to its old strength. With this, back to you, Marc.

Marc Llistosella:

Thank you, Nicolas. Great having you on board. On chart 4, we put together our view of the rail and truck market. I will not go through all the details, but I would like to highlight the following. Demand in Rail and Truck is more or less unchanged for Knorr-Bremse and remains quite good. Of course, we also see shifts and follow macroeconomic KPIs very closely. But demand and therefore capacity utilization at our plants is not a problem we are facing at the moment. In China, the economy is recovering more slowly than many expected, BUT we see that the truck market is benefiting from strong catch-up effects and that aftermarket business in the rail sector is picking up again well. In Rail, Europe remains the strongest growth market for us and we do not sense a break in this trend. This does not mean that every quarter will deliver a new record, BUT the good high level should continue. Let’s move to the third quarter KPIs on chart 5. Overall, we are very satisfied with the development in the past quarter - we have achieved what we had planned and delivered what we promised. In this regard, I would like to express special thanks to all KB employees who achieved this result through their great efforts. Order intake was again up 5% year-over-year, reaching 2 billion Euros. Especially, the rail division overcompensated the expected slowdown in truck. The positive order situation is also reflected in a 5 % increase in the order backlog, resulting in a new record level of 7.2 billion Euros. This will ensure solid capacity utilization in the quarters ahead. Revenues for the third quarter of 2023 also increased by 8% to 1.9 billion Euros. In addition to the operating leverage, the consistent implementation of cost measures as well as successful price negotiations and improved working capital management also contributed to the improvement in operating EBIT margin year-over-year and sequentially and the free cash flow. The operating EBIT margin came in at 11.5% and Free Cashflow improved to 230 million €. As a consequence, our Cash Conversion Rate reached a level of 168%. I would now hand over to Frank for more details.

Frank Weber:

Thanks Marc and welcome also from my side. Let’s move to chart 6. Capex in the past quarter amounted to 83 million euros, representing 4.3% of revenues. It was stable in absolute terms year-over-year, but lower in relation to revenues and well below our target range of 5-6%. I expect some higher spendings towards the end of 2023 as usual. Net Working Capital was almost stable in absolute terms, but we improved our capital efficiency significantly by nearly 10% to 73 scope of days in this year’s third quarter. This was driven by improvements in all relevant elements of working capital especially in accounts receivables and inventories. Especially on the A/R side we see a good development of overdues in Asia. This all is a first result of our increased initiatives of the NWC Optimization Project “Collect”. As a result of improved EBIT and these net working capital measures, our ROCE increased to 17.5%. On chart 7, I would like to provide you more details regarding our Free Cashflow. The free cash flow trend in the second quarter of 2023 with positive 34 million Euro, continued in the third quarter, as expected. We now reached 230 million Euros in Q3. For me personally, the development of the cash conversion rate was "The shining star" in the third quarter. It increased strongly to 168%. In this quarter we also benefitted by the settlement we found with Indian Rail. They released the withheld payments, which supported our Free Cashflow in the quarter. We expect that we will return to normalized levels with that customer again. But even without this payment effect in India our Cash Conversion Rate would have been around 120%. On the other side, we still maintain a certain high level of inventories in order to be flexible in response to customer requests and to ensure a high degree of supply security. As already mentioned, we have launched Project “Collect”, which is made up of cross-divisional teams such as direct/indirect purchasing, logistics, supply chain as well as sales and aftermarket, in order to systematically improve our net working capital efficiency in scope of days. The performance in the third quarter is a clear proof, that we have taken the right measures. As a result, I am very confident, that Knorr-Bremse will reach its Free Cashflow Guidance of 350 to 550 million euros in 2023. Let’s take a closer look at the divisional performance in Q3, starting with RVS on Chart 8. In terms of order intake, RVS recently reported growth in all markets, realizing an increase of 16.1% to 1.02 billion Euros. The lion's share of this absolute performance was in Europe and Asia, followed by North America. The book to bill ratio is still above 1, now for nine quarters in a row. Order backlog reached a record level of 5.2 billion Euros as of Sept. 30, 2023. We are not witnessing a slowdown in demand in general, even if there are always postponements for one or the other project ongoing ever since Corona occurred. Let’s move to chart 9. Revenues of RVS in Q3 amounted to 932 million euros, an increase by 9% year-over-year, despite FX-headwinds of 5-6%. Both, OE and aftermarket business increased year over year. Despite the increase in revenues, especially in the accretive aftermarket business, our operating EBIT of 134 million Euros was only stable compared with prior-year’s level. The main reasons for this development were, as we informed already previously: Price increases in new business and cost measures only partially offset higher inflation costs and lower pricing in legacy contracts, we won before the inflation started to increase. Additionally increased R&D in Europe, particularly for innovation projects in the brakes business take its toll. Negative FX effects and weaker product mix burdened the profitability as well. As already mentioned several times: in the case of longer-term OE legacy contracts that we won before the sharp rise in inflation, it is not possible to fully pass on the increased costs to our customers but it is important to note that the new OE contracts we have won already since the end of last year have the same good profitability as contracts we realized before the sharp increase in inflation. Let’s continue with our truck division on slide 10. Order intake in the CVS division amounted to EUR 962 million in the third quarter of 2023, showing more or less a normalization at a high level after the records in previous quarters. In the past quarter, demand was quite good in Europe and North America. At the same time, the strong recovery in the China market continued. With 2 billion Euros our order book as of September 30, 2023, was stable compared to the same period last year. Currently, we are fully booked through Q1/24. However, we need to observe the demand fluctuations closely. At the same time, we share the opinion of some market participants that Europe and North America should see a lower truck production rate next year and China could still see an increasing one, but comps getting tougher in China as 2023 demand was increasing. Let’s move on to slide

11. The positive revenue trend was influenced in particular by the stable truck production rates in Europe and North America and the significant increase in China. In addition, further successes in new price agreements fueled this trend which were part of the successfully implemented wave 2 program. CVS posted a 7% increase year-over-year in revenues to more than 1 billion Euros in the third quarter of 2023, also here despite negative FX effects of around 6%. In the commercial vehicle sector, both OE and aftermarket business increased, leading to a stable aftermarket share. Operating EBIT of our CVS division improved in Q3 to 107 million Euros, up 23 % year-over-year. Consequently, the operating EBIT margin improved from 9.2 % to 10.6%, due to the successful implementation of cost measures and higher customer prices. These increases will also have a positive impact on the upcoming quarters. Towards end of the year we continuously forecast to have our cost price gap closed again. With that I hand over to Marc for the guidance for the full year and some final remarks.

Marc Llistosella:

Thank you, Frank. On chart 12 we confirm our guidance for 2023. We expect revenues of 7.5 to 7.8 billion Euros, an operating EBIT margin between 10.5% and 12.0% and a Free Cashflow between 350 and 550 million Euros. Let's move on to my last page and away from just quarterly developments. In July we launched our strategy update 'BOOST 2026' - now we are driving forward our portfolio optimization program by reviewing very closely its performance. At the same time, we are reducing our costs through targeted measures and started the sales process for further businesses. The focus is clear: our top priorities are margin development and cash flow. From my point of view, we have all that is necessary to achieve the goals of BOOST2026: Now ONE strong executive board team, a common clear goal, the financial power to improve KB AND over 30.000 employees who are hungry for change. Thanks a lot for your attention. We are looking forward to your questions now.

Q&A Session Knorr-Bremse AG

O Operator

NL Nicolas Lange

FW Frank Weber

ML Marc Llistosella

SW Sven Weier

GD Gael de-Bray

AG Akash Gupta

DB Delphine Brault

VE Vlad Sergievskii

LF Lucas Ferhani

HS Holger Schmidt

Operator: The first question comes from Sven Weier from UBS.

Sven Weier:

Good afternoon, and thanks for taking my questions. The first one would be regarding next year. I think in the previous years, you have always provided certain indications for the following year. You haven't done that this time. Should I take it that you are actually quite happy with the current market expectations and you didn't see any reason to correct that or how should I look at the absence of 2024 indications? That's the first one. Thank you.

Frank Weber:

Thanks, Sven. I take that one at least the start of it. As you know, we usually give our guidance for the year 2024 when we talk about the annual results, which we will do at the end of February next year. Unfortunately, we're not so happy with the market developments out there, looking especially at the truck markets potentially for next year. You know for me that since quite some time, I'm giving the indication that we should see rather a decline in Europe and North America for next year. But that's not the major reason. I would say generally you should expect from us that our revenues for next year should be growing. And we are also striving for an increased profitability of the company for next year. To go into much more details, I would say it's not the right time currently. I can add a little bit of more flavour to that maybe that is much more clear. That picture that I just described for maybe the rail division, for the truck division, as we just talked about the market situation going into next year. We are clear also striving for an increase of the profitability, but that's getting much tougher according to the most recent developments that we foresee for 2024 in the market of trucks. With that, I think I stick with that level of details for the time being.

Sven Weier:

Okay. Thank you for that. Second question is just on rail, and you've been mentioning the nine quarters of a positive book to bill. Now, you had originally guided for Q3 or the second half to slow down in terms of the order intake, and it didn't happen in Q3. So should Q4 now be the first quarter with a negative book to bill?

Frank Weber:

Look, the rail business is of course a project-related business. It's not a product business like we have on the CVS divisional side. First of all, it always highly depends on the timing of the order intakes on the OEM side, which could come with a certain delay. After the design phase the order for us, as the tier one supplier, would come. And secondly, it's in very general project business, so it depends on which tenders would be then really closed in the quarter. So rail business is not the business that you could linearly extrapolate throughout quarter. So it's always kind of ups and downs. But it's fair to assume that we will not in each and every quarter achieve a 1 billion order intake rate. So we are pretty confident that we will keep our market shares at least, and given the timing of the tenders that the OEMs have won with the time lag, then will the order intakes occur on our side, but it's not a given that in each and every quarter we should see the 1 billion, so it might be a bit lower in the 4 quarter of 2023.

Sven Weier: So, the pipeline is there, it's just a timing issue?

Frank Weber:

Our pipeline is fully intact. The market is running well basically in all segments around the globe. Maybe with one exception is the freight business in North America. But we talked about that already in the second half of this year beginning. So that's the only maybe a bit yellowish that we see in the market currently.

Sven Weier: Thank you, Frank.

Frank Weber: You're welcome, Sven.

Operator: Thank you very much. The next question comes from Gael de-Bray, Deutsche Bank.

Gael de-Bray:

Oh, thanks very much. Good afternoon, everyone. I have two questions, please. Firstly, given the change in leadership at RVS, can we now envisage an acceleration in portfolio optimization and cost-cutting actions? That's perhaps a question directly for Dr. Lange. Does RVS actually need to implement a manufacturing footprint optimization program?

Nicolas Lange:

Yes, it's Nicolas. As I mentioned in my short introduction, my full sight at the beginning goes into that direction. It goes into our portfolio of course, into the weaker parts of our portfolio. So this topic will speed up, be it with regards of fixing or improving weaker parts of the portfolio or be it coming to a decision to sell even further parts, then those two already mentioned generally by Marc Llistosella before. And the other part is looking at the cost situation in general. We all know that we have to work on the side of prices versus cost continuously. We will see an improvement of this relationship in the next year. We already said that this year would be the worst in that regard. And we will work also on things like SG&A and other parts of our cost driving factors. We will start with that in those months, and we will see first results probably already next year. But definitely for the BOOST 2026 program.

Gael de-Bray: So there's nothing big that's actually needed, right?

Nicolas Lange: Nothing. No.

Gael de-Bray:

Okay. Thank you. And the second question is on the margin guidance for this year. At the midpoint, it's around 11.3%, I guess, and it seems not to imply any further improvement in margins for RVS in Q4. And I think that's rather surprising because there is usually some positive seasonality, and your comments around aftermarket in China sound also rather positive. So could you provide a bit more colour on the mixed dynamics that should be at play here in Q4 specifically?

Frank Weber:

Look, as I already mentioned, Gael, it's a project business and it's highly depending on what kind of projects we are intending to close in a certain month, and then of course in a certain quarter as end result. And the fluctuations in margins, even though they are not huge. But we have regional differences and of course also project-related differences in the contribution margin of the individual projects. So it's always a bit of uncertain when it comes to the closure of projects in a certain quarter. And I would therefore say it's fair to assume that we should be and I don't doubt that there is a certain seasonality that we usually see. We see usually a good aftermarket business in North America in rail in the 4 quarter. We usually see a good aftermarket business in China in the 4 quarter. But you also have, as I said, these kind of product mix effects. That's why I would say to work on the hypothesis with the midpoint of the guidance and the rather stable development in terms of the profitability of RVS moving from quarter 3 into quarter 4, that's the best assumption we could have now.

Gael de-Bray: Okay. Thanks very much.

Frank Weber: You're welcome, Gael.

Operator: Thank you. The next question comes from Akash Gupta, J.P. Morgan.

Akash Gupta:

Yes. Hi. Good afternoon everybody, and thanks for your time. I have two as well. First one is on RVS. The question I have is that, have you seen any impact or disruption or do you foresee any potential disruption from cash flow headwinds highlighted by one of your largest customers in Europe? Do you see this could be a bigger issue and maybe if you can talk about how do you see the situation in Europe? That's the question number one on RVS.

Nicolas Lange:

Yes, Akash, nice to hear you again. It is this number one customer, our biggest customer, in fact, in Europe, is a customer with which we are having a very good relationship. And I think we are the largest sub-supplier for them for their trains. We are having a continuously good relation. We are talking of course, about their project. Even if there are also some project delays like a famous one in UK, not only since weeks or months, but continuously with them. So we are always aware about the situation they are in and everything we are planning right now is reflecting already what is happening on their side. We don't see any negative impact compared to our actual planning. We know what they are doing. They need us in order to complete their trains which is in the end, the kind of win-win partnership. We are supplying our goods punctually into their trains. We do not provide them any more issues than they have already maybe with some other sub-suppliers or with their customers. So we are helping them with our subsystems and vice versa, they are taking our goods and by the way, also paying for our goods, of course. And if I look into the overdue situation we are having with them, we are not talking about individual figures of our customers but they are in a comparable range like we see it at that time of the year.

Akash Gupta:

Thank you. And my second follow-up question is on your CVS margin commentary on 2024. Frank, you mentioned that in the current backdrop, it may be difficult to grow profitability in CVS. And maybe if you can elaborate, because CVS margin this year has been quite different in first half versus Q3. So when you talk about margin growth, are you referring to Q3 level of 10.6% or is it more the full year level, which may be below what you have achieved in Q3 in margins? Thank you.

Frank Weber:

Thanks. Fair question, Akash. I would rather see that talking about current levels, not the ones we have had in the first and in the second quarter, but more or less the current levels that I'm talking about. We clearly see that operating leverage would be burdened if a market or these two elements of the market would substantially go down. China has still a growth plan ahead. If I look at the Class 6, 2, 8 figures, including the buses where we're also in, so to say is helping definitely China, but Europe and North America are difficult. And also if you would need to go for further price increases with customers for whatever reasons, you would also see a different environment that you potentially or we potentially had in the last 16 months where the market was positive for our customers as well. So, price negotiations were potentially more fruitful in those days. But nevertheless, you should always count on our content per vehicle growth in the end. And so, once we finally see how the market demand is and how this spreads across the customers, and then adding our content per vehicle, then we should see clearer, and we will provide you then the full guidance around February.

Akash Gupta: Thank you.

Frank Weber: You're welcome, Akash.

Operator: Thank you. The next question comes from Delphine Brault from ODDO BHF.

Delphine Brault:

Yes. Good afternoon, and thanks for taking my questions. I have two questions if I may. First, can you say how much of your RVS sales are made with contracts signed before the inflationary period and how much it should be in 2024. And second, still on RVS, can you qualify a little bit your pipeline? You say that the pipeline is full but what this pipeline is made of? Thank you.

Frank Weber:

Thanks, Delphine. Maybe I take the first part of it, and the second, Nico will take over. Look, the figures have basically not changed since we last spoke, Delphine. We have had roughly in our order book of the end of 2022 1.9 billion. Roughly around that order intake that did stem from the period of time before the Russian War with Ukraine. And out of that 1.9 billion euro, roughly 1.1 billion euro would be invoiced throughout the year 2023. So as we speak, they're occurring and burdening our contribution margins, so that represents roughly a third, in a nutshell, a third of our revenues in 2023. And this is the big pain point, of course, that we are having in this year. Next year, this should round half that negative impact, so that's a bit of a tailwind moving into a year over year comparison into '24. And then the year after, it should basically be on a very, very low level. So that's wiping out over time that effect. But those are the numbers tearing to that effect that you mentioned, Delphine. With that, I hand over to Nico.

Nicolas Lange: Can you please repeat the second one?

Delphine Brault: Yes. I just wanted to know if you can qualify your pipeline on RVS. Provide a bit colour.

Nicolas Lange:

Yes. Let me start with region effect. Though the pipeline is highly dominated by the nice growth we see in Europe, we see another good part coming out of India. India is our second large growth region. And in the Americas, we have two effects. The one is already mentioned by Frank. On freight, we have some counter winds but on the passenger side, America is also very growing. China is almost stable in that. And then what is also necessary to know is, of course, always the mix effect between our portfolio products. And there we have as you all know, on the brake side we are growing with the market slightly above the market, being the dominant player in this brakes market. The market share gains are of course, smaller than in the non-brakes business. In the non-brakes business, we have a pipeline which is in that way that we see clearly wins in our market shares which is underlining again, also the fact that these are the portfolio elements we need to care about now with regard to profitability in order that we bring them if it's not at the exactly the same level of the brakes, then at least strongly into the direction of this profitability level.

Delphine Brault: Thank you.

Operator: Thank you. The next question comes from Vlad Sergievskii from Barclays.

Vlad Sergievskii:

Hello there. It's Vlad here. Thanks very much for taking my questions. Can I please start with the pricing on the rail side if possible? Is it possible to try and quantify what will be the real-life price increase on the braking systems, let's say on average, next year compared to this year? Are we talking low single-digit increase? Are we talking double-digit increase? If that's possible at all? I'll start here.

Nicolas Lange:

It's difficult to say that, and it's hard to break that up. We have to look on the one hand side into rail services, on the other, into the OE side. And of course we are seeing an effect, which sums up over years. So the effect described by Frank before, that we have always these legacy contracts and a growing portion of new contracts leads to effect that we don't see jumping price increases from year to year. We see effect which is cumulating over, let me say, three years at least, probably in the range of three years, because this is also the running time of a lot of those projects. And therefore, I'm sorry, but I cannot break that down into detailed price increases of next year. But of course we continue on that and as we said, we will come back to the old margins, not this year but probably by the end of next year.

Vlad Sergievskii: All right. Got it. Thank you very much.

Marc Llistosella:

I would like to add one, and Nico mentioned this, in the past we were fixated on growth. This is over, we are now very focusing on margins. So every new order which comes in, or any form of demand, which comes in, which is not fulfilling the minimum requirements and returns on sales will be rejected, will not be proceeded. So that means we will see also by this measure, a significant improvement of the margins in the next two years because growth is there. Also by doing good business, we are not interested in non-making sense growing business.

Vlad Sergievskii:

Understood. Thanks very much for the call. And if I can ask Frank a working capital question, please. Obviously, you mentioned that India contributed to a significant improvement but there was improvement outside of India as well. Can I ask, what was the main driver behind this outside of Indian improvement? Is it receivable, inventories, payables, all of those?

Frank Weber:

Thanks. Yes, the mentioned effect from India, you can calculate back, it was net around 60 million euro that we're talking about. All the other improvements that led us to the 73 days in terms of scope of days were by accounts receivables and inventories achieved. I think papers only slightly improved, as we are not of course seeking our fortune on the back of our suppliers here. So, it was accounts receivable to a third and it was to two third, it was optimizations on the inventory side that made these numbers in quarter 3 possible now. And of course, we have over the last, I would say 24 months, quite significantly improved or increased our inventory levels in order to be the reliable partner for our customers, especially in times where we were also asking for price increases. It would've been counterproductive if we would've not ensured our delivery quality and at the same time ask for price increases. So, these levels of inventory, we reduce to a certain extent, not completely. We still have positive effects that should come throughout the next year out of that, but that was a major effect. And also some good developments on the overdue side outside of India only. So, accounts receivables, one third, and two thirds on the inventory side.

Vlad Sergievskii:

That's very helpful. Thanks very much. And maybe the final more strategic question, if I may. If I look in the past years, you are gradually locating increasing proportion of CapEx and R&D to truck rather than rail business. Will this trend continue? Will it be kind of more balanced going forward?

Frank Weber:

You are absolutely right. This holds true for R&D as well as for CapEx, what you just mentioned, where the intensity of investments in regards to the underlying revenue was higher. I see it a bit in terms of the percentage points coming down on the CVS side and getting a more closer in the divisional view bit closer towards each other. Why? Because some of, or a big chunk of those projects where we have invested into on the CVS side should come into revenues. We see quite some start of productions for some of our products rather sooner than later. And therefore, the percentage rate should come down a bit going into the future and should bring both divisions closer together in that range. And ultimately for the group, both percentage ranges should rather come to the lower point of the range when we talk strategically into the future. So, the six to seven should more or less over the years come closer to the six, and the five to six for CapEx should more or less come closer to the five percentage points.

Vlad Sergievskii: That's excellent colour. Thank you very much, gentlemen.

Frank Weber: You are welcome.

Operator: Thanks a lot. The next question comes from Lucas Ferhani from Jefferies.

Lucas Ferhani:

Good morning. I'll also have two questions. The first one, just on CVS, the outlook for trucks. Just wanted to comment on the slowing market you are talking about. Is it something where you're just referring to essentially what some of the truck OEMs have said already, or is it something you are already seeing when you look at the run rate of orders in CVS in the start of Q4? That's the first one.

Frank Weber:

Yeah. Thanks, Lucas. I think we are always taking several dimensions into consideration when we talk about expected market developments. On the one hand side, we talk to the OEMs, which are our customers directly. At the same time, we also talk to at least a big portion of their customers, the fleets and they stay in close contact to us. And thirdly, we also have our certain market expertise in very general, out of these three dimensions, basically, we draw our conclusions and make our assumptions going into the future. Looking at our EDI systems, which is the electronic data systems that connects the OEM with a tier one supplier, we don't see cancellations of orders in the system as we speak. So, there is nothing extraordinary that we at this point in time see. If we look at our current order intake in the quarter, we see a bit of softer order intakes in North America already. That's the only region where we see something in terms of if you compare that to where we have been same time around last year, but we don't see any cancellation of all those in the dimension that would indicate that already. So it's basically driven by what we see in the fleet environment and what we see in the OEM expectations that we recalculate, so to say, what it means for us. So that's how I judge the situation currently.

Lucas Ferhani:

Perfect. And so just on the softness, just from North America, is it sequentially or year on year levels?

Frank Weber: Year on year levels.

Lucas Ferhani:

Okay. Thank you. And the second one is just on RVS, when you talk about the new contracts back to the old margins, can you comment roughly on what levels you have in mind? Obviously with the changes in China, in Russia, is it kind of in line with the midterm targets, where you see the new backlog coming in? Or is it something still below the midterm targets for RVS?

Frank Weber:

No, no, it's of course fully, fully in line with what we have guided you towards within our Strategy Day in July. So that perfectly fits together. Needless to say, it doesn't take into account anymore. The China reductions we have seen in the past and adjusted already in the forecast, and also it's without Russia. So, if you take those two things out, it's proving our path that we outlined in July for RVS to go into the future.

Lucas Ferhani: Perfect. Thank you.

Frank Weber: Welcome.

Operator: Thank you. The next question comes from Holger Schmidt from DZ Bank.

Holger Schmidt:

Good afternoon, everyone. I have two questions. And the first one is also on the trucks side. How should we think about the pricing? As you mentioned, the declining demand both in Europe and in North America in 2024, do you think you have to reduce your prices in order to adapt to the declining demand? That's the first question. And then the second one is, how should we step out about content per week? In your presentation, you mentioned that it is in line or growth of content per week is in line with the expectations. What kind of growth rates do you expect in the next two years?

Frank Weber:

Thanks, Holger. First of all, you know that we have been having two rather holistic waves of price negotiations with our customers in the CVS division. One was concluded already in 2022, the second was concluded in 2023. So as I said, rather holistic, basically, we negotiate with each and every customer, and that took quite some significant price increases. We haven't planned yet anything as a kind of third wave going into the new year that would be at risk then out of such a market development. Second thing is of course, we have also starting from 2022, reviewed and revised basically all contracts in order to give us systematically clearer levers for further price increases on the input cost side. And these enhanced price sliding clauses that I'm talking about would potentially also kick in in future. So that's the only major point that I would see where we would need to adapt prices systematically. For other reasons, I don't see any reason why we should adapt pricing levels going into the future downwards. I don't see that. But of course, the price sliding clauses like in a marriage, in good times, as in bad times, would kick in then once a certain development of an indices would occur. In regards to content per vehicle, we still hold upwards our target of roughly 4% across all regions. Growth in content per vehicle might be depending on the customer structure that you would have in a given market, maybe a year, 3.5, the next year, 4.5% or what have you. It would be oscillating around that 4% line. And that is something that we should always see on top to the market development of the underlying market for us. So we still think that this is a valid figure going into the future. As you also know Holger, the 4% is a global leverage figure. The improvement rates that we could see in terms of content per vehicle are above the 4%. If we talk about Asia-Pacific region, it would be below that level. If we talk about Europe, and if we talk about North America, we would be somehow on the average kind of level. So that's the overall view of myself on pricing going into the future and content per vehicle.

Holger Schmidt: That's very helpful. And what are the key applications driving the content per vehicle?

Frank Weber: What do you mean key applications? Key products, you mean?

Holger Schmidt: Product areas, yes.

Frank Weber:

I meant that that's a very, very heterogeneous field. Overall content per vehicle is fuelled of course to a large, large extent by all the regulation changes that yo*u* would see around the globe. Those stem from emission regulations, safety regulations in basically each and every country with each and every different timings that you would have. And it would be in the field of basically all the products that we have out there, but most to the largest extent to all the safety relevant products that we have. But it's from air disc brakes down to EBS, electronic braking systems. So it's basically across the floor flight.

Holger Schmidt: Okay. Thank you very much.

Frank Weber: You're welcome, Holger.

Operator: Thank you. The next question comes from Sven Weier from UBS.

Sven Weier:

Thanks for taking my follow-up questions. They are all related to M&A. First one is regarding the reports that you would be interested in buying Escorts Kubota's business, I haven't seen you confirming the deal today. So does it mean you walk away from this, and then what would be the risk that maybe competitor snaps up the business given the importance of India to your business overall?

Marc Llistosella:

I will take this question. Escorts is of no interest for us as long as the seller tries to cash in a temporary increase in revenues. They want five euros per one-euro revenue or something like this. And this is in a range where we absolutely have no interest. Our business in India is organically growing. We are having a very good relationship with Indian Rail, which is by far one of our most important customers in the region. And we are not desperate to go for some assets which are now flown on the market. Hopefully, this makes it very clear.

Sven Weier:

Yeah. So it's not a general no, but it depends on the price. Yeah, I got that. Second one is just regarding the reports that Conti could be pulling out of autonomous business. And I remember you have this joint venture on the software side and I was just wondering if that would impact at all your plans in the business and how you would respond to that?

Frank Weber:

You know that we have not only this one project, but it's basically focused about the seeing dimension of the autonomous driving, seeing, thinking, acting, those are the three dimensions, and it's about the camera, LIDAR, radar systems that we would be cooperating with them on certain fields. We have to wait somehow and see what they're really intending to do, and whether that would have an impact on that business relation. But it's basically only in the seeing dimension and it's about some subsystems that we would need for our product offering. And we don't have any signals yet whether they would pull the plug or something like that. We don't know at this point in time. We watch it carefully, but so far we have no indication at all from Conti that any of our projects would be in danger.

Sven Weier:

Clear. And finally, if I may, just Kiepe, I was wondering what's the latest there in terms of closing the deal and the 200 million mark you mentioned earlier, whether they are in rail, whether they're on trucks or both?

Marc Llistosella:

I will take this. The two assets are not in rail, they're in truck. So in rail, we are now in the phase where we are putting all the data’s on the table. So we make a clear either turnaround story or we have to make a call. In truck, we have a little bit of a head run by six to nine months. And here we have to find two assets which are of no strategic interest for us on the longer run. They will come on the market by November, December. And in terms of Kiepe, I will be very honest to you, we are not super happy how the process ran. It took us now, I think nearly 10 to 12 months. And one thing for sure we are very close now. I would say, the detailing of the closing is now on the table, and it's very clear. If it does not come this year, we have to reconsider how we will progress. And I will be very clear, and it's clear to you because I think the most important for this call is expectation management. We have to be honest to you, we have to be clear so that you can expect something from us. This is the reason and the purpose of this kind of calls. Otherwise, we can send you just some written documents. And I will be very clear, Kiepe is a good company and we are now in the process to finalize it. And your question's right, because now we took already 10 to 12 months. The whole process is exceeding by far what we had in our plan, but there is an end to it, left or right, that's for sure.

Frank Weber:

And maybe additional information for you, Sven, you have maybe seen the press release of Perac which is the SPAC that would ultimately absorb Kiepe via this company, Heramba. They have made the press release indicating that it is about Kiepe, all about Kiepe. Now it's about closing that finally and close the business combination agreement, so to say, in the end, so that this was signed the business combination agreement by them. So, it's about basically this and to provide us also with a certain amount of guarantees which are closing conditions. And seems also at the Nasdaq where the SPAC is listed, it's not that cosy currently, so we expect to do it as soon as possible. It's not depending on us, it's more on the buyer side, so to say, where we have some process timing issues. But we intend to do it as soon as possible, the closing.

Sven Weier: That's very clear. Thank you both.

Frank Weber: Thank you, Sven.

Operator:

Thank you very much. Dear ladies and gentlemen, as there are no further questions in the Q&A session anymore, I'm handing back over to the host.

Andreas Spitzauer:

Thank you, Operator. Thanks for your time, for your questions. If you have further questions, please let us know, and we wish you a great afternoon. Thanks and bye.