

Q3

FINANCIAL RESULTS Q3/20

FRANK MARKUS WEBER | CFO

NOVEMBER 19, 2020



KNORR-BREMSE

The main topics



1)

Strong Financials in Q3/20

→ Proof of equity story once again

2)

CVS – strong market recovery and solid margins

→ Growing faster than the market again

3)

RVS – robust profitability

→ Stringent measures implemented

4)

Earlier Reporting

→ 8 days improvement Q3/20 vs. Q3/19

5)

Dr. Jan Michael Mrosik will become new CEO of KB as of January 1, 2021






→ Completion of management team



Markets still impacted by COVID-19, but somehow recovering



Rail market current view

-  No cancellations of contracts, but facing postponements
-  Stimulus packages will support green mobility via low CO₂ footprint mid-term
-  OEM production almost back to normalized levels pre COVID-19 (ex India)
-  Aftermarket partly driven by pull-ins from H2/20 into H1/20
-  Ridership in trains at lower levels again



Truck market current view

-  Market recovery in Europe, North and South America continued in Q4/20, short time work programs suspended
-  Production in China still on high level after record volumes in Q2/20, solid performance until YE 20 expected
-  Recovery visible also in India and Japan, after severe volume decline in Q2/20 and Q3/20
-  Significantly rising COVID-19 infection rates in many countries potentially influence the actual positive momentum of truck demand

No downwards trend, despite volatile quarters, but second wave to be monitored

Recent KB activities



KB to equip 30 high-speed **ICE trains** for **Deutsche Bahn**



Major contract with **Siemens Mobility** for entrance systems for 94 London underground trains



Extension of **maintenance service contract** with **Bombardier** in Europe



KB Switzerland integrates **RailVision's** obstacle detection systems into **SBB Cargo's locomotives**



New **debt issuance program** of € 3bn launched



KB wins '**Best Brand**' award in reader's poll by ETM publishing house



KB expands **Chinese truck capacities** with a new plant and continues in-depth **cooperation with Dongfeng**



Bendix acquired **full ownership of Spicer Foundation Brake LLC**

After nine months: overall strong performance despite especially tough Q2 situation (9M/20)

REVENUES OF **€ 4.59bn**
(-13.6% yoy)

17.5% EBITDA MARGIN
(PY: 18.5%)



€ 2.56bn



€ 2.03bn



22.2%



12.8%



€ 169m FREE CASHFLOW
(-52.6% yoy) **42%** Cash Conversion Rate

ORDER INTAKE **€ 4.36bn**
(-15.5% yoy)

ORDER BOOK **€ 4.46bn**
(+1.2% yoy)



Last quarter: continuously strong performance in a tough environment (Q3/20)

REVENUES OF **€ 1.53bn**
(-10.4% yoy)

17.5% EBITDA MARGIN
(PY: 18.3%)



€ 822m



€ 712m



21.6%



14.3%



€ 182m FREE CASHFLOW
(+9.9% yoy)

129% Cash Conversion Rate

ORDER INTAKE **€ 1.63bn**
(+3.6% yoy)

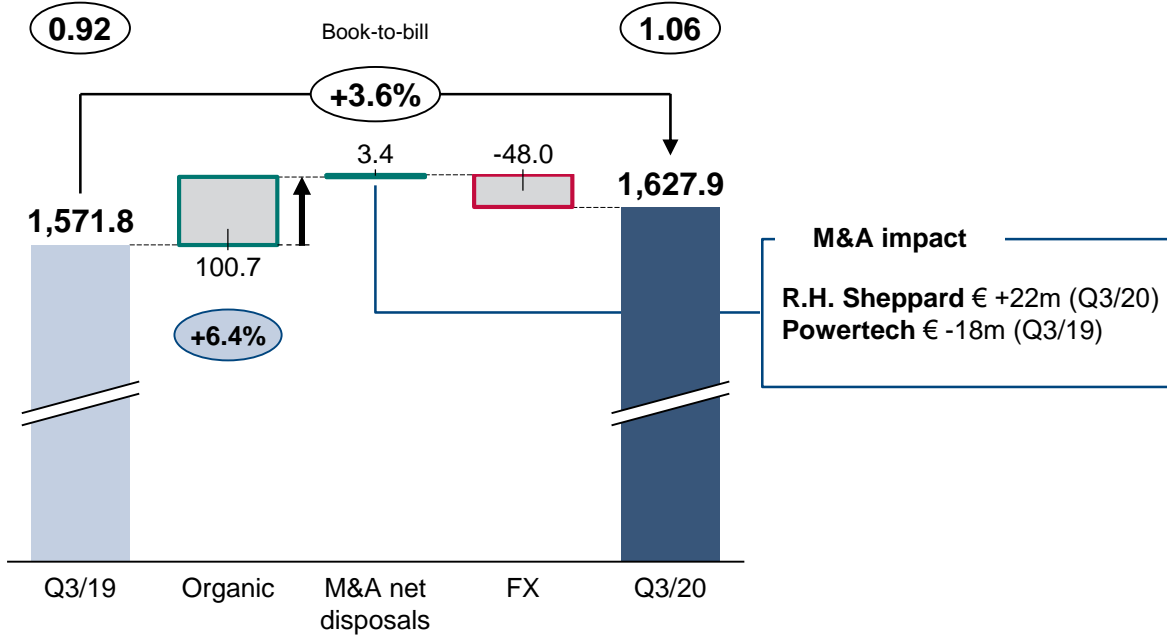
ORDER BOOK **€ 4.46bn**
(+1.2% yoy)



Book-to-bill >1 achieved again and order book improved vs. 2019

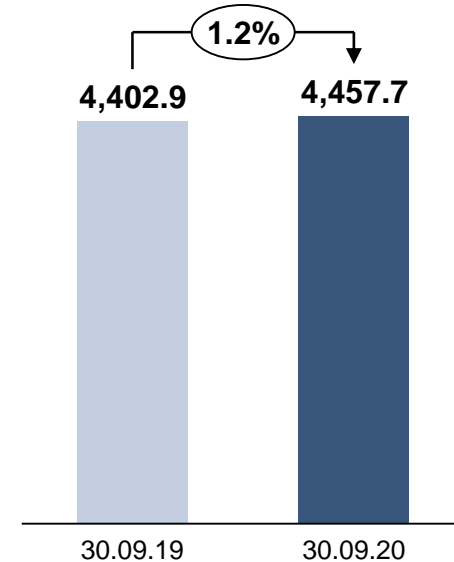
Order intake

€m



Order book

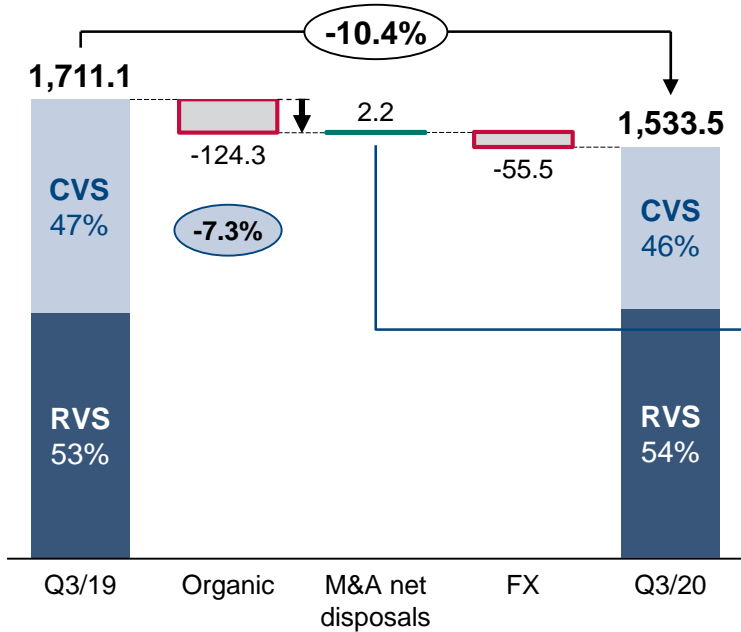
€m



Q3/20 yoy with significantly less revenue shortfall vs. Q2/20 yoy

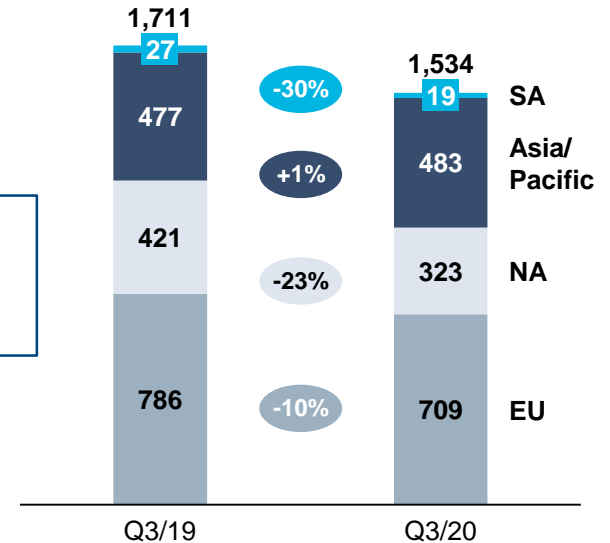
Revenue

€m



M&A impact
 R.H. Sheppard € +22m (Q3/20)
 Powertech € -20m (Q3/19)

By region

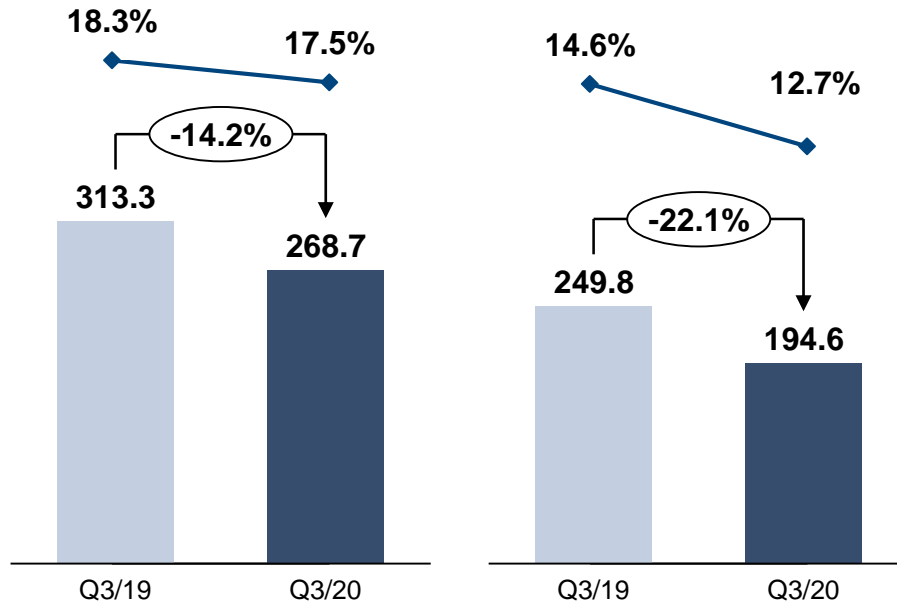


Even enhanced profitability vs. Q2/20, shows resilience of KB once more

EBITDA/ E. Margin

EBIT/ E. Margin

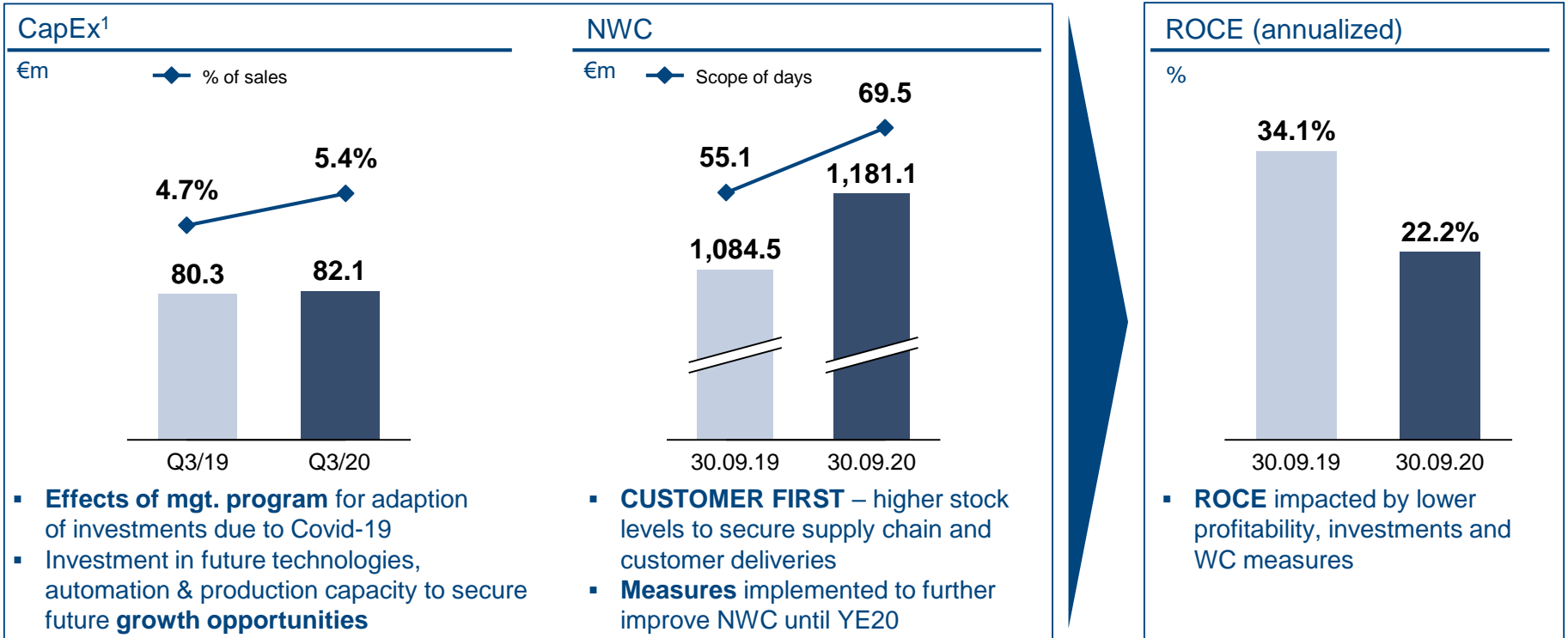
€m



Development in Q3/20

- **Operating leverage** burdened by lower revenue and mitigation costs
- **Cost measures** taken to mitigate COVID-19 impact on employees, customers and KB performance
- Revenue share from **AM** decreased from 38% in Q3/19 to 36% in Q3/20
- **RVS strong**: 1) COVID-19 saving measures disproportionally compensated volume driven EBITDA reduction 2) Powertech divestment supportive yoy and 3) favorable development AM vs. OE business
- **CVS on recovery path**: Consequent and meaningful cost-down measures in Q2/20, radiating to Q3/20, paired with faster than expected market recovery supported a solid EBITDA performance in Q3/20. R.H. Sheppard still dilutive

KB continued to invest in its supply chain and in future growth



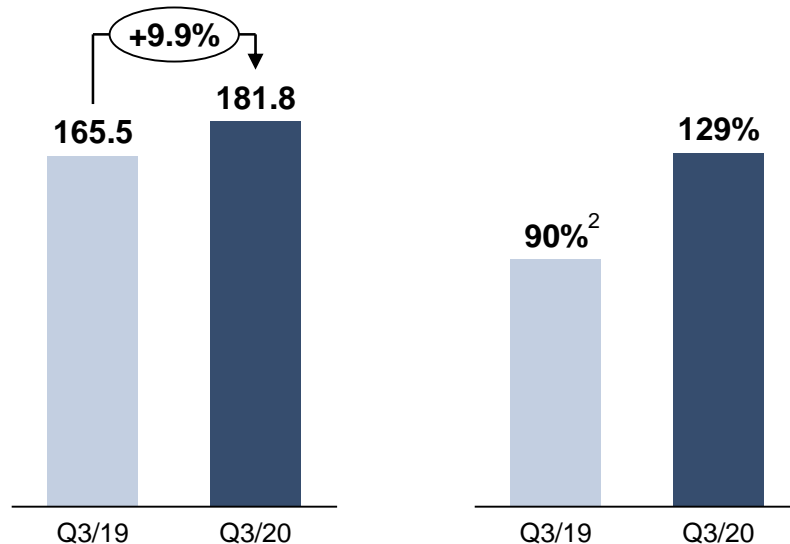
1) Capex are adjusted for sale & lease back transactions

Strong cash conversion rate demonstrates significant measures and earnings quality

Free Cashflow¹

Cash Conversion Rate

€m



Development in Q3/20


- **Cashflow** impacted by COVID-19 pandemic and lower profits, but **countermeasures successfully implemented**
- **Free Cashflow improved** from € 47.5m in Q2/20 to € 182m in Q3/20
- Stringent measures installed to secure **strong improvement of Free Cashflow** in Q4/20
- **Strong cash conversion rate** when considering the influence of COVID-19

1) FCF before M&A 2) Without effects from deconsolidation of Powertech


COVID-19: stringent implementation of countermeasures is ongoing


MARKET





 Most operators and rail car OEMs back to operation level, stimulus programs put in place

 China stable, India market development still to be uncertain

 Strong impacts on already cyclic declining freight market, transit market with very low ridership, project decisions delayed

 Strong demand recovery on 90%+ pre Covid-19 level in Truck and Trailer. AM demand increasing.

 Strong recovery of demand in Truck and Trailer. High number of infected people negatively influence processes

 China continues production on high level, India started to recover after severe hit, Japan recovers continuously

We are prepared to adjust countermeasures quickly, if necessary

BUSINESS DEVELOPMENT

Suppliers

- Supply chain fully stabilized
- Only very few suppliers remain in close monitoring

Own plants

- Safety measures across all sites and processes continuously in place and very effective to safeguard operations, employees and customer
- Productivity almost back at pre-COVID-19 level

- Parts supply secured considering increasing demands globally
- Supply chain teams globally aligned to deal with fast market recovery

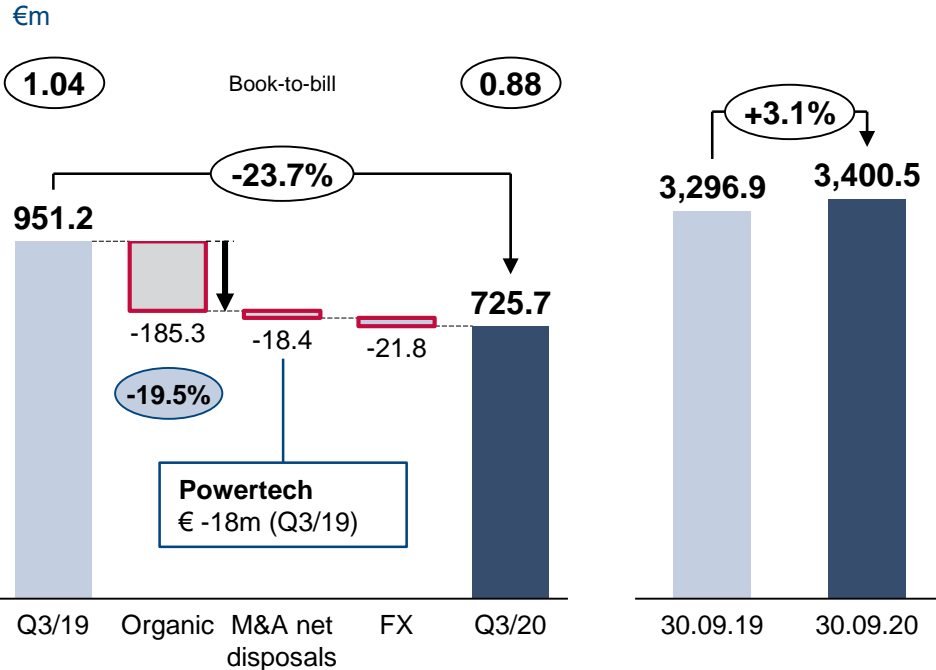
- Effective safety measures implemented in all facilities
- Processes proved to be stable and supporting increase of volumes
- Productivity suffers from additional cleaning and hygiene measures, no bottlenecks in operations and supply chain

RVS: increased order book mirrors resilient rail industry, despite underlying normal quarterly OI fluctuation



Order intake

Order book



Order book increased by 3.1 %yoy

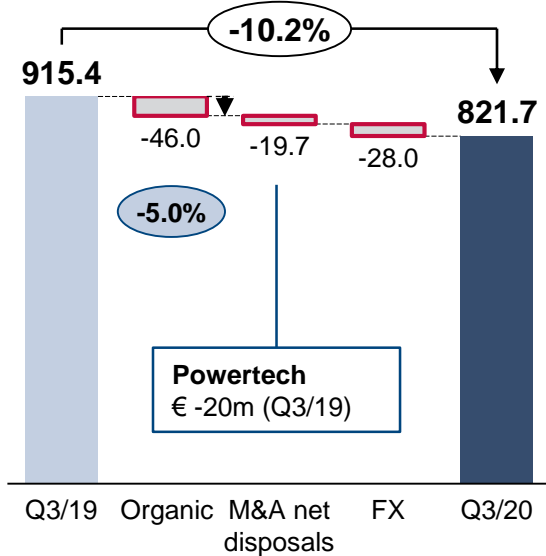
- **Order book** well supported by resilient and stable rail industry despite COVID-19. No cancellations of contracts.
- **Development of OI in Q3/20**
 - Impacted by timing of large-volume tenders
 - **RVS/ Kiepe** lost a low three-digit million € contract in Düsseldorf/ Germany
- **EU:** OE mainly impacted by Kiepe, but good HS and regional/ commuter; AM lower yoy, but up vs. Q2/20
- **APAC:** COVID-19 impact particularly in India; AM and China OE (esp. Metro) were the main drivers in Q3/20
- **NA:** Freight, Loco and Light rail vehicle OE recovered vs. Q2/20; AM lower due to reduced transport volumes, leading to lower utilization of existing vehicles

RVS: increased profitability despite slightly lower revenues

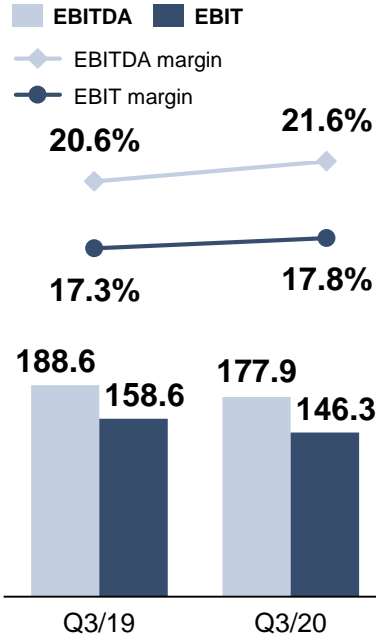


Revenue

€m



EBITDA / EBIT



Revenue decreased 10.2% yoy in Q3/20 as expected

- **AM:** Pull-in effects into Q2/20 and lower riderships in trains burdened the development in Q3/20yoy
- **EU:** decrease driven by COVID-19 in OE, passenger cars positive, AM mitigating
- **APAC:** strong Metro business and locomotive could not compensate OE overall and AM. Postponement of HS deliveries
- **NA:** generally lower mainly driven by weak Freight market, AM mitigating

Op. EBITDA margin of 21.6% in Q3/20 well above Q3/19

- COVID-19 saving measures well supportive
- Powertech profitability burdened margins in Q3/19

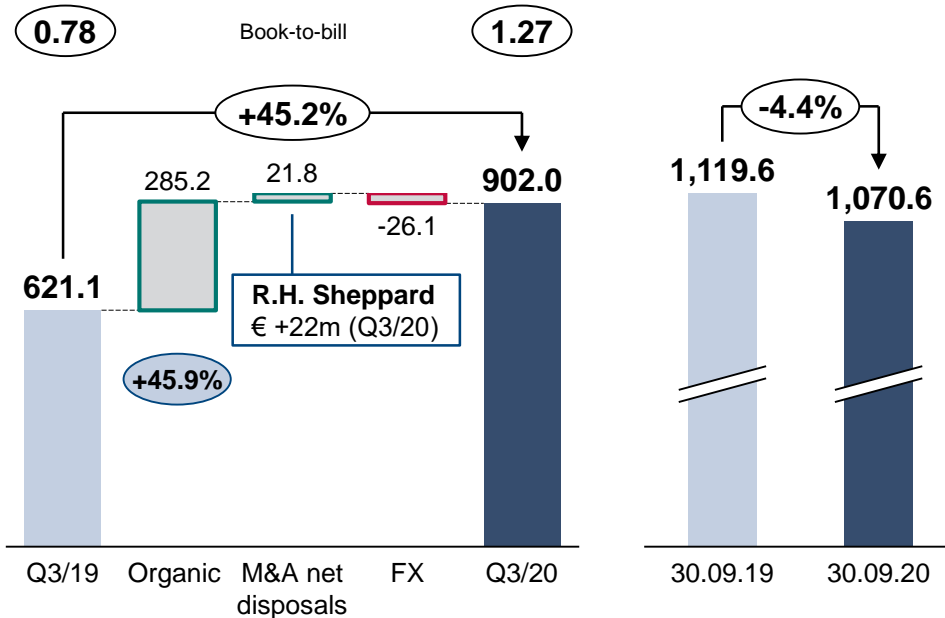
CVS: strong OI based on significant market recovery



Order intake

Order book

€m



Strong bounce-back of order intake and book-to-bill ratio

- **EU/ NA:** Good market recovery leads to solid increase after a very weak Q2/20, demand in Q3/20 fueled by catching-up of missed production volumes during lockdowns
- **APAC:** Stable development in China, Japan and India actually recovering after longer low demand phase

Order book almost back on 2019 level

- Development of order book follows order intake
- **EU/ NA:** Down-turn in H2/19 reduces gap to post-crisis improvements in Q3/20
- Additional tail-wind from first full quarter of R.H. Sheppard business

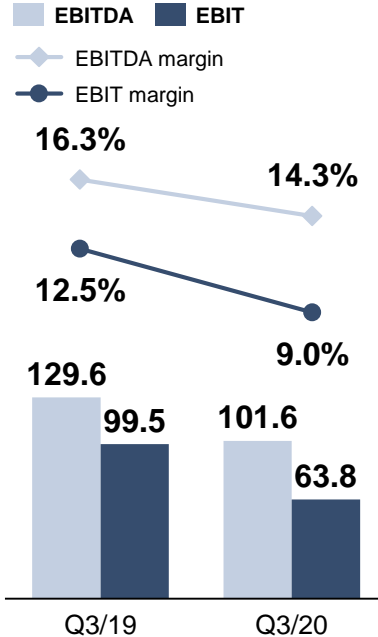
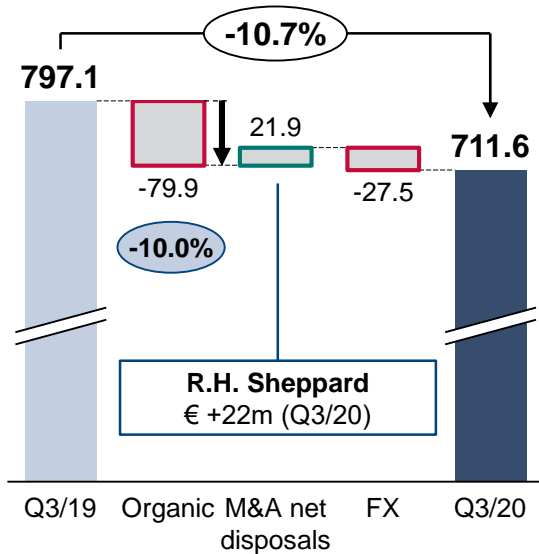
CVS: performance significantly improved vs. Q2/20, but still below 2019 levels



Revenue

EBITDA / EBIT

€m



Strong recovery of revenue development in Q3/20 vs. Q2/20, China volume normalizes on high-level

- **EU & NA:** Improvement continued in Q3, yoy comparison in NA distorted due to a strong Q3/19
- **APAC:** Normalization of production output as expected, still in very high level, market share gains vs. 2019
- AM share lower vs. Q2/20 due to above average recovery of OE business, stable YoY

Fast market recuperation combined with still restrictive cost policy safeguards margin on high level

- Global cost adaption program continued in diligent and concentrated level despite timely market recovery
- Cost efficient hygiene and safety measures with low impact on profitability
- Dilutive margin effect from R.H. Sheppard steering business, PMI in progress

CVS: outperforming major markets and solid near-term outlook



Truck production rate¹

Q3/20 vs. Q3/19	NA	EU ²	APAC	China
TPR (Heavy ³)	-40%	-29%	+25%	+35%
CVS (Rev.)	-13%	-23%	+26%	+105%
Outlook TPR until YE20				






Expected market development

- **China:** after record level in Q2/20, solid development in Q3/20, market still supported by some governmental measures
- **EU and NA:** significant improvement of truck production rates y-o-y in Q3/20 vs. Q2/19 (NA: -82%, EU²: -65%)
- **Content per vehicle** continues to develop favorably, especially in China, combined with market share gains
- **AM** share on similar level as Q3 2019 due to OE recovery
- Reduced stock at distributors and requirements to qualify for bonus payments might lead to improved AM business in H2/20

CVS continues to outperform market development mainly driven by increasing content per vehicle

Source: LMC 1) TPR defines all truck units produced in a specified time; 2) EU+2; 3) >16t and Class 8

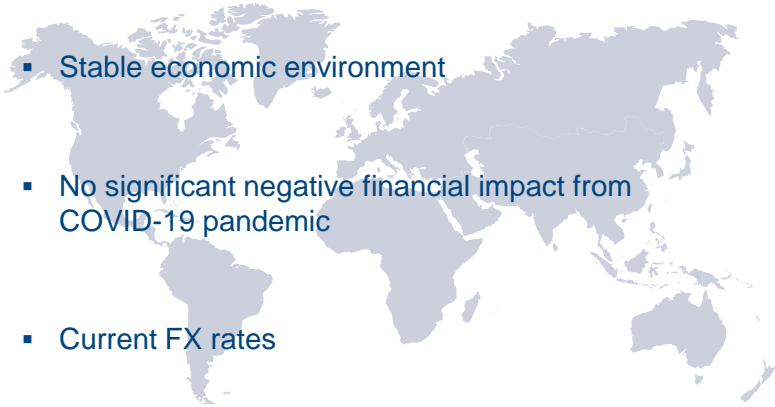
Management agenda – promise and deliver

	Topic	Goal	Measures
	Cash Flow	<ul style="list-style-type: none"> Enhance Cash Flow focus 	<ul style="list-style-type: none"> Integration of FCF targets into the management and staff bonus systems are planned Cash conversion rate as KPI
	ESG	<ul style="list-style-type: none"> Strengthen ESG within corporate strategy via expansion of ESG across KB group 	<ul style="list-style-type: none"> Integration of ESG targets into the management/bonus systems are planned
	Reporting	<ul style="list-style-type: none"> Significantly earlier reporting starting with YE20 	<ul style="list-style-type: none"> Change of set-up to secure migration IFRS migration to be incl. in bonus system
	Personal	<ul style="list-style-type: none"> Strengthen capital market view/requirements in combination with strong entrepreneurial culture 	<ul style="list-style-type: none"> Share-based LTI¹ also for KB middle mgt. Share program for KB employees
	Processes and Corp. Governance	<ul style="list-style-type: none"> Harmonization and standardization of processes, expansion of activities for global business services 	<ul style="list-style-type: none"> Enhance End2End process optimization From regional SSC hubs to global business services via enhanced content/ processes

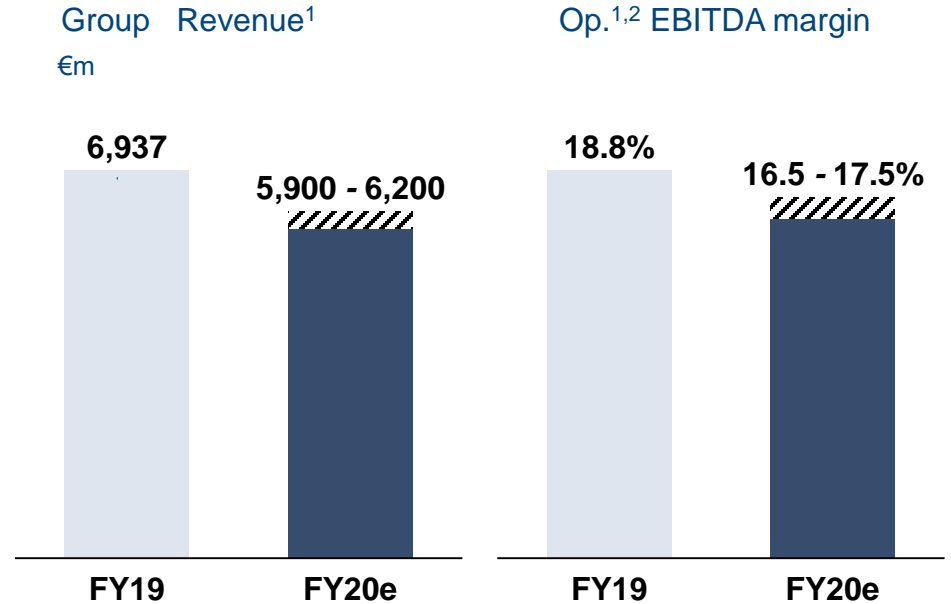
1) LTI – long-term incentive

Guidance of July for 2020 confirmed

Current Assumptions



Guidance



1) Including Sheppard since June 1, 2020

2) Operating level excludes restructuring costs, which have occurred in 2019

First careful thoughts on 2021

Market outlook



- SCI global outlook:
 - Passenger: strong recovery
 - Freight: moderate recovery
- **AM:** lower ridership only partly influence demand
- **EU:** First framework conditions of Green Deal expected
- **China:** Autonomous policy will increase



- TPR recovery in 2021 expected
- TPR Market expectations
 - NA:
 - EU:
 - China:
- AM market recovering

Strategic focus KB

- **Europe**
 - Lower ridership in trains likely to continue
 - Supporting framework conditions of Green Deal
 - **China**
 - Fight Autonomous policy
 - AM growth
-
- Continue growth of content per vehicle
 - Explore further growth opportunities in AM
 - Further integration of Steering business (focus on margin)
 - Further expansion of business in China

First financial indications

- **Revenue:** Solid growth
 - **EBITDA margin:** Slight growth
-
- **Revenue:** Solid growth
 - **EBITDA margin:** Solid growth

Assumption: no significant negative financial impact from COVID-19 pandemic included

Q&A / Backup



Financial calendar

Upcoming events

Event	Date
Virtual roadshow Morgan Stanley	20/11/2020 and 24/11/2020
Virtual roadshow Kepler Cheuvreux	26/11/2020
Goldman Sachs Industrial Conference	30/11/2020
Berenberg EU Conference 2020	01-02/12/2020
Société Générale Industrial Conference	03/12/2020
ODDO Conference	11-13/01/2021
Commerzbank Conference	11-13/01/2021
Kepler Cheuvreux German Conference	18-19/01/2021

Investor relations contact



Andreas Spitzauer

Phone: +49 89 3547 182310
Mobile: +49 175 5281320
Email: Andreas.Spitzauer@knorr-bremse.com



Sophia Kursawe

Phone: +49 89 3547 187311
Mobile: +49 151 62330709
Email: Sophia.Kursawe@knorr-bremse.com

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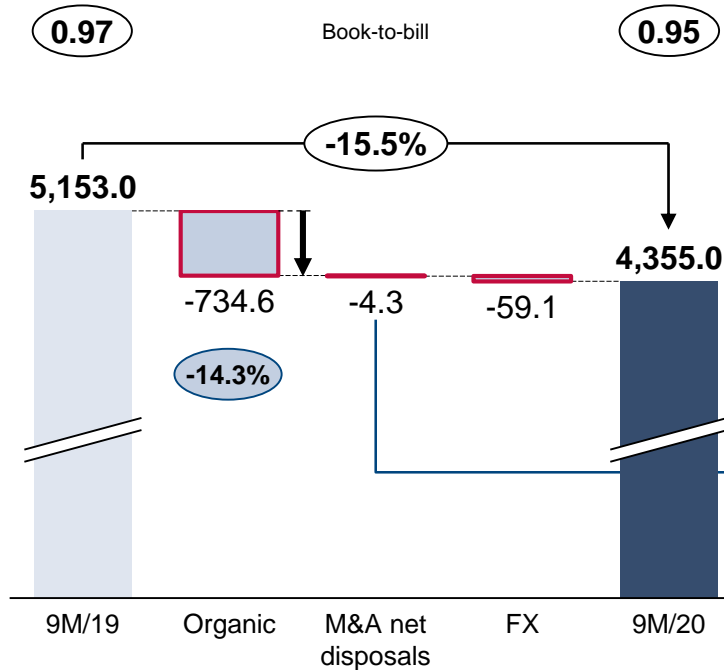
Backup



9M/20 – Group

Order intake

€m

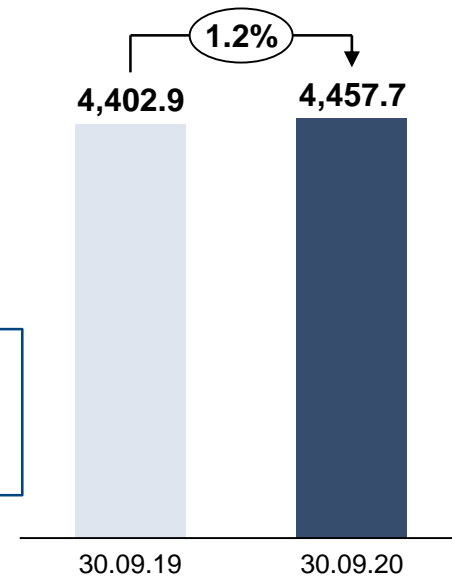


M&A net disposals

- R.H. Sheppard € +29m (9M/20)
- Hitachi € +20 (9M/20)
- Powertech € -54m (9M/19)

Order book

€m

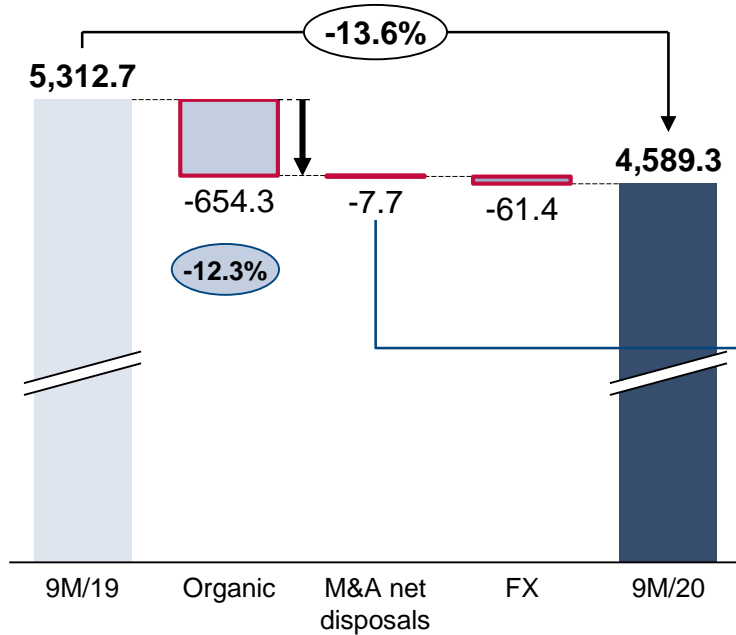


9M/20 – Group

Revenue

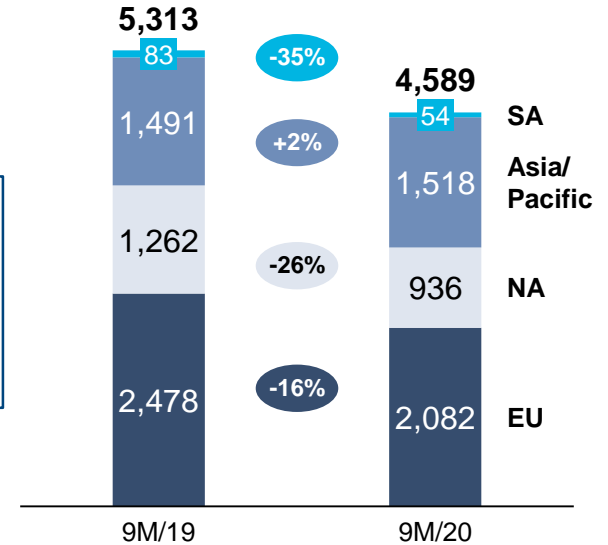
€m

By region



M&A net disposals

- R.H. Sheppard
€ +29m (9M/20)
- Hitachi
€ +22m (9M/20)
- Powertech
€ -59m (9M/19)

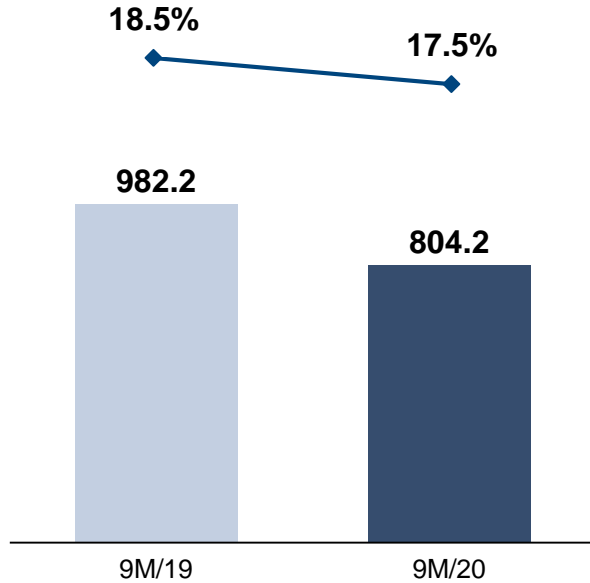


○ y-o-y growth

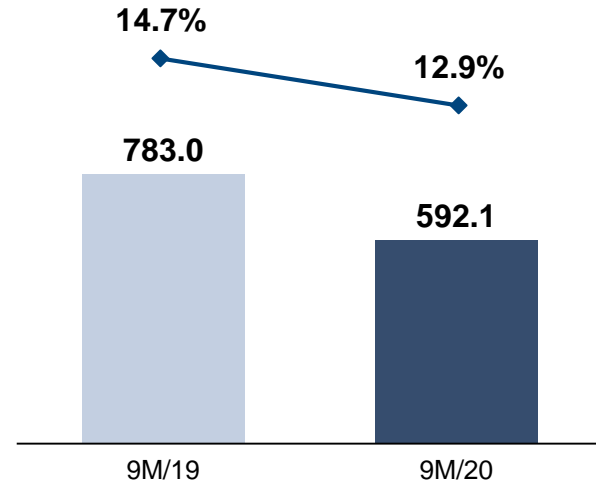
9M/20 – Group

EBITDA/ EBITDA Margin

€m



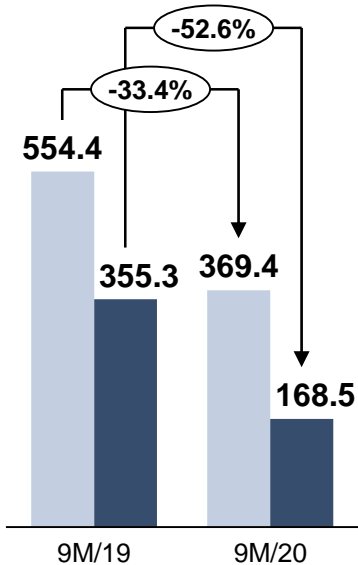
EBIT/ EBIT Margin



9M/20 – Group

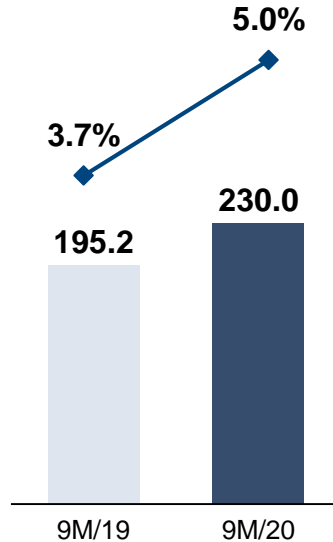
OCF & FCF

€m OCF FCF



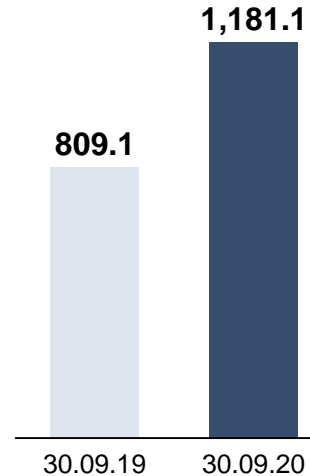
CapEx¹

€m % of sales



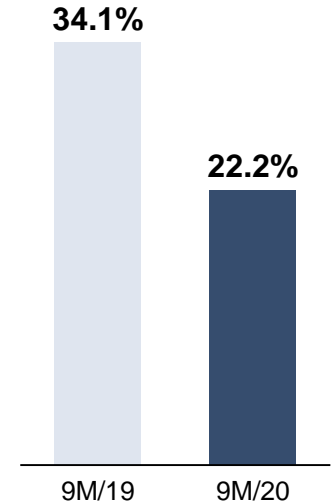
NWC

€m



ROCE² (annualized)

%



1) 9M/19 adjusted for Sale & Lease back

2) 9M/19 adjusted for Wülfrath

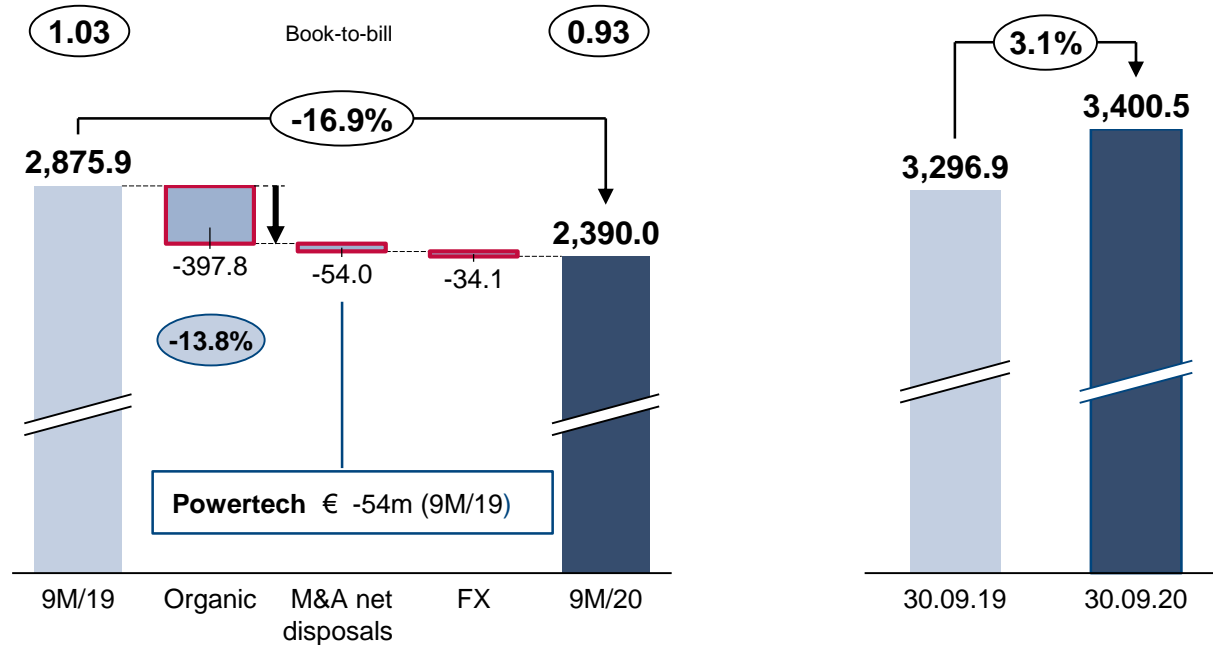
9M/20 – RVS



Order intake

Order book

€m



9M/20 – RVS

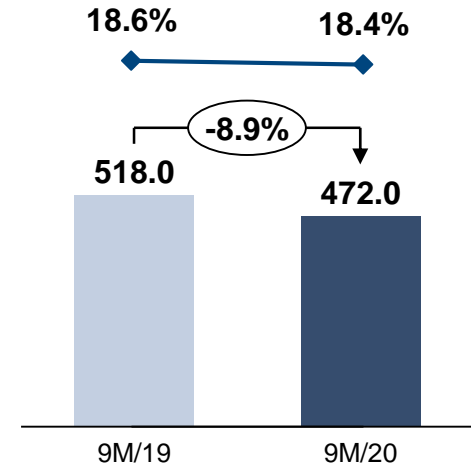
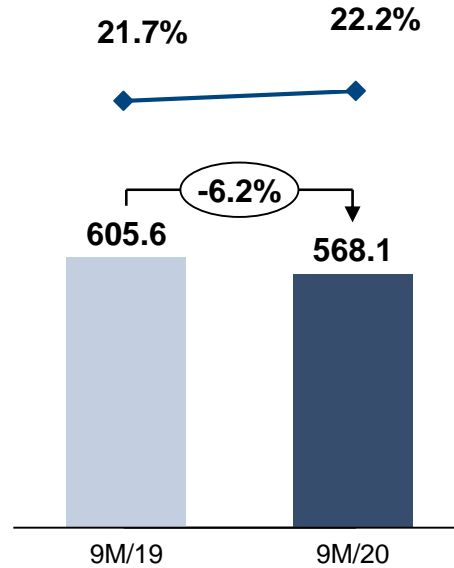
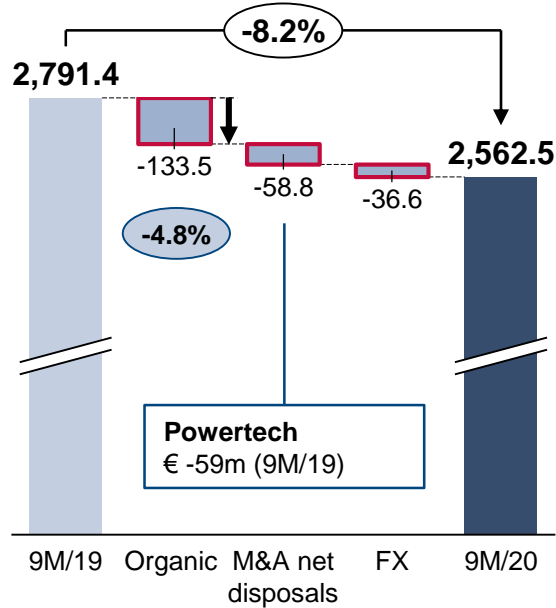


Revenue

EBITDA / EBITDA margin

EBIT / EBIT margin

€m

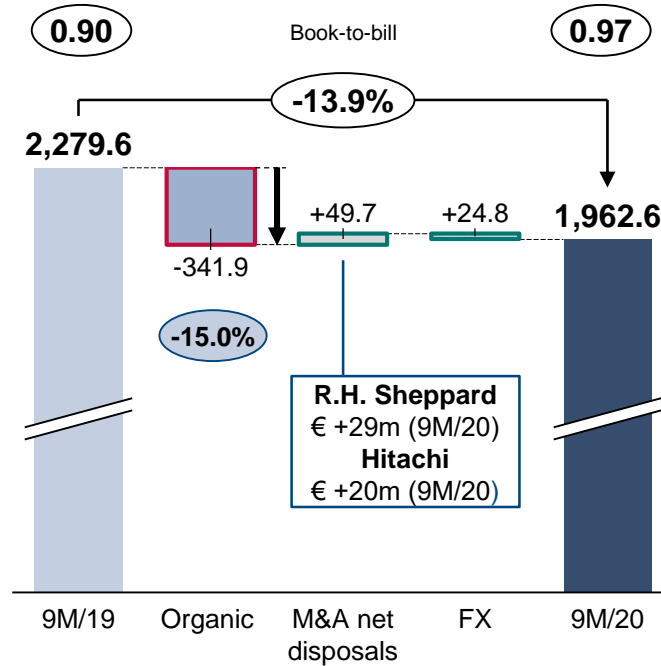


9M/20 – CVS

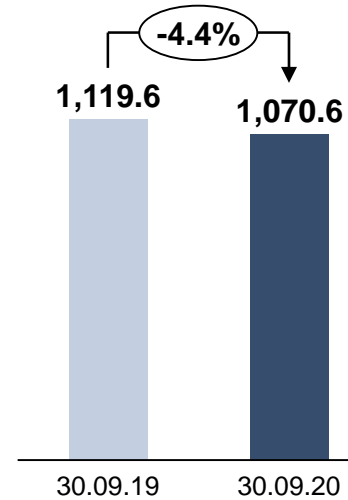


Order intake

€m



Order book



9M/20 – CVS

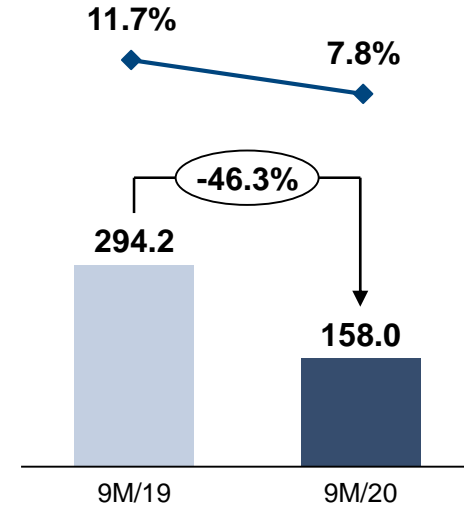
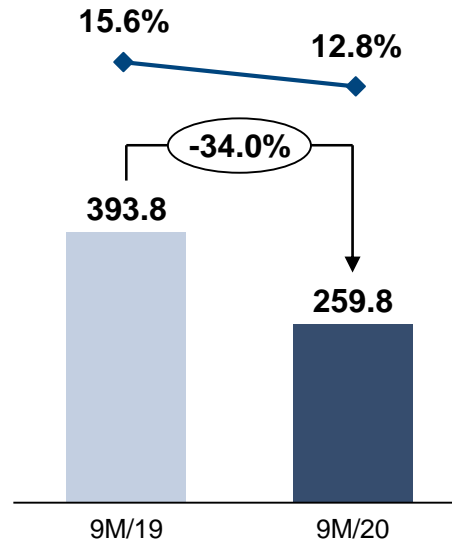
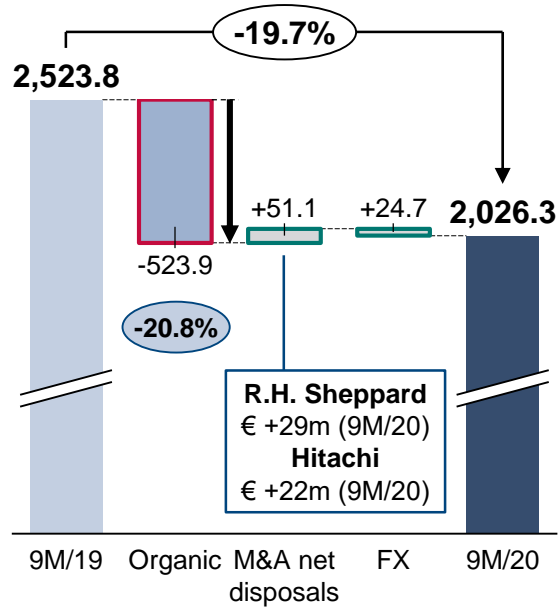


Revenue

EBITDA / EBITDA margin

EBIT / EBIT margin

€m



1) Operating level excludes restructuring costs