Transcription of the Q1/19 Conference Call of Knorr-Bremse AG

Munich, May 29, 2019

The spoken word applies!

Ralph Heuwing, Member of the Executive Board

00:00:00 Operator

Dear ladies and gentlemen, welcome to the quarterly financial report of Knorr Bremse AG regarding the presentation of the Q1 2019 results. At our customer's request this conference will be recorded. As a reminder, all participants will be in a listen only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty seeing the conference, please press * key followed by 0 on your telephone for operator assistance. May I now hand you over to Andreas Spitzauer, Head of Investor Relations, who will lead you through this conference. Please, go ahead sir.

00:00:34 Andreas Spitzauer (Head of IR)

Thank you, Miss Sanders. Good afternoon as well as good morning ladies and gentlemen. My name is Andreas Spitzauer, Head of Investor Relations of Knorr Bremse. I want to welcome you to Knorr Bremse's conference call for the Q1 2019 results. As a reminder, the conference call will be recorded and is available on our homepage: www.knorr-bremse.com in the investor relations section. You can find today's presentation there as well. It is now my pleasure to hand over the call to Ralph Heuwing, the CFO of Knorr Bremse. Please go ahead Ralph.

00:01:15 Ralph Heuwing (CFO)

Yes, thank you Andreas, and also thank you Miss Sanders. Dear ladies and gentlemen, I warmly welcome you to our conference call for the first quarter results of Knorr Bremse, 2019. Sorry for the background noise.

First of all, I would like to present highlights for the first three months of the year, followed by a more detailed explanation, especially on the divisional level. Thereafter, I would like to conclude my presentation with an updated outlook for the rest of the year, followed by our Q&A session.

Let's start with chart three in our quarterly highlights. Considering the increasing uncertainty in the global economy, Knorr Bremse's start into 2019 was actually very successful. Our performance was also remarkable when compared to other segments in the industrial goods industry, such as automotive. We continued to grow profitably and managed to push further ahead with our strategic agenda to broaden and deepen our product portfolio in both rail and truck. Orders received reached 1.9 billion, a new record value in a single quarter and an increase of more than 5% year-on-year, a notable performance. At 1.8 billion euros revenues were 9% stronger compared with last year's performance. This dynamic development was driven by both divisions and across all major regions. Going forward, the strong book-to-bill ratio of 1.08 and the record order book of 4.7 billion euros provides good visibility and should support revenue development in the coming quarters. EBITDA margin improved to 19% in the first quarter of 2019 after 18.3% for the same quarter last year. Despite some cost burdens that we already saw in the last quarters of 2018, our operational performance was solid. In Q1 2019 we benefited from the first-time application of the IFRS16 standard too, accounting for 70 basis points in the EBITDA margin.

During the first quarter of this year we have been quite active on the M&A front. The main objective of these transactions, which are displayed on chart 4, was strengthen, compliment and expand our strong market positions in rail and truck. We are able to broaden our product portfolio and at the same time improve time to market and access to customers with new solutions and services. It is important to us that we leverage our market leading position in innovation and technology for growth in new products and services which is the foundation of our business success. Especially the acquisition of the steering business of Hitachi Automotive Systems is an important step to combine steering and braking. Together, those two systems will be the key actuators for advanced driver assistance systems and highly automated driving technology. The closing of the acquisition was at the end of March and we will account for the revenues and profits within the CVS segment, starting in the second quarter of 2019. In addition, our truck division make a second investment in the field of steering. We took a 50% stake in Sentient, a Swedish company that develops software for vehicle motion control and steering applications for trucks. These products assist the driver in avoiding unintended lane departure or resisting disturbances from the road and tires without compromising the steering feel.

On the rail side, I want to highlight first of all RailVision. We acquired a 21% stake in this Israel-based company which is active in the field of sensoric vision and creates visibility for up to 2,000 meters ahead of a train. Based on infrared and video technology, Rail Vision provides obstacle detection capabilities, which are key for realizing automated driving functions. We also bought the US-based company Snyder, which is an industry-leading manufacturer of, for example, service equipment for locomotives. Its know-how includes remanufacturing of RVS equipment. With Snyder, we will further strengthen our after-market revenues in the North American market of RVS. Last but not least, our rail division took a 32% stake in Railnova. This Belgian technology company provides both fleet and maintenance workflow software and telematics solutions for the railway industry.

Let me now dive deeper into our results in Chart 5. Our order intake on the group level for the first three months of this year was up more than 5% compared with the same period last year. Please note that this was predominantly organic growth. The positive FX tailwind contributed approximately 2 percentage points to our order growth. The order book as well increased to a new record level. With 4.7 billion euros we have a visibility of more than 8 months, sufficient time to respond to any potential market changes in the coming quarters. Our revenues grew even faster, at 9% and came in at 1.76 billion euros for the quarter. All major regions contributed to this development. FX tailwind added approximately two percentage points. The strongest growth contribution, actually with some distance, came from North America. Here the revenue growth of 27% was clearly outstanding, reflecting good momentum in metro, freight and locomotives for our rail division, as well as content growth for our truck division. It, of course, was also positively influenced by an FX effect amounting approximately to nine percentage points. The Asia-Pacific region delivered a growth rate of 8% and Europe achieved 3% in revenue growth in the first quarter of 2019.

Let me continue with the explanation of our profitability on Chart 6. Our EBITDA followed suit with our revenue growth. Group EBITDA came in at 334 million euros, up 13% compared with last year. This equates to a margin of 19%, 70 basis points higher than during the same period last year. The performance in Q1/19 provides a solid basis to reach our profitability goal in 2019. This increase in profitability was supported by a change of accounting standards. On a like-for-like basis, i. e. IFRS16 impact, or EBITDA margin was at the same level of 18.3% as the Q1 2018. Let me highlight, though, that the first quarter of 2018, the EBITDA margin was considerably stronger than the second quarter of 2018, which reached only 16.8%. The main reason behind the margin development in the first quarter of 2018 was the reversal of provisions which took place in the other EBITDA line, the difference between the group EBITDA and the divisional EBITDA. Normally the underlying other EBITDA line should be negative in the mid to high, single-digit million-euro range per quarter, driven mainly by central costs. In summary, we consider the margin development in the first quarter 2019 to be rather strong. On an EBIT level, we were able to increase margins too, driven by lower depreciation. The first quarter of 2018 had seen an extraordinary write-off of assets held for sale, which, you will remember, actually got sold off in the fourth quarter 2018. EBIT margins increased by 140 basis points with almost no tailwind from IFRS16. At 15.6% or EBIT margin continued on the strong level of Q4 2018.

Turning to slide seven: our operating cash flow in the first quarter of 2019 improved by 9% year-one-year, despite the revenue growth driven increase in net working capital and higher investments, predominantly in capacity expansion. In the quarters to come, we expect to strengthen our operating cash flow mostly by improving networking capital.

ROCE was somewhat lower at 32.2% in the first quarter of 2019. The decline reflects the first time application of the IFRS16 standard with approximately 3 percentage points as well as the higher level of trade accounts payable. For the later topic, we expect an improvement in the next quarters.

The increase in CAPEX reflects capacity expansion for continued demand for air disc brakes in North America, as well as the Munich-based site development.

Let's move on to the divisional view, starting with RVS on slide 8. In the first quarter of 2019, order intake of Rail Vehicle Systems was up 10%. For the first time we were able to post an order intake of more than one billion euros in one single quarter, a new record level. Drivers for the strong development have been several: the high demand from the metro segment in Europe, North America and Asia, additionally we won several orders for freight cars and locomotives in North America, and finally, order intake in our after-market business continued to grow at a healthy rate. Based on the strong demand for our products and services, our order book advanced as well. At the end of the first quarter it reached a level of more than 3.3 billion euros. Hence, our visibility stood at 11 months of revenue.

Moving on to revenue and profitability for the rail division on page nine. In the first three months of 2019 revenue increased by over 9% to 911 million euros. In Europe, top line growth was supported by the OE development in the segments freight cars, regional and commuter, as well as metros. In Asia we realized good developments in our Indian OE business and in our Chinese after market growth. There we see that increasing numbers of high-speed trains which we delivered 8 -10 years ago, are entering the first phase of overhauls. Given that our OE products are often quite captive in the after-market business, we expect that our Chinese after market will be an important growth driver for our top line going forward. Currently we have established 29 service locations in China, which are a clear USP in terms of being close to our customers. Our OE business in China developed solidly. In the region North and South America, revenues benefited from good demand for on-board systems, a strong after-market business, and a positive development in the freight segment. The development of RVS profitability in the quarter was especially satisfying for us. EBITDA grew by 27% to 200 million euros and EBITDA margin was at 21.9%. Even excluding the positive impact by IFRS16, the margin was well above 21%, outgrowing last year's figure. The drivers for this strong performance were, first, positive volume effects with corresponding operating leverage. Second, support from our after-market business and its impact on mix and third, the disposal of the loss-making business of Blueprint and Sydac end of last year.

On slide 10, I would like to continue with the development of our truck division. Order intake for CVS was 859 million euros in the first quarter of 2019, which is basically on the same level as the year before. Currently we assess the demand in the truck division by our customers, overall as healthy and solid. In the US, truck production numbers have risen further and we benefit from a high order book from our OE customers. The Chinese market, just by size and nature of the business, is more volatile. Now, with the truck production rate down by 1.2% year-over-year, the market is normalizing from pre-buying activities in the past. We expect the new emission standards, however, which will be introduced next year, to be supportive for our order intake in China in the quarters to come. We expect a stable truck production level in the European market. TPR is still on a high level. In the first quarter of 2019 our order intake benefited from increasing content per vehicle across the globe, but particularly in North America. Especially the higher demand for products in the field of driver assistance systems, as well as the ongoing migration from drum brakes to air disc brakes were the drivers behind our growth. Overall, we were able to book a solid performance from OE orders across all major markets. The order book for our truck division was at 1.38 billion euros at the end of the first quarter 2019. This provides a visibility of 5 months revenue, a comfortable level to adjust capacities, if and when needed.

Let's move on to slide 11. CVS posted 846 million euros in revenue for the first quarter 2019. Compared with last year's figures, this is a strong increase by more than 8%. With this development, our truck division was able to substantially outperform the corresponding global Q1 production rate of trucks, which advanced by a moderate 1.6%.

The basis for this outperformance lies in the ongoing growth of content per vehicle and a favorable geographic mix. In Europe we saw solid revenue development too. In the first quarter of 2019, CVS achieved over 140 million euros in EBITDA at a margin of 16.6%. In comparison with last year's rather strong Q1 EBITDA margin, this was slightly lower, but it continued at roughly the same level that we saw in the third and fourth quarter last year. The drivers for this development were, like in recent quarters as well, material cost inflation and ongoing supply chain constraints which the whole industry has been facing. We are working hard to address these issues and hence have initiated a program to improve our European cost structure. In addition, we witnessed a slightly lower aftermarket share in sales which was predominantly driven by our strong OE performance. Moreover, we are prepared for the eventuality that truck production rates should fall towards the end of the year. For this case, we have designed our costs program in such a way that we can quickly escalate it to the next level if and when needed. On the other hand, we continue to invest strongly in our future. Especially, we are focusing on the field of highly automated driving and advanced driver assistance systems. We believe that these two topics will be the key for the future success in our industry.

This is actually a good moment to talk about our steering acquisition on chart 12. We closed the acquisition of the commercial vehicle steering business of Hitachi Automotive Systems, as announced, on March 29. In the future, it will operate under the name Knorr Bremse Steering Systems Japan. As you will remember, our strategic rationale behind this acquisition was first, to strengthen our position in steering, which is coming closer together with braking in a highly assisted and automated driving scenario. Second, to gain better market access in Japan and in China, two important truck markets globally. And third, to expand our product portfolio of CVS and hence further strengthen content per vehicle. Going forward, KB Steering Systems Japan will be responsible for the development of our global torque overlay system as an important enabler for motion controlling within automated driving for commercial vehicles. For the rest of the financial year, we expect that this new unit will contribute approximately 60 million euros in revenue, an EBITDA margin of approximately 10% and an EBIT margin before PPA of almost 7%. For the time being, this acquisition will dilute our CVS and group margin to some extent.

On slide 13, we put together the main effects on our top line guidance when comparing 2019 with the previous year, as well as the bridge toward our updated guidance following the acquisitions. Last year, you remember, that we disposed subsidiaries which did not fit our strategy and were making losses, namely Sydac and Blueprint. Together, these had posted revenues of 68 million euros last year. Starting from this normalized basis, we expect organic growth between 3.8% and 6.9% in 2019. This is unchanged compared to what we said at our preliminary results and in our annual reports. Also, for purposes of clarity, it refers to the FX rates prevailing in March 2019. In addition, the acquisitions of the last months are expected to support our top line by 75 million euros in 2019. This leads us to an updated revenue guidance of 6.875 to 7.075 billion euros in 2019.

On slide 14, following the same logic, we have put together the main drivers for our profitability, when you compare 2019 with 2018, as well as the impact for accounting changes and acquisitions. The one-time disposal and operating losses plus the IPO costs, accounted for in 2018, should add 60 basis points to our 2019 margin. The first-time application of IFRS16 standard should lift our EBITDA margin by another 70 basis points. The impact on the balance sheet and the respective KPIs has actually been disclosed in our annual report. At the same time, we expect that the acquired companies are not, or not yet, contributing at the same level of profitability compared with our existing businesses. Therefore, we expect a small dilution of 20 basis points. We do, however, expect them to catch up and improve their profitability in the coming years.

Putting all these topics together, we expect now an updated EBITDA margin of 18.5% to 19.5% in 2019. In essence, our underlying guidance for top and bottom line is confirmed and just updated for accounting changes and acquisitions. Last but not least, I want to mention that despite the fact that almost all of our business units show a strong financial performance, we are diligent and decisive in addressing signs of weaknesses or under performance. In this spirit, we announced the closure of our steering plant production operations in Wülfrath in Germany last week. We had already flagged potential restructuring efforts in the IPO prospectus. Following the early termination of a large passenger vehicle steering order, the Hitachi acquisition and a redesign of our global production footprint, it became evident that this step became necessary. We expect a low double-digit million euro restructuring charge we recognize, regarding Wülfrath in the second quarter of 2019. Against this, however, we expect to benefit by avoiding losses also in the tune of a low double-digit million-euro figure from 2020 onwards. Let me stress, however, that we plan to retain the engineering expertise of KB Steering in Germany and make this team a center of competence for our R&D and engineering program.

With this final comment, I would like to thank you very much for your attention. I am now handing back to Mrs. Sanders and look forward to your questions.

00:23:13 Operator

Ladies and gentlemen, if you wish to ask a question, please press '01' on your telephone key pad now to enter the queue. Once your name has been announced you can ask a question. If you find your question has been answered before it is your turn to speak, you can dial '02' to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment please for the first question.

The first question is from Ingo Schachel, Commerzbank. Your line is now open.

00:23:43 Ingo Schachel (Commerzbank)

Yes, thanks very much. I would have two questions. The first one would be on your North American business in commercial vehicle systems. I think that in terms of top line growth there was a really very impressive performance, not only compared to end market growth, but also compared to competitors with a similar product mix. You had a much stronger organic growth rate. Of course, you leverage it on certain factors that contributed, but it is still seems to be higher than one would have expected, even taking into account some of the technology points you mentioned. I was just curious whether you had any specially stacked, one-off client wins or short-term market share gains because of your ability to deliver which has impacted Q1 out performance specifically or whether we might hope that this performance is sustainable for at least the next quarters. The second question would be on your cash flow, or networking capital build up specifically. Of course it is clear that networking capital goes up in the first quarter, but I think this year it is 50 million more than in last year and even last year you were saying that you were not entirely happy with the first-half networking capital build up impacted by specific factors in rail vehicle systems. Just curios whether you could talk about the 50 or 100 million higher networking capital than normal that we saw in the Q1 2019 and then quantify a bit maybe how much of that is related to commercial vehicle systems and entry build up versus rail vehicle systems payment terms or eventual other factors.

00:25:06 Ralph Heuwing

Yes, Ingo, thanks for your questions. We are indeed happy about the North American CVS revenue development. I really cannot point to any special effects that accrued in 2019 first quarter, but I will say that the first quarter of 2018 was, relatively speaking, weaker. If you now look at the developments over the four quarters of 2018 then second, third and fourth quarter were quite similar in revenue, but Q1 was actually a bit weaker, so we are comparing a particularly strong Q1 2019 with a weaker Q1 2018. If we push individual quarters aside, I can just confirm that growth momentum is keeping on and we are particularly happy that this is not just driven by truck production rates but by content as well. On the working capital build up, yes, you have put the finger in an area for improvement. The buildup of working capital has been almost exclusively on the rail vehicle side, only to a small extent from CVS, and there it is a combination of receivables and inventories. Clearly, with the strong growth, it leaves its mark on the working capital. You have seen that our growth rate in RVS was stronger than in CVS and our average working capital days is actually higher on RVS so there is also a mix effect that is coming into play here. We have initiatives underway which are both addressing receivables and inventories and as we have shown last year, we hope that we show over the next quarters a gradual improvement in our working capital ratios.

00:27:24 Ingo Schachel

Okay Ralph, maybe a quick follow-up on the US market question just on the air disc brake investments that you disclosed in your CAPEX numbers for Q1. Can you remind us what the total planned investments and the timing of those investments is going to be?

00:27:38 Ralph Heuwing

Yes. Remind is a good word, because we didn’t mention it earlier, how much that would be. We have told the market that our air disc brake capacity is actually at its limit and we needed to expand. Following the increasingly growing transition from drum brakes to disc brakes. For that purpose, both in the locations in Huntington and Bowling Green, we are expanding our capacities. The total amount will be something like 40 million euros in those locations and we have recognized maybe 30% of that in the first quarter.

00:28:44 Ingo Schachel

Okay, thanks very much.

00:28:50 Akash Gupta (JP Morgan)

Yes, hi, good morning Ralph, thanks for your time. I have a couple of questions as well. My first question is on China and particularly on railway vehicle systems side, so, maybe if you could talk about book-to-bill that you have seen there in Q1 and how is the pipeline looking there for the rest of the year. And also, if you have seen any change in customer behavior there. So that is question number one. Question number two is about financial impact that you mentioned that you will take low double digit restructuring charge in Q2 - will that be taken above the line or below the line? Just to get some clarity on how it will be treated in financials. And my final question is on, given that we are on towards the end of May, if you can comment anything about Q2 trading that you have seen in the past few weeks of Q2, particularly on older index side. Thank you.

00:29:35,5 Ralph Heuwing

Yes, Akash, firstly on Rail China. Our revenue development, and let me be a bit more general, if you allow that, was positive from the first quarter of 2018 to the first quarter of 2019, and we grew by roughly, yes, by double-digit figures actually, in revenues. Our book-to-bill, for the region, was somewhere around 1.3 actually, so it has been rather positive. But within that, I would say after market has shown a particularly dynamic development. And metro would be the second in line and High speed would be the third in line. So, our composition over the years will probably shift more towards after market and more towards the metro segment.

Change in customer behavior - I mean everyone is always asking about level of competition. Yes, we are experiencing competition, no doubt, but on the other hand, we are also well entrenched and we are participating in the China investment phase steps that everybody is experiencing.

On your second question, restructuring charges, to be very honest we have not yet fully decided the way of disclosure yet. It also depends a bit on the size. There are some negatives and some positives which we are still in the process of negotiating and in order to protect that negotiation, we do not want to get into a deeper level of disclosure at the moment. It will, however, be shown in the second quarter.

Then, in terms of second quarter trading, of course I cannot talk too much about it, but April and May have felt like good months. So, we are continuing to experience positive developments. No change in sentiment, let's put it this way.

00:32:04 Akash Gupta

Thank you. And just to follow up on CVS segment. So, if I look at your revenue development there, 8.4%, if you can say how much of that is driven by your volume against content growth. I mean, you say truck production is up 1.6% but your volumes might be different than global truck production.

00:32:26 Ralph Heuwing

Yes, this is of course mostly a question of exposure to the different end markets. The 8.4% growth also benefited, frankly, from FX. As you know we have a stronger exposure in North America in the CVS segment and if you normalize for FX developments, the organic growth would have been 5.6% and not 8.4% and so this is maybe one important aspect to consider. Other than that, I would say the outperformance has been pretty much … you can just take the 5.6 and the 1.6 and you get roughly the outperformance in terms of content per vehicle.

00:33:33 Akash Gupta

Thank you, Ralph, I'll go back in the queue now, thank you.

00:33:40 William Mackie (Kepler Cheuvreux)

Ah, yes, good afternoon. Thank you for the time, Ralph, Andreas. Can I go back to the organic growth first as the first question. You have achieved good growth in both divisions but can you perhaps walk through the core assumptions in each division that you are thinking that put you in the range of 3.8 to 6.9% organic growth for the full year in terms of what are you thinking in terms of CVS related to TPR levels in each of the regions and in rail, when we look at the OEMs have record backlogs and in many cases ramping up activity levels, so what are you thinking with regard to volume growth in rail versus CVS this year? And looking at such a strong quarter and having had a good start in Q2, should we think that it is more likely you'll be to the top end of that guidance within organic growth. That is my first question around that area. The second is within CVS perhaps more details but when I look at the relative growth of the after-market within CVS on an absolute basis reported, compared to the OE business, it almost seems as if the after-market business was flat year on year, the way you have split the revenue disclosure. Can you perhaps explain a little bit more of why that is flat and where the trends are with regards to growth in CVS after-market versus contraction? Where are the puts and takes? Thank you.

00:35:13 Ralph Heuwing

Yes, well, as always, sharp questions. So, let me first say that the developments here to date haven't caused us to change our guidance with respect to organic revenue growth. So, we … and it is of course early in the year, things can happen, therefore we have basically said: however the first quarter has gone, we will stick to the full year guidance from an organic perspective. The second point is, if you take the mid points of our growth in RVS and CVS for the full year, then we were indicating that RVS would grow by 5.4% and CVS by 2.8%. So, there is a clear growth differential, and this is, as you remember, without any FX changes. So we would basically see a clear differential in growth between the two segments, which, if you normalize for FX effects we also saw in the first quarter. So, from that perspective we are in line. Now, your question about the core assumptions behind RVS and CVS: I would just say that we are not expecting a big push or a tailwind from truck production rates this year. They have started strong, but they have the potential of weakening over the year. Not confirmed, but this is also what other industry participants are expecting. Therefore, we believe that the full-year growth rate, currency adjusted, might be in the range that we guided. So, on top of the TPR projections, we assume that we will benefit to the tune of 3 or 4% from content per vehicle. On rail, I would say again, our out performance that we have demonstrated historically, plus the underlying 2 to 3% market growth, leads you to where we have guided. Now, again, it may turn out that actually the full order books of our customers also provide further potential for us, but we feel it is too early in the year to correct our guidance in this respect. On after-market CVS, yes, you are actually right: we have seen a flattish after market development. This is quarter on quarter 18 to 19. I have to, however, say that we had some pushover from last quarter 17 to first quarter 18 because of some supply chain constraints on the truck side, where we couldn't deliver in the fourth quarter of 17 and therefore we had an increase revenue in after-market in the first quarter 18 and we are comparing now 19 with that reasonably strong first quarter 18. That is why it was basically flat. And on rail: we actually had quite the opposite development - a very strong development in the after-market, clearly double-digit growth.

00:38:44 William Mackie

Thank you for confirming that. Just one short follow-up: when I look at the P&L, you highlight a 220 basis point increase in the cost of the materials, which you have been able to offset with personnel costs and other expenses, firstly perhaps you could explain a little more of what was driving the cost of materials. Is it across the group or is it concentrated in one of the divisions? And really, how sustainable the personnel savings or, relative, or the other cost allocations savings are to continue to offset that as the year progresses. Thank you.

00:39:39 Ralph Heuwing

Yes, to be honest, a lot of this development goes back to mix effects, both in terms of after-market to OE in truck but also in rail. You see that after market in truck went down. You see that after market in rail went up and those basically shifted the cost structure in terms of consumption of material on the one hand, and the use of labor on the other hand. This is actually most of the reason. It is not really structural, except of course for the disposal, that is a more structural change. You could also see, at the end of last year, that we reduced our head count in a sizeable way because of the disposal. So that came to bear as well. But I warn to over interpret quarterly cost compositions to be fully understood as structural changes because a lot of it is, as I said, mixed driven.

00:40:46 William Mackie

Excellent, thank you very much.

00:40:55 Ben Uglow (Morgan Stanley)

Afternoon Ralph and Andreas. Thank you very much for taking the question. I have two. The first is on the RVS margin. If we look at it, it has gone from 18.8 to 21.9. If we adjust for the IFRS it is about 240 basis points. Could you give us a rough sense, and I don't know, as rough as you like, on how big the mix effect is in that margin improvement. What I am trying to understand is mix versus volume and how they kind of shake out in that healthy RVS margin. So that was question number one. Question number two: on China, if we look at the development of the after-market, you mention that there was a, if you like, some of the OE sales of a few years ago were beginning to come to friction. Am I right to assume this is retrofit, basically upgrade on some of the high speed contracts we were seeing a few years ago, three, four, five years ago, or is this something more broad based? Those are my questions, thank you.

00:42:15 Ralph Heuwing

Yes, Ben, the impact of mixed on the margin, well, I mean it is actually quite consistent with what we even said back at the IPO: what are the drivers for margin expansion going forward? It is of course, to a good extent, the growing after-market and this is a fact. At an organic, FX adjusted and also disposal adjusted growth rate of 10.7%, you can bet that there is also operating leverage at work. I'll stay at that level, we have, you may just say that we sorted our arguments in that order, first operating leverage and performance improvement, second positive OE/ AM effect. I think they are roughly similar in size; I don't think there is a huge difference between those two. On the after-market in China, there is a … I would rather call it overhaul than retrofit, but maybe it is the same thing in your language. It is basically more trains actually coming of age, in a way, so that you have to take them back and completely overhaul them before you recommission them. This is always a chunkier business than just the replacement of consumables or repair and maintenance work. We have always said that this will be a growth driver and we are experiencing that it is. There is even a nice study that you will know, I am sure, which actually has a more detailed description of what is happening in the Chinese after-market and also what to expect. Or course everyone has their own opinion on the future development of those, but it will be a key driver of growth for us.

00:44:30 Ben Uglow

You would assume that this is something that is going to continue for the next couple of years. This isn't a sort of one-time effect in the next six months.

00:44:40 Ralph Heuwing

Yeah, and not just a couple of years. Those trains will be there for three or four decades, and they will go through these cycles again and again. As long as we add additional volumes, we will see that growth.

00:44:54 Ben Uglow

Thank you very much for the time.

00:45:07 Sven Weier (UBS)

Yeah, good afternoon gentlemen. Thanks for taking my questions. Actually, four quick ones, if I may. We'll take them one by one if that's okay. The first one is just referring to your content per vehicle mention on the US and I was just wondering if you could give us a sense of where we are now on the disc brake penetration rate in the order intake that you see and how quickly you see that going to a high double-digit level maybe. And you haven't mentioned AMT trucks as a driver, so I was just wondering if you think that transition is already completed. That would be the first one.

00:45:47 Ralph Heuwing

I think both are, both trends still have a nice runway. I would say the runway is even quite some distance longer on the air disc brake. What we see is that maybe 25% penetration has been reached and it is continuing to rise, which has caused our investment that we described, and this even in a scenario where maybe volumes, truck numbers would be flat or even slightly decreasing. So, we do see a continued demand for air disc brakes, that is why we are building this capacity.

00:46:25 Sven Weier

And on the AMT side? Where do you stand there?

00:46:31 Ralph Heuwing

I think this is, if I am not mistaken, beyond 50%.

00:46:38 Sven Weier

Okay. Good. The second question was just on the book-to-bill in CVS. You mentioned, obviously, that it is just 1.02 for the division as a whole. I was wondering if you could share the number with us for the OE business, because we have spoken about the sale trends between OE and the after-market, but not in the order intake. So, just wondering if that one was also above 1 for the OE side.

00:47:14 Ralph Heuwing

I would say so because, as I mentioned, the after-market actually went down, so if you consider this, we may have 1.04 or something like that. Yes, round about 1.04 on the OE side.

00:47:35 Sven Weier

Okay, thank you. The next one was just obviously you are now closing the Wülfrath site. I was just wondering if anywhere in CVS or RVS you still have other loss-making units where we could see further restructuring action this year or next?

00:47:48 Ralph Heuwing

Let me answer more generally. We do rigorously and with diligence review every single unit to make sure that we are always staying ahead. As any portfolio, you have the stronger ones and the weaker ones and I cannot disclose any particular candidates for the moment, but I wouldn't exclude the possibility that we will find one or two more such candidates.

00:48:17 Sven Weier

Okay.

00:48:19 Ralph Heuwing

Which you should consider to be good news, because there is always the question: where does the additional potential come from?

00:48:32 Sven Weier

Yeah, I was just wondering if there are any obvious things, right? I am not sure how obvious Wülfrath was to the market but is there anything really imminent as well.

00:48:51 Ralph Heuwing

Not to a level of concreteness where I would like to disclose this right now.

00:49:00 Sven Weier

Okay. And then the last question is just on the CEO departure, sorry, I wasn't on the call back then, but I was just wondering in terms of the job description of the CEO, I mean, do you see a possibility that the job allocation within the board changes a bit, because as far as it is now, obviously all the divisional responsibilities rest with the divisional board members, and it seems that there is a bit of an uneven allocation. So, do you think that is potentially changing or is that completely flexible.

00:49:32 Ralph Heuwing

I mean, firstly, this is, at the end of the day, a question that needs to be directed to Professor Mangold, but I would just like to clarify, HR has actually been allocated to Dr. Wilder, who is otherwise in charge of the rail division, and our initiative Knorr Excellence, so for example the Knorr production system, but also the initiative, the cross-divisional initiative on digitalization has been allocated to Dr. Laier. It is not just a, let's say central versus divisional setup and I think, as always, there is a profile that is being looked for and then there is a candidate and then there are specific capabilities and one would look what is the best team setup, yeah? Like in any other sport.

00:50:36 Sven Weier

And there was obviously an article in the manager magazine last week that Mt. Thiele is now more actively seeing clients again. Would you confirm that, or…?

00:50:48 Ralph Heuwing

I would not say that Mr. Thiele's interest or activity has changed because of the departure of the CEO. Mr. Thiele has a consulting relationship with our company, particularly with the executive board, and there are, as has been in the past, there will be in the future opportunities where he can add value to the best interests of both the value of his stake in the company as well as the value of anybody else's stake in the company.

00:51:24 Sven Weier

Okay, understood. Thank you.

00:51:32 Operator

At the moment there are no further questions. As a reminder, if you would like to ask a question please press '01' on your telephone key pad now.

There are no further questions, I would like to hand back to you gentlemen.

00:51:58 Andreas Spitzauer

Okay. Thank you very much for your participation. If you have further questions, please contact us and we wish you all a very nice afternoon. Thank you and bye-bye.

00:52:07,5 Operator

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