Transcription

Knorr-Bremse AG - FY 2021 Conference Call

{EV00131764} - {90 min.}

24 February 2022

PRESENTATION

00:00:04 Operator

Dear ladies and gentlemen, welcome to Knorr-Bremse full year and Q4 2021 telephone conference with CEO Dr. Jan Mrosik and CFO Frank Weber. 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, here will be an opportunity to ask questions. If any participants have difficulties hearing the conference, please press * followed by 0 on the 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.

00:00:43 Andreas Spitzauer

Thank you, operator. Good afternoon as well as good morning, ladies and gentlemen. My name is Andreas Spitzauer, Head of Investor Relations of Knorr-Bremse AG. I want to welcome you to Knorr-Bremse's conference call for the preliminary results of full year 2021. Today, Dr. Jan Mrosik, our CEO, and Frank Markus Weber, our CFO, will present the results of Knorr-Bremse, followed by a Q&A session. The conference call will be recorded and is available on our home page, 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 Dr. Mrosik. Please go ahead.

00:01:29 Dr. Jan Mrosik, CEO

Yes, thank you, Andreas. And welcome everybody, and thanks for joining us today. As usual, I will start with an overview of the highlights before Frank dives into the details in our outlook for 2022, followed by a Q&A session.

2021 was a turbulent year, full of challenges due to the pandemic, but thanks to the outstanding execution of the entire Knorr-Bremse team, we mastered it very well. We have delivered good profitability and improved all financial KPIs significantly, not only in the past quarter. In full year 2021, we generated revenues of €6.7 billion, up 9%, and an operating EBIT margin of 13.6%, 40 basis points higher year over year. With these results, we fully achieved our fiscal year 2021 guidance. Most importantly, our order book is at record level and underlines the strong market fundamentals in the rail and truck industry. CVS was the key driver of 2021 with a revenue increase of 20% and EBIT margin improvement by 240 basis points, despite the challenging supply situation in the truck industry. RVS generated flat revenues and an EBIT margin of 18.1%, slightly above expectations after another challenging year for the rail industry with project postponements. In Q4, business activity clearly improved as promised, with a very strong order intake. Following a book-to-bill ratio of 1.49, this results in a book-to-bill ratio of 1.05 for the full year. In 2021, on the basis of unaudited and preliminary numbers, we have reached the important goal of achieving carbon neutrality at Knorr-Bremse sites thanks to our own climate action measures and supported by high-quality green energy certificates. We are also fully on track to reach another important environmental goal of halving our CO_2 emissions by 2030. We at Knorr-Bremse aim to use all possible levers to contribute to decarbonisation, above all with our ambitious environmental efforts and our product portfolio, but also by tying our goals and efforts to financial commitments. So we adapted ESG targets in the short-term incentive of the management remuneration from 2022 onwards and just recently issued an ESG syndicated loan tied to our sustainability rating.

Let's move now to Chart number 3. As mentioned, we have fully achieved our fiscal year 2021 guidance. Revenues of €6.7 billion are within the range, and profitability with 13.6% is even slightly above our targets. Over and above that, two important pillars of our equity story could be proven again in fiscal year 2021: we grew faster than the markets, and profitability showed a high level of resilience. The high focus on cash and cash conversion rate, as mentioned, has paid off as well. We achieved a strong free cash flow of €600 million and a very solid cash conversion rate of 92%. In terms of corporate governance, we further shortened reporting timelines and managed to publish the preliminary figures eight days earlier this year. Increased EPS and stable ROCE at solid level underline Knorr-Bremse' superior business performance as well.

Let me continue with Chart 4 and the highlights of our Rail Division in 2021. As rolled out at the Capital Markets Day three months ago, Knorr-Bremse's strategic path consists of our traditional business and the expansion in new growth markets. Our operational highlights are a clear proof of this strategy. In 2021, RVS won major international contracts with all large OEMs around the world. Besides many others, I would like to highlight the large metro contract with Stadler in Berlin and the major Citadis equipment contract with Alstom. Both are long-standing customers of our Rail Division, and their awards are a clear sign of a continuation of our strong relationship. With the acquisition of Evac in June 2021, we expanded into the attractive market segment sanitary systems for trains and enhanced our position as a global system provider in rolling stock. Also in the area of new growth markets we can report progress. We won our first contract in the area of digitalisation, such as a cooperation agreement with Deutsche Bahn for sharing data from train operators and a data analytics contract with Siemens for remote condition monitoring of the air conditioning system of regional trains in the UK. Our partnerships with the major global OEMs are better than ever, not least due to the high innovation standard that Knorr-Bremse provides. We at Knorr-Bremse aim for new sustainable solutions, and digitalisation is becoming increasingly important. Therefore, we are expanding our R&D activities, including our involvement in start-ups like Railnova. This company is the leading supplier of railway telematics solutions and maintenance workflow software to the railway industry. Digitalisation in the rail freight business also offers great potential for us. I will come to this at a later point again.

Let me proceed to Chart 5 with the highlights of CVS, which follows the same approach of traditional business and the expansion in new growth markets. Our efforts in 2021 overall focussed on enlarging our positions in e-mobility and automated driving. In order to meet the strong demand in China, the truck division expanded its manufacturing capacities there. As market leader, we continue the strategic operation on automated manual transmission, advanced driver assistance and highly automated driving with Dong Feng. With the Global Scalable Brake Control system (GSBC), we have created a next generation technology and a strong, flexible platform for our customers, also laying the groundwork for automated driving. In April 2021, we signed a new major supply contract worth approximately €1 billion with one of the largest European OEMs. Amongst the extension to cover serial deliveries of current braking and air treatment systems, also a new supply contract providing GSBC as well as the global scalable air treatment system. In terms of new business, we won the first big contract with our electric power steering solution for Knorr-Bremse. I will elaborate on this topic later. To drive e-mobility, we founded the eCUBATOR to bundle know how of 60 specialists last year. In this context, I would like to mention the successful launch of our e-compressor Rotary Vane. It is scalable to variable e-truck air requirements and has taken the market leader position within a short period of time, with several business awards won so far. This technology will continue to strongly support our content-per-vehicle growth. In both divisions, we are pioneers in the respective megatrends and also like to engage with young companies and start-ups to enter a new business field. In 2021, we invested in the start-up Autobrains, which supplies video perception technology for realising system solutions for advanced driver assistance and automated driving.

Let me continue with an overview of the markets on Chart 6. The global rail market was clearly affected by COVID, which was mirrored by less rail traffic in 2021. Nevertheless, general market characteristics are fully intact and market drivers long-term are unchanged. The biggest rail market for RVS Europe remains a strong growth driver now and in the

future based on our strong market share, especially in brake systems. The ongoing low ridership levels around the world burdened the overall dynamics in the OE and aftermarket business, which is the reason for ongoing postponements of projects. Throughout the current year, we expect a sequential recovery demand after two quite difficult years, which should lead to a book-to-bill ratio of above 1 for RVS in fiscal year 2022. The rail market is increasingly affected by supply issues, cost headwinds from components and raw material price increases this year compared to last year. On the truck side, underlying demand in Europe and North America is currently strong, and utilisation rates of trucks remain on high levels due to the high global freight and transportation needs. So far, the CVS team has managed the crisis well. Nevertheless, the situation remains tense for semiconductors, components, raw materials and in the area of logistics. In addition, we are feeling the challenges of general inflation. Several production cuts and plant shutdowns by OEMs caused by supply issues negatively affected truck production rates in Q4. The Chinese truck market, as expected, remains on low volumes since the introduction of China 6 in July. This is also not expected to recover anytime soon. In the coming quarters ahead, we expect that the global demand for trucks will continue to be higher than supply for the industry. Therefore, the development of the global truck production rate until year end 2022 will depend heavily on the development on the supply side. In general, however, we expect a positive trend in Europe and North America. In China, however, the truck production is expected to be lower in 2022 versus 2021. But Knorr-Bremse should be able to outperform this development again.

On Chart 7, I would like to share our confidence for a solid development in the rail industry in 2022. As mentioned, rail has been hit hard by the pandemic so far, which is also visible in the order books of the major European OEMs. Please keep in mind that RVS generated roughly 50% of its revenues in Europe. Shortly before the outbreak of the pandemic, the order backlog of our biggest customers in Europe amounted to around €100 billion. In the first year of the pandemic, this backlog decreased only slightly. No cancellations and a clear positive sign from the rail operators for the long-term demand for train capacity. And there was a significant recovery over the last year. Our customers' order backlogs rose to new highs. Please note that there is usually a 9 - 18 months lead time between our customers and us. Accordingly, we expect our order intake to develop well in the further course of 2022. With this, I would like to hand over to my colleague Frank Weber.

00:14:04 Frank Weber, CFO

Thank you, Jan, and welcome everybody from my side as well. Let us get into the numbers for the full year 2021 before we look into Q4 in more detail later on. The performance and resilience of Knorr-Bremse in 2021 in such a difficult economic environment confirmed the special robustness of both of our businesses once again. Nevertheless, Knorr-Bremse was not fully immune to some negative impacts caused by the pandemic, even though to a significantly lesser degree than others, and ended the year with overall good figures. Order intake was up by 13% to €7.3 billion. The order book also grew once again by 12% to now new record levels of almost €5.6 billion and a book-to-bill ratio of 1.09. A more than solid basis for the expected development this year and our future growth path. Group operating EBIT margin improved by 40 basis points to 13.6%. This strong development of profitability was driven by efficient cost measures and the strong business performance in CVS and RVS. Our focus on cash preservation measures led to a strong free cash flow of €600 million and a cash conversion rate of 92%.

Let me give you a short overview of the development of Knorr-Bremse's balance sheet KPIs, the backbone of our superior financial profile, on Chart 9. Considering the uncertain economic development last year, it was important for us to maintain a high level of stability and flexibility in financial terms, while at the same time we deleveraged the company from higher levels driven by COVID, end of 2021, our gross debt/EBITDA reached a ratio of 1.15 and our net debt/EBITDA, of -0.09. In all our efforts, we tried to maintain a healthy level of equity, which finished the year with €2.43

billion and represents a strongly increased equity ratio of roughly 34%. At the beginning of the pandemic in 2020, we drew credit lines of €750 million, which we fully repaid by the end of the first half of 2021 already. Additionally, we paid back a bond of €500 million in December 2021. Therefore, we were able to reduce our gross debt by 38% to below €1.4 billion. Liquidity reached a level of almost €1.5 billion after more than €2.3 billion a year earlier due to the aforementioned deleveraging measures. The strong resilience of our balance sheet and the good development of business activities are also confirmed by rating agencies. Moody's rates us A2, and Standard & Poor's with A.

Let's continue on Chart 10. Knorr-Bremse's high profitability on invested capital, strong working capital management and prudent investments resulted again in an outstanding return on capital employed of 25%. It was almost stable versus prior year, supported by and due to increased EBIT, which mitigated a slightly increased working capital, which was basically driven by revenue increase and FX effects. Earnings per share was strongly improved by 26% year over year, underlining the high quality of our business and the success of our measures to fight the headwinds also below the line, like financial results and tax results improvements. Therefore, in combination with our dividend policy of 40% - 50% of net income, creation of shareholder value through higher return on invested capital and earnings per share is key to us. Further details on our dividend proposal for 2021 will be announced with the release of our Annual Report at the end of March.

Let's move to Chart 11. On operating level, EBIT was improved by 40 basis points to 13.6%, and operating EBITDA remained almost stable at 17.9%. We consider this a good development despite the headwinds from the pandemic through a net extra cost of roughly €65 million in CVS alone in 2021 and the slightly decreased aftermarket share. On a reported basis, Group EBIT amounted even higher to €920 million at a margin of 13.7%. Please keep in mind that this includes negative one-time expenses for severance payments at Kiepe and relocations in North America to Mexico in the amount of €11 million. Both topics concern our RVS division. On the other hand, the sale of real estate in Berlin generated a positive book gain of €19 million.

Let's move to Chart 12. Our stringent efforts and strong focus on free cash flow paid off. Free cash flow in full year 2021 amounted to €600 million at a cash conversion rate of 92%, which is on top level in the industry. Free cash flow in 2019 and 2020 were extremely strong due to very focussed Capex spending in the crisis and, among other things, strong COVID-related cash preservation measures. Levels close or above 200 are not sustainable due to the investment phase we are currently in. Going forward, we will continue our efforts for future growth and respectively will increase Capex and R&D. But we will continue to keep a close eye on cash flow and steer for a cash conversion rate of 80% - 90%. So you can see my promise to focus more on free cash flow paid off for the second year in a row.

Let me continue on Chart 13. Technological leadership is the key to our business success, which is why we continued to invest into future technologies in the past quarter. Capex in 2021 amounted to €376 million, which is 5.6% of revenues and therefore stable versus prior year. Q4 figures of €163 million were higher, mainly driven by investments in IT and capacity. Going forward, we are fully committed to investing 5% - 6% of our revenues on an annual basis. R&D spending in relative terms remained stable at 6.4% year over year, and in absolute figures slightly increased to €431 million in line with our slightly increased target ratio of 6% - 7% of revenues. Net working capital at the end of December stood at €876 million versus €746 million at the end of 2020, also in line with our targets and driven by revenue growth, M&A and FX effects.

Let's move to Chart 14. We want to shape the future for sustainable transportation and are a hundred percent committed to reduce our CO2 emissions aspirationally as good as we can. Our ambitious climate targets have reached one extremely important milestone: the carbon neutrality at Knorr-Bremse sites globally as of the year-end 2021, on the basis of our preliminary unaudited figures. We are happy to have achieved this important step but are not planning to lean back. We are fully on track with our goal to halve our CO2 emissions by 2030 and were able to reduce already more than 65% in 2021 versus 2018. Some products and the share of re-manufactured products should also support the

spread of the circular economy. Environmental leadership and further decarbonisation are crucial to Knorr-Bremse's long-term strategy. We want to further improve our reporting in this aspect as well. In our sustainability report, which will be published in May, we will report Scope 3 figures for the first time as well as TCFD qualitatively. Knorr-Bremse recruits and develops a diverse workforce and supports their careers with resources such as the Knorr-Bremse Women's Association, “Women@KB”, and training designed to develop leadership opportunities. We are committed to hire, develop and promote and ensure that our employees worldwide represent diversity in the global community. In 2021, Knorr-Bremse increased the share of women in leading positions from 13% to 14% and the overall share of women at K-B from below to even above 20%. In order to let our employees participate in Knorr-Bremse's future success, we rolled out the Heinz Hermann Thiele employee share programme last year, which currently stands with a very high participation rate of 25% globally. In addition, we want to strengthen sustainability aspects in our financing as well. Just recently, we placed a €750 million ESG-linked syndicated loan, which is closely tied to our performance in three major ESG ratings: ISS, SAM (RobecoSam) and Sustainalytics.

Let's continue with the quarterly figures on page 15. The performance in the last quarter of 2021 was remarkable. Compared to last year, order intake increased solidly by 8% to €2.2 billion. Revenues were 8% higher, reaching €1.7 billion, while operating margin as expected decreased to 11.8%, driven by an unfavourable product and regional mix as well as higher R&D expenses. In addition, we had to face higher inflation. Free cash flow was strong and reached €303 million in the last quarter alone.

Let's continue on Page 16. Compared to last year, order intake on group level increased by 8% to €2.2 billion in Q4. This strong performance was driven by RVS. The book-to-bill ratio reached 1.32 in the end. The development of the order book was again pleasing and reached a new record level of €5.6 billion, which represents a 12% increase compared to the previous year's quarter. This level is a strong foundation for our outlook into 2022 and our future growth.

Let's continue with the quarterly top line figures on page 17. Revenues on group level increased by 8% to €1.7 billion. As in the previous quarters, Europe remains the strongest driver, with an increase by roughly 12% and generated the largest contribution of all regions with a share of 47% of all our revenue. North America also developed favourably with an increase of nearly 10%. As anticipated, the APAC region saw only a slight increase of 2.0%, driven by China with -9%.

Let me continue with the profitability development on Chart 18. As already anticipated the operating EBIT decreased year over year by 9% to €201 million. The operating margin or return on sales decreased by 240 basis points, predominantly driven by ongoing headwinds from COVID-related costs for CVS and an unfavourable product and regional mix, especially for RVS. COVID-related cost pressure will continue to be a burden in 2022. Our clear goal is to mitigate it by our pricing power, aftermarket resilience and other cost measures as much as possible.

I will continue on Chart 19 with a deeper look into RVS. After several customer-related postponements and pushouts in previous quarters, we expected and promised a strong order intake in Q4 - and we delivered. RVS won contracts worth €1,28 billion, up 17% year over year, and reaching a record. Book-to-bill ratio was even at 1.49 versus 1.41 in the previous quarter of 2020. Order book also rose by 4% to a record level of €3.88 billion by the end of December. Once again, our empirical evidence is given rather a long-term view is important when talking about the order intake and revenue situation of our Rail Division. Europe and North America were the key drivers for this development, but also APAC without China contributed. China is still characterised by project delays and a slower recovery of the market, which is also expected to continue in the current quarter. We also expect an increase in order intake of RVS and a target book-to-bill ratio of above 1 in the current fiscal year. Like last year, the development in the second half of the year should be stronger than in the first half.

Let's move to Chart 20. In Q4 2021, RVS recorded revenues of €857 million, which is an increase of 11%. All core regions of the Rail Division contributed to this strong development, with Europe being the strongest driver. In terms of profitability, as anticipated, operating EBIT declined by 6% to €156 million at a margin of 18.2%, after 21.3% in Q4 2020. Absolute operating EBITDA was flat year over year and reached €195 million, which resulted in a margin of 22,7%. Profitability of RVS was impacted by four factors: Change of accounting principles regarding provisions of onerous contracts, which is a one-timer and amounted to a burden of €8 million; the product mix, namely a higher share of non-brakes business and the lower aftermarket share in Europe; regional mix with a lower share of the Chinese business; higher costs from inflation. Please keep in mind that we have accrued severance payments for Kiepe and our US freight business due to our relocation from the US to Mexico. Both topics amounted to €11 million, which are excluded on the operating level. In 2022, we expect that RVS should be able to generate more revenue in the second half of the year compared to the first half. Based on this revenue development, RVS should then also be able to show higher margins in the second half of 2022 compared to the first half.

Let's continue with the Truck Division on Slide 21. At €968 million, order intake was almost stable versus the very strong fourth quarter of 2020 and 39% higher quarter over quarter. This development was very pleasing and mirrors the still strong underlying demand in the market. Europe and North America continue to see high market demand due to increased freight rates and shortages in transport capacity, resulting in truck operators both replacing old trucks and expanding their fleets. The demand should stay strong for some time. In APEC, the development of order intake remains on low levels driven by China, after implementation of the new emission standard China 6 in July 2021. In terms of order intake in 2022, we expect H2 as well to be stronger than H1. The order book of our Truck Division amounted to €1.7 billion at the end of 21, which is a remarkable 34% higher year over year. The order book level of CVS reached new record levels. Book-to-bill was 1.15 in Q4.

Let's move on to Slide 22. CVS posted €841 million in revenue in Q4. Compared with last year's figure, this is an increase of 6%. In Europe and North America, revenues developed positively despite COVID-related supply issues, which impacted the whole truck industry in both regions. Revenues in the APAC region declined year over year. The share of aftermarket revenue has increased in all major regions on a year over year and quarter over quarter basis. In Q4, CVS achieved operating EBIT of €63 million, which is 19% lower than the same quarter in the previous year. EBIT margin amounted to 7.4% compared to 9.7% a year ago. Operating EBITDA developed similarly to operating EBIT, reaching €101 million and a margin of 12%. We consider this a solid development keeping in mind ongoing net extra cost of around €15 million in the fourth quarter again and tough comparisons from Q4 2020, which strongly benefited from one-off costs, COVID savings and extraordinary China demand. Additionally, we have ramped up R&D investments towards e-mobility and highly automated driving. On the positive side, operating leverage and cost measures mitigated the negative impact by these cost topics for our Truck Division. In the current year, we expect CVS to post higher revenues in H2 compared to H1 of 2022. Net extra costs in 2022 are expected to decrease compared to 2021. Best guess would be a level of around €40 million, which should be rather front-end loaded.

Let's move to the potentially most interesting slide for many listeners, our guidance for the year 2022. The outlook for 2022 is under the disclaimer of a somehow stable geopolitical and macro-economic environment, no further setbacks from COVID or other exogenous shocks and stable FX rates year over year. At the same time, we expect ongoing shortages of semiconductors and bottlenecks in the supply chain for both divisions, which should be more front-end loaded in 2022 and then rather normalise. We can confirm the first indications given in November last year for 2022. We expect revenues between €6.8 billion - €7.2 billion, which suggests a growth of around 4% - 5% at the midpoint. The second half of the year should develop more strongly than the first half. The operating EBIT margin is expected in a range of 12.5% - 14%. In such scenarios, we expect that CVS would be able to improve its margin. The RVS development will depend on how much the second half of the year will make up for the low rail traffic at the beginning of the year and how the rail markets develop in general. Our main margin drivers for 2022 will be: on the truck side, lower

COVID-related net extra costs in 2021 compared to 2022; the burden should be more front-end loaded; higher R&D costs throughout the year; operating leverage driven by revenue growth; cost measures against inflation; and price increases on the OE and aftermarket business side, given our strong pricing power. On the rail side, we expect: cautious market outlook in China, which should have a particular impact in the first quarter, driven by Chinese New Year, the Olympics and strict COVID rules with plant closures by some of our customers. In the rest of the year, the development in China might then be better, especially in the OE segment. The very positive expected growth in Europe will offset much of this margin development. Please keep in mind that the expected regional mix in 2022 should be overall margin-dilutive for RVS. Inflation of the input costs will definitely be higher in 2022 compared to 2021, but we have initiated cost measures to mitigate the burden. In addition, we will work hard to increase prices for our OE and aftermarket customers also given our pricing power that we are having.

We expect a range of €500 million - €600 million of free cash flow and this should be in a range of our strong 80% - 90% target range over the years to come. Overall, we are fully on track for our mid-term financial targets. The megatrends in both the rail and the truck segments remain strong and are the tailwind for our operational development this year and in the coming years. Thank you very much for your attention. I will hand over to Jan again.

00:35:53 Dr. Jan Mrosik

Thank you, Frank. Let's move to Slide number 24. Digitalisation in the rail industry is a big opportunity for the whole rail industry in the years to come. In Europe, for example, we see considerable additional revenue potential through the digitalisation of the rail freight traffic by the introduction of the so-called Digital Automated Coupler (DAC), short dac, if approved by government. 450,000 - 500,000 freight rail cars in Europe, many of them are very old, need to be equipped with a DAC. The total market volume amounts to €7 billion - €9 billion stretched over many years. This digitalisation step is also a very efficient driver of decarbonisation of the transportation industry in Europe as it enables the share of rail freight to increase from 18% - 30%. RVS is well positioned with its DAC solution to benefit from this trend, and we are confident to catch a fair share of this additional revenue potential.

Let me continue with the growth opportunity of CVS on page 25. E-mobility and automated driving are the big topics which will change the truck markets most in the next five years to 10 years. We at Knorr-Bremse will be one of the most important enablers in this development. One big step on the way there is the electric power steering, which CVS is currently developing. This fully electric solution is a future-oriented key technology in the field of steering. It not only forms the basis for advanced driver assistance systems and automated driving, but also enables a reduction in fuel consumption and CO2 emissions thanks to its power-on-demand principle. We have just recently announced that from 2025, CVS will supply EPS systems for the entire commercial vehicle fleet of a leading global truck manufacturer with an order value of over €300 million. This is only the beginning. We are amongst the top three steering manufacturers for trucks globally. And we are on the way to set standards.

Let me conclude with a top priority of 2022 we set for us in the management team. Quality and innovation have been the foundation of our success in the past, and we will drive this USP further in order to increase market share and drive market outperformance across all regions. 2022 will remain challenging in terms of COVID, but we monitor all developments intensely and will react quickly if necessary. We continue to strengthen the cornerstones of our equity story, growing stronger than both markets, profitable revenue growth and strong free cash flow. Efficient capital allocation is important to us, and we stick to our clear M&A strategy, focussing on value creation for our shareholders. We continuously watch out for opportunities and review our own businesses to create maximum value. We want to further strengthen corporate governance at Knorr-Bremse, challenge ourselves and our environment and make a contribution to a sustainable and green economic development. On behalf of the whole management team, I would like

to thank all employees, business partners and customers for the great work in a challenging year, always having customer focus in mind. With this, I would like to thank you very much for your attention, and we will start the Q&A session now.

Q&A

00:40:24 Sven Weier, UBS

Good afternoon, thanks for taking my questions. And the first one is on the margin outlook for 2022. I mean, you said already what you said on revenues is quite consistent with what you said back in November. But the margin guidance isn't, at least at the low end. And I was just wondering, over the last weeks, what has led you to have a lower expectation here, because the raw material pricing situation was already quite intense back in November, supply chain was intense, you will probably not be expecting much of an improvement in the first half. And also, I would have also expected that, you know, in the old days of KB that if something like that happens, you would massively intensify the cost cutting measures and be tougher on pricing to compensate that. So I'm still a bit confused what happens here. Thank you.

00:41:21 Frank Weber

Yes, thanks, Sven, for your question. Maybe I started taking over this. Nothing fundamentally has changed. I mean, you do actually properly reconcile that we were also quite outspoken in regards to inflationary pressure already at our capital market day. And this will come so not of a surprise at all, for us to say, so let me narrow it down to some points that somehow has changed or developed. One thing is that our fourth quarter came inside the battle. So I mean, comes from back then guidance 13 to 13.5% mid trend, the midpoint of 13.25 somehow went up to roughly 13.6, which is one element. But I don't want to discuss too much about technicalities. But content wise, let me say we just have lowered or widened the range that we initially had on our table for the year 2022 given all the uncertainties out there, that's basically the major point. So instead of maybe going for 13 to 14%, or something like that, we decided to go a little bit lower, given all the uncertainties out there. And those are one thing. The question, of course, in February, lies still within to what extent can you get the price increase you intend for OE business. Especially not so much aftermarket business but for all e business in both divisions throughout the year. How much can you really pass over all the cost effects to the customers, that's one thing. The second thing is that in regards to the supply chain situation, the freight especially, is a little bit so to speak increased in the CVS division and also on the rail division most recently. So we first have anticipated to get a significant tailwind out of reduced freight costs in the year 2022 compared to last year's level, this gap has lowered a little bit. So we still do see in the at least in the very first half year, some may be up to 40 million euro of freight cost, we have to remember we had 65 in the last year. And on the rail side, we also last month see increased tensions in the supply chain and the respective countermeasures that are needed there with air freight and freight additional costs as well. Maybe not to that extent, but maybe also some 20 to 30 million euro would add up there. So these two things are hopefully in the long run only temporary things as we expect them not to last on for maybe beyond 2022 in that extreme. But those are the things and also we have to say that there are signals out looking at the Chinese market for rail in the very first quarter and the Metro situation and the high speed train situation that it's not overly encouraging. Let me put it this way that this will come and also on the TPR side when it comes to heavy duty trucks in China. I think Volvo stated did we see it similar maybe only a volume of a million heavy duty trucks will be seen in the year 2022. So those three aspects I would say, in a nutshell, somehow led us to the situation that we widened the range and widened it on the lower side of the range.

© NTT Limited

00:45:14 Sven Weier

Yes, thank you. Thank you for that. And maybe just as a follow up to what you just that on China, what's your rail RVS guidance that you mentioned earlier, does not assume any major improvement in China as far as COVID restrictions are concerned. And also not really penciling in any additional rail stimulus that is being likely put on in the next couple of months.

00:46:23 Dr. Jan Mrosik

Yeah, that's indeed the case. We're currently seeing that the investment pattern in China in general, as far as market is concerned is going to stay probably on the same level for high speed as last year. So some 50 High Speed trains probably going to be put into operation there, we see a reduction on the metro side however, compared to last year, that doesn't contain any extra stimulus programs that the government in China might decide on but which is currently not being indicated.

00:46:38 Sven Weier

Okay, thank you for that. And maybe the final question is that just obviously there was a major article in the German press today about Knorr Bremse them, and I'm not going to pick on too many things out of this article here. But I was just curious, because there was mentioned that there is quite a heavy delay on the transfer of the shares to the foundation on the one hand, and also that there would be a more central approach to running the divisions at KB in the future, it would be interesting if there's anything you can share on this.

00:47:00 Dr. Jan Mrosik

Yes, there's no aim to change. Let me start with the foundation first. And it's true that the shareholders and the executor of Mr. Thiele's last will initially intended to set up the foundation by the end of 2021. Due to a variety of difficult tax and legal issues, the establishment of that foundation has been delayed, and in the ongoing reviews are currently unable to estimate exactly when the necessary approvals for the establishment of the foundation will be granted. As far as the steering of the structure and KB as such is concerned, there's no intention to change the decentral Profit and Loss responsibility within the company that we have today. And also the regional setup. This is something where KB has been successful with this kind of kind of approach in the past for the last decades, and there is no intention to change that. Of course, we are looking at improvements in three areas that we've been laying out and talking about in the past quite extensively as well. It's on the governance side where we want to introduce common processes and professional ways of doing things. And also, in areas like IT, HR, there's a common kind of way of doing things being looked at. And that's what we want to implement as a group. And then we are also looking for synergies in order to do things more efficiently within the group. But as I said before, there is no intent to change the profit and loss responsibility of the division or the regional kind of p&l that we introduced and that we have been successfully running for a long time.

00:49:29 Vivek Midha, Citi

Thank you. Good afternoon. I have a couple of questions on pricing, just following up on some of comments. You highlighted pricing versus customers and your backlog coverage is quite strong given the bench of orders. Could you maybe elaborate a bit on those negotiations with customers and could you quantify the pricing assumptions within the revenue guidance – so what pricing contribution is embedded in there?

00:50:02 Dr. Jan Mrosik

So first of all, let me comment qualitatively before Frank then will shed some light on more details. We are obviously in existing contracts with our customers for material and for commodities, we have surcharge mechanisms in the contracts, that for other areas we need to change contracts, we have to address our customers, for example, the semiconductors, or a major portion that we're seeing right now in our numbers and in terms of cost inflation is logistics. There's no regulation in the contracts. And therefore, we need to approach, and we are approaching our customers with the very clear message that we need to increase our prices in order to cater to these topics. And that's done very systematically right now, you might imagine that that there are ongoing and very intense discussions that we need to undertake here. But this is on the way, and this is being done. And that's why Frank also said that we see that over time, the effects of these negotiations will kick in. So, there's kind of a delay in there.

00:51:28 Frank Weber

Now, thanks, Jan. Vivek, I would say you should roughly assume some maybe 2% of our revenues, that would be stemming from price increases all over the globe, please keep in mind, as we have two very heterogeneous businesses, so to say when it comes to the way of doing business project business on the rail side, then it needs a different business on the truck side, we will approach those customers completely in a different; way we have those individual projects. For some you can do something in individual negotiations, for some you we would have the price sliding clauses intact. So it's globally, regionally different. And it's from customer to customer, of course, completely different then don't assume so to say, like you would see in some b2c businesses, I don't know a price increase starting on the first of February 2%, on each and everything, but to shed some light on your question, roughly that range of 2% that we would expect. And needless to say, we have, of course, also done something already in 2021, especially looking at aftermarket, but the bigger chunk will now come also with the OE customers.

00:52:54 Vivek Midha

That's very helpful. Thank you. Could I just have a quick follow up? You mentioned regional differences. I mean, could you give us any color on how and what those regional differences are? Thank you?

00:53:09 Frank Weber

Well, it depends, of course, on the respective customers that you would have in different countries. And the standards of contracts with some customers also in some regions are different. In some contracts, you do have, for example, the price sliding clauses, where you would have certain months of delay until you are able to charge several costs to the

customer. For some customers, you don't have those who initially have to go into a dialogue. So mean these kinds of differences. It's as each and every project is, especially on the rail side, the completely different one. Now, for example, in the United States looking at NIAB, you would basically have to a large extent, automatically those price siding clauses in place, whereas in other regions you don't, just as an example.

00:54:07 Dr. Jan Mrosik

And countries where a lot of the goods are imported obviously suffer more from logistics additional costs than other countries where we have direct production. So that's kind of kind of business structure related differences.

00:54:21 Frank Weber

And not all the costs that the suppliers now would come knocking on the doors are the ones that are immediately covered in the respective contracts neither of our contracts with them nor in our contracts with the customer. So it would be an individual approach and customer by customer.

00:54:54 Akash Gupta, JP Morgan

Yes, hi, good afternoon, everybody and thanks for your time. And my first one is on component shortages topic. If you can provide an update on what you are seeing, particularly on the rail side, I think truck side is very well understood. And we have seen comments from some of your suppliers but are more keen to know. Any update you can provide on rail side where some of your customers said they are watching tight supply in and whether that could be a headwind in the course of 2022.

00:55:24 Dr. Jan Mrosik

Yes, on the right side, Akash, thank you for that question. We had only limited impact of the supply shortage of supply shortages in 2021. And almost no big impact on revenue development. In the last months, we see that the impact by short supply shortages is strongly increasing. So far, we haven't seen negative consequences for our customers. The supply issues exist in specific fields that we're seeing in the CVS arena as well: it is electronics, it's plastics, it's even sometimes small sea parts that play all of a sudden, a prominent role. And of course, it's an increasing commodities in pricing. So general inflation is also something that kicks into this business as well, as opposed to last year, and provides there a situation to be managed.

00:56:28 Akash Gupta

Thank you. And my second question is on CVS margin development in Q4. So if I look at your revenues, you've grown from 785, in Q3 to 814, Q4, but the margins there were down by almost 300 basis points. I mean, you flagged 15 million of additional costs, but I suppose those costs would have been in third quarter as well. So maybe you can explain what

was the factors behind weak margin in Q4 versus Q3 and if we look at sequentially in Q1 2022, what shall we expect there?

00:57:05 Frank Weber

Thank you. Yes, we have seen either, if you look to for Q4 2020 a reduction on the margin side, but also if you look to the previous quarters a reduction on the margin side, and that is basically driven that weaker second half of the year by very strong reduction on the market development in China. As one thing, we have increased cost for R & D on the CVS side, as we have also outlined with the content at the CMD in detail what we intend to do and those are things that will come later on, then we will harvest in revenues to come we have an increase also on the depreciation side also based on capital expenditures in the past, which is increasing quarter over quarter so to say. And we have a negative impact also on the product mix side. And this can also happen from quarter to quarter, at this point in time, I would say. So those are the major aspects plus you have certain also in the truck business kind of normal kind of costs seasonality that then hits the bottom line in the end that is always kind of higher overall cost in the in the fourth quarter of the year somehow.

I would say going into the first quarter we should be with those impacts that we just in general discussed in regards to our 22 guidance overall and the aspects that are a burden for us going forward should not to a large extent change the numbers. We do think it should be in that range of what you have seen in the fourth quarter being rather stable going into the new year. But it will be challenging to keep that profitability level due to the cost increases coming in and partially a time lag exists towards the price spill over to the respective customers. So stable to slightly negative, I would say in terms of profitability going into the first quarter.

00:59:53 Ben Uglow, Morgan Stanley

Good afternoon, everyone. I have it all well. I had a couple and first of all, I just wanted to think about the cadence of the orders coming in RVS. I like the chart that had the sort of order backlog position over the last couple of years since COVID. And obviously, you're going to have a pretty decent sales pattern over the course of a year. But my question is really to do with the order intake. And you've said the book to bill is going to be above one times in RVS for the course of the year. But obviously, you're going to have a fairly slow start in China. Do you expect basically to maintain one times plus over the course of the year, or is this a case of your orders are going to be slow for the first half? And then really good in the second half? So that was that was my first question. Secondly, on the RVS margin, if we look at the margin in the fourth quarter, keeping it simple, it's come down from 21% to 18%. And you've given us a breakdown between part of it was China, part of it was aftermarket share. Part of it was lower margin business or lower margin product barriers. How much of that 3% is simply down to the China mix effect? Or is the majority of it to do to China mix? Or are they kind of evenly split between those three buckets? Those are my two questions. Thank you.

01:01:30 Dr. Jan Mrosik

Ben, let me start with the first one. It's, you know, if you look at the rail business, it is generally very difficult to predict when certain individual orders come in. So there's a general rule of thumb to say, when the order intake goes comes in at the OEMs it takes nine to 18 months until it's find its way into the books of suppliers, like KB, but that can be shorter or longer. And therefore it is kind of a smearing effect, I would say across the quarters as far as order intake is concerned. And therefore, it makes, you know, only a limited sense in the rail business to look at the order intake on a quarterly

basis rather make sense to look at it, let's say on a rolling kind of average kind of mechanism. And now looking at this, the big order intakes that I was referring to, and the increases here on the OE side, it happened sometime in the second half of 2021. And just adding, you know, another nine to 18 months to that would then at the end of the day point at a time frame somewhere between middle of next year end of next year and into 2023 when this would somehow materialize. But you know how to predict when this exactly will be.

01:03:09 Ben Uglow

Understood. Just on that point, though, when you look at the tender funnel today is that tender funnel that order pipeline - is that still as big as it was? Is it bigger? Is it smaller? I'm just trying to … what I'm not worried about, but we want to make sure that we don't have an air pocket on your orders for six to nine months. And I want to make sure I'm not misunderstanding.

01:03:38 Dr. Jan Mrosik

No, no, I think you know, the pipeline also, as far as big projects in Europe, North America is concerned, is healthy, and is quite an order. So there's, you know, it might be that the one or the other quarter is going to be slow. But then, you know, there will be other quarters like now or quarter four, that will fill the orders at hand again. And therefore there were no worries on our side that the market in general would not be intact. To the contrary, we're seeing encouraging signs to stimulus programs in the US, in North America, in Europe, the clear intention to increase the rail contribution to freight from 18 to 30% in Europe. So all of this requires investment in activities. And that yields to as we also pointed out at the capital market day, a 3 to 4% growth per annum constant continuously in the next years to come. And we don't see any different view on the market compared to what we've been communicating by then.

01:05:00 Frank Weber

The second part of your question, I would say, like this, first of all, the fourth quarter of 2020, if we look into the most recent years, it's been nearly the high point of profitability in rail. We had some close to 25% EBITDA margin and some 21%. But nevertheless, you are right. I just wanted to keep this in mind. So to save for us all. To your concrete question. I would somehow say from 100%, I would say 40% is the regional mix effect driven by China to try and mix effect some 25-30% is the brakes/non brakes-effect, the “product mix effect”. And the rest is some of several cost headwinds like we had this provisioning, the 8 million of the provisions we had, we have additional costs in the system currently, because we are moving the business from North America to Mexico. So, we are ramping on the one side down but still have the people on board. At the same time, we are ramping the people up in Mexico in Akuna. All in good faith with a clear net present value of this move. But temporarily we have double costs so to say. And we have towards the year end also as Jan just outlined also the increased freight situation and supply chain constraints and cost in that regard. So, this is the third pillar with also some 30%. So: 40 30 30. That's how I would somehow split up the percent.

01:06:50 Ben Uglow

That's very useful. Thank you very much. I'll pass it on.

01:07:05 Gael de-Bray, Deutsche Bank

Well, thanks. Thanks very much. Good morning. Good afternoon rather everyone. First, could you give us an indication on your overall cost exposure to gas and electricity cost? Then secondly, on pricing? Could you also give us some color on the price realization you had in Q4? And given that everybody is looking kind of sold out due to limited supply, do you actually see less people now bidding on the various projects than you know, perhaps compared to pre pandemic level? And does it fundamentally change the pricing dynamics in the marketplace? Something that would make it easier, you know, really for you to push up prices even more? And thirdly, given the structural trend towards digitalization, electrification, and so on and so forth. Do you see today more or less synergies between RVS and CVS than before?

01:08:29 Frank Weber

Okay, let me let me maybe tackle your first question. So overall, if I would use the headline of energy cost, I would say KB is below 100 million euro in the range of 80 to 90 million euro all in. So to say this includes electricity, gas, oil, and that stuff. So to say if we look at only electricity and gas, I would say it's maybe half of that. So 50 million, maybe would be that range that we are having globally, though the exposure, so to say isn't huge. I mean, every penny hurts, needless to say, but it's some 50 million euro. Per annum of course.

01:09:15 Dr. Jan Mrosik

Price realization at a topic that obviously, we are pushing through right now very, very systematically, the obvious situation of shortages on supply and also, let's say the general supply situation and inflation situation helps to put arguments together for price increases. However, as you can imagine, this is always a very intense discussion that needs to be executed in order to get to the increases in the case of existing contracts. In other cases where there's new awards or a new contract situation is different. And there we can, of course, right in the beginning make sure that the right cost structure is in there.

The third question was considering the fact that, you know, there's this a supply issue. Are there less people bidding? We're not seeing in a lesson or a lowered intensity in the markets and in the competition, so there is no competitor, who's currently not bidding. So that's I wouldn't see as a situation. And I think the supply situation at the end of the day is being considered by the market and also ourselves is something that that will balance out after a certain period of time, it will be longer with us, than we probably all expected, but there will be a kind of a balance reached, at least in the medium to long term, how to predict when this will happen. And we don't see at this point in time that any competitors have been moving out of their activities or have lowered their bidding activities. Pricing realization and pricing dynamics, I think I alluded to that already. Digitalization and electrification. Yes, certainly there is common platforms, common knowledge and common kind of know-how and people profile that's being needed in KB, to build up digital platforms to make usage of data. And, you know, do data analytics based on artificial intelligence. That's something where we see synergies within KB as a company. On the other side, obviously, there is a, by the way, also, as far as data legs is concerned, as we use a common IoT platform within KB. And we just structured a data lake offering that internally that that KB is using across the board. So you see, we can leverage our scale here, to develop the tools for our divisions once and then use them across the board. So I would assume my judgment on this would be that we are rather seeing more synergies here across the company than less. And that's what you have been asking for.

01:12:56 Mark Zeck, Stifel

Thank you for having me. Just another question on logistics costs. If I'm right, you said that you expect logistics cost average to come down in 22 versus 21. Now if I listen to what let’s say major logistics companies like Merck and DCF, said, they expect that freight costs will actually be up this year versus last year on average, even if spot rates come down later this year. So what makes you sure that you can dotch that development that you have lower logistics costs this year than last year? Thank you.

01:13:37 Frank Weber

Mark. I mean, good question. Also very helpful to clarify here, if there's misunderstanding in the room, I did not talk about spot rates to come down. I said in our planning, which is, of course, based on the respective logistic streams that we would have, and we would use and how we see a stable production on our side or at the supplier side, that our planning shows that overall freight costs should come down for KB. And this is a result of multiplying the respective freight volume with the respective spot rates that we would anticipate. So that's important to understand. And we expect somehow that overall need to come down from 65 million freight and I include now for the sake of explanation here also some broker parts in that figure 65 million, we expect that to come down maybe two levels of 40 million on the truck side, whereas the freight costs should on the raise side and maybe go up from this year was rather minor. So this year, I mean 2021 was rather minor 15 million around. That should go up to maybe 30 million euro. So let's say last year, we had 80 million, then together both divisions, and next year it would be or this year would then be rather, both together 70. So overall, we would reduce that overall exposure for us. But that doesn't mean that the spot rates would necessarily go down we see them rather stable to slightly increasing spot rates.

01:15:27 Mark Zeck

Thank you for answering the question. Then another one, maybe more housekeeping, but on the digital automatic coupler? If I if I look this up, there's like one major project from Germany or the EU, the tech for EU project and the couple of tech producers listed web text have samples others, but not you guys. Could you just give me a bit of color how far you are on this project? And how will you compensate for the latest start and for example, uptake and the others. Thank you.

01:16:16 Dr. Jan Mrosik

Yes, thank you very much for this question. The deck, so the digital coupler is something that has not been approved as yet for Europe as a rollout. So it’s still something where politics are deliberating as to whether this is going to happen or not. We strongly believe that this is a strong as that is a real necessity in terms of making friends transport on the rail side more efficient and gets this European target of moving from 18 to 30% really implemented. Therefore, this topic is completely new for each and every market participant, there's one or the other who moved in earlier. We are on the way of developing a digital coupler for the freight industry. And we'll have the first samples available during the course of this year. But at the point in time, when this test started, we did not have a coupler available from KB, but that will happen soon it will happen early enough to have a product portfolio that is highly competitive in place, once the rollout would start and therefore we are very confident that in case a positive decision will be taken that will one be one of the

important market players since very established in that industry. We have a long term experience in the rail industry. And we have all the basics in there to be successful in the market as well.

01:18:17 Sven Weier, UBS

Yet one follow up question please. And that was on the order intake question from Ben earlier. Because when we look at last year, obviously you had an extreme Q4, right more than more than ever, basically. And you also refer to the OEM orders, which I think have already been quite good before the second half of last year. And I was wondering if I could get a guidance for Q1 or the intake for rail out of you, basically, because that was a very low number. And with all the things you mentioned, should we still expect that number to be down? Or how should we think about the Q1 orders given that quarters halfway through?

01:19:03 Dr. Jan Mrosik

Frank will go to the numbers quickly. But what I would like to again emphasize is for the rail business, the look into a quarterly order intake makes limited sense, we need to look into a row of quarters and then accumulate. And I think the important message here is that we have an all time high in orders on hand, then the projects will come over time there will be a quarter where we'll have a little, then there will be a quarter where we'll have a stronger order intake. So it really comes in a lumpy way and is not as kind of distributed across the world into little projects, as we've seen that in other businesses. And I think that's just important to note this this view on quarterly order intake is something that doesn't really, you know, reflect the business and the way it's being conducted in a proper way, look at the order on and. And that's I think the more the more appropriate picture, even if I understand this question completely that that you're raising.

01:20:11 Frank Weber

Everything that Jan said I fully sign off as well clear. But you raised this question and I mean, I can shed some light on our January went and January went 10% above last year, I think that books are closed for January. So pretty sure on that. So it looks better, as far as we are in February right now than previous year’s first quarter. But keep in mind by again said I mean, you could have push outs again now in March and all the figures collapse again. And then there you have a great April or something like that. But January is 10% Better than last year.

01:20:57 Sven Weier

Thanks for that. And I mean, the lumpiness was easy understood. It's just the point that last year, we had like three quarters in a row where rail orders were quite weak. And then it's really took the fourth quarter, and I was really looking more for steadiness maybe this year. And even if one or the other quarter is still a bit lumpy.

01:21:18 Dr. Jan Mrosik

And I fully understood the background of your question and appreciate it.

01:21:23 Frank Weber

And a priori it looks rather more stable this year than it did last year. But yes.

01:21:46 William Mackie, Kepler Cheuvreux

Good afternoon. Thank you for the time. My question really relates to during the call, you've discussed on a number of occasions that looking to 2022, there will be notable differences between performance of each of the divisions in H1 compared to H2 as you work through the challenges of executing the order backlog, improving prices, managing the supply chain, and the other associated factors relating to mix both regional and product versus aftermarket. To what extent can you give us a bit more shape on how you expect, within your guidance, the first half to play out in each of the divisions with respect to growth and profit development in comparison to the second? It seems like we should expect to continue downward trend in in margin development in RVS, and perhaps even in in CVS before a second half recovery. But could you put some shape on that a little more, please?

01:23:14 Dr. Jan Mrosik

Yes, what we're seeing right now is that we, on the CVS side, have the effect of still a relatively low demand in China, due to the fact that the pre-buy effects last year took place, because of the Euro or China 6 introduction. There are still some 150,000 trucks out there in the field that need to be sold. And they would obviously be deducted from, you know, new trucks being built. And therefore TPR in China, right now in the in the first two quarters is going to be affected by that, and then probably these trucks will be sold and out in the field. And we expect then that this doesn't affect the market anymore. In North America, and in Europe, we still see a very high demand in terms of trucks. So that this is just being curbed by the supply situation right now. So there's more demand than what can be delivered. And it depends pretty much on the situation on the supply side, when and to what extent the truck production rate will then grow in both North America and Europe, in fact, due to this constraint that we have there. So, if you just sum up things that would then suggest that second half would then be stronger from a TPR perspective than the first half of 2022. On the rail side, pretty much a lot of things depend on COVID and the rollout of the activities, and there we see an expect continued kind of improvement. Quarter by quarter, at least from today's perspective, we're seeing that in an undistorted environment, as we said before, provided that the political circumstances are not overwriting too much here.

01:25:26 Frank Weber

Maybe, William, from my side, some additional comments. If we look at revenues, and if we look at the same time profitability and if we look at RVS, and CVS, in a nutshell, it sounds very unsophisticated what I'm saying now, but we should have the Q1 to be the worst, Q2 to be better, Q3 to be better, and, Q4 to be the best. That, as I said, sounds unsophisticated. But that's just the simple result. And that is true for both divisions. For each and every division, that's just the situation currently.

© NTT Limited

01:26:14 William Mackie

Thank you. I appreciate it's a complex business and geographically and nd market perspective. But thank you for the shape. One follow up would relate to a question on net pricing around the OEM business. And again, it probably requires a gross simplification. But when you think about your ability to adjust pricing within the framework of your contracts in CVS and RVS with OEM customers, and then you look at the RMI, or the cost changes you're planning, do you think you'll achieve a positive net pricing in in 2022? Or do you think that there's going to be a lot more work required on the productivity side to maintain your goals for profit improvement?

01:27:14 Frank Weber

I think that is a perfect question or very good question, let me say, I think we touched upon that already at the CMD, or myself, at least in my presentation. There will not be a positive net effect, purely out of pricing, it will not be enough. And we have to do cost efficiency measures, negotiations with our suppliers, in addition and seek every ways and means in all areas of the company in order to keep the gross margins in the way we want them to go and not be dilutive. And this is not our intention, and this is not what KB stands for and one of your colleagues previously mentioned in the old KB we would turn around each and every stone, be assured, we are also doing so. And not just starting now. So, to say this is what I indicated at the CMD as well, the company is working for roughly 100 million of cost efficiency measures each and every year. But we need additional pricing euros, so to say to compensate all those cost increases that we are facing. So that's a long answer to your question. But under the answer short is no not will be negative. And the negative effect will be offset by our cost efficiency measures that we are doing.

01:28:44 Dr. Jan Mrosik

But I think it's also important to state that with negative price effects we've been living for a long time. Usually in the automotive industry, also in the commercial vehicle industry particularly, there's a clear expectation that efficiencies kick in and that products are getting built and manufactured in a more efficient way resulting in rather cost or price pricing reductions on an annual basis. So that's our new task. What is obviously very different to what we had in the past is these very strong inflationary effects that counteract all activities and the price increases that we're seeing across the board in all different areas. And that's where we need to really address the customer and say, you know, that's something we cannot and we will not carry on our books. It's something that needs to be handed over to our customers in order to create a sustainable situation. And you know, that’s the background to what Frank just said.

01:30:10 Operator

There are no further questions for the moment. And with that, I will hand back to Andreas Spitzauer.

1:30:16 Andreas Spitzauer

Yes, thanks very much for all your questions. We hope you stay healthy and safe and enjoy the afternoon. Looking forward to connecting with you next time.

© NTT Limited

1:30:24 Dr. Mrosik and Frank Weber

Thank you and bye bye.

1:30:26 Operator

Ladies and gentlemen, thank you for attendance. This call is included. You may disconnect

© NTT Limited