Company: **Knorr Bremse AG**

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Operator: Good day and welcome to the Knorr-Bremse AG earnings call for Q3 2020. This conference is being recorded. At this time, I would like to turn the conference over to Andreas Spitzauer, Head of Investor Relations. Please go ahead.

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 the Knorr-Bremse conference call for the third quarter 2020 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 and read the transcript of the call as well. It is now my pleasure to hand over the call to Frank Markus Weber, CFO of Knorr-Bremse. Please go ahead, Mr. Weber.

Frank Markus Weber: Thank you, Andreas. Dear Ladies and Gentlemen, I do warmly welcome you to our conference call for the third quarter results of Knorr-Bremse in 2020. We appreciate you joining us today and hope that you and your family remain healthy and safe. Today's call is made up of two parts. First, I will present the financial results of the last quarter, followed by an update on the guidance for 2020 and an initial view on the coming financial year. Thereafter, together with my two colleagues in the executive board, Dr. Jürgen Wilder and Dr. Peter Laier, we will answer your questions.

Before we start the presentation, I would like to say a few words about our employees at Knorr-Bremse: the whole executive board is very proud of the strong engagement, motivation and execution by the team in the last months, despite an ongoing challenging environment, everyone remains very focused and is highly committed to serve our customers and Knorr-Bremse as good as possible. We think that is outstanding and worth mentioning before everything else. We are continuously continuing to focus on health and safety is number one priority at Knorr-Bremse, for our colleagues, our customers and business partners.

So, let me start with the main topics of the third quarter on chart two. In the third quarter 2020, again, financials were strong in both divisions and Knorr-Bremse was able to give an impressive demonstration of its superior performance and the high level of resilience.

In CVS, we saw a strong market recovery and managed to outperform the market once more. Our RVS division also proved its resilience driven by a stringent implementation of the defined measures. In terms of earlier reporting, we now made considerable first progress on our path. Compared to the same quarter in 2019, we already achieved an improvement by eight days. As mentioned before, earlier reporting and the IFS migration will be a core focus of Knorr-Bremse going forward. More to follow in 2021.

Last but not least. I am happy to inform you that Dr. Jan Michael Mrosik currently, currently CEO of digital industries at Siemens will be joining the executive management team of Knorr Bremse as of January 1st, 2021. The whole leadership team is very much looking forward to having him on board very soon. The reason we believe that he is a great addition and we will now complete our team.

Let me continue with chart three and the market development in the third quarter. On the rolling stock side, global markets, further recovered in the last month. The whole rail industry was spared from cancellations, but we still see postponements, which will have an impact on the revenue development of RVS in 2020, and also in 2021. Overall OEM production capacities in almost all countries further improved to more normalized, almost pre COVID-19 levels. But we are still in the midst of the COVID-19 pandemic and have to monitor the impact of the currently rising number of infected people, basically all over the globe, very closely.

Stimulus packages with promising links to green mobility are in planning in several countries, which strongly support the mood and the expectations within the rail industry. The aftermarket business is also affected by the pandemic to a certain extent. We have seen pull ins from second half of 2020 into the first half of the year due to the rapid COVID-19 development at the beginning of the year. Due to the ongoing restrictions and lockdowns over the past months, a low ridership in trains is recorded, as passengers make adjustments due to social distancing. Nevertheless, we have realized encouraging signs of improvement, ridership due to lower number of infected people during summertime. Unfortunately, number of people in trains decreased again recently because of the increasing number of infected people.

After the very negative impact of the COVID-19 pandemic on the demand for trucks and availability of production capacities in the second quarter of 2020 markets for our truck business strongly recovered in the last month. All major markets, for example, North America, Europe and China, significantly improved in short term short time work, consequently, could be suspended. China, where we saw record levels of truck production rates in the second quarter, still shows solid performance, which is expected to be ongoing for the rest of the year supported by pulling effects from 2021.

The ongoing pandemic still challenges the whole industry and significantly increasing infection rates could influence the currently positive truck demand and therefore must be watched very closely.

Let us proceed to chart four, I will walk you through the most interesting recent events at Knorr-Bremse, in quarter three especially. We launched a new 3 billion debt issuance program in order to increase our financial flexibility quickly, if needed. In October, we paid back 250 million euros out of the 750 million, which we drew at the beginning of the COVID-19 crisis because the negative financial impact by the pandemic was less than expected so far, and also, beyond. The rail division won a major contract from Siemens for entrance systems for 94 underground trains in London. In addition, it has prolonged the contract with Bombardier regarding the maintenance of braking systems on TRAXX locomotives by five years.

RVS announced that it will equip 30 high-speed ICE trains for Deutsche Bahn with an option of additional 60 trains. In order to meet the strong demand, the truck division expands manufacturing capacity in China, by building a new plant and continues the strategic cooperation on automated manual transmission, advanced driver assistance and highly automated driving with Dongfeng.
Our spearhead is the North American truck market, Bendix, acquired full ownership of Bendix Spicer foundation break, LLC., a joint venture formed with Dana in 2004.

Let me continue with the financial highlights overview on a nine-month basis before diving into the details of the third quarter results. On chart five, you can see the summary of the key figures, nine months year-to-date. Considering the uncertain economic environment around the world, in this very unusual year, Knorr-Bremse's overall performance and resilience since the beginning of the year has been remarkable.

The numbers confirm the special robustness that is embedded in Knorr Bremse's model, even if some segments are more affected by the crisis than others. Nevertheless, KBs results were negatively affected by the pandemic too, even though to significantly lesser extent than other companies in the industrial sector. During the first nine months of 2020 revenues came in at 4.6 billion euros, 14% lower year over year. The EBITDA margin reached strong 17.5%, the upper end of our full year guidance for 2020, the Free Cashflow of 169 million euros saw a sharp decline versus the previous year's period. Especially the first quarter of 2020 was weaker than 2019 and even negative, but Free Cashflow improved strongly in the last quarter and we expect so also in quarter four.

Let me continue with an overview of the financial highlights of the third quarter on sharp six. Overall, COVID-19 still has an impact on business development in the past quarter, even though performance has already improved significantly compared to the two 2020. Order intake was at 1.6 billion for the group and our order book of 4.5 billion remained on a high level and provides good visibility for the coming quarters. At 1.5 billion, revenues decreased by minus 10% compared to the third quarter of last year, driven organically by both RVS and CVS, but also FX headwinds were recorded. Our EBITDA margin, nevertheless, decreased only slightly from 18.3% to 17.5% in quarter three, which we consider to be a very good level of profitability. It is a further proof of our resilient business model at Knorr-Bremse. The Free Cashflow in the third quarter, amounted to 182 million euros and was up by nearly 10% compared to the previous year's level. Our cash conversion rate reached 129 percent.

Let me dive deeper into our quarterly results on chart seven, order intake on group level, we increased by 4% to 1.6, 3 billion compared to the same period in the previous year. On an organic basis, the increase was even higher at around 6%. Compared with the development in the second quarter of 2020, in which we still had to recall the decline in order intake of almost the third year over year, the performance in the past quarter was extremely strong. This result was mainly driven by CVS, which was positively affected also by a lot of pent up demand in Europe and in North America after a very sharp decline before. Our book to bill ratio in quarter three was positively impacted as well, reaching 1.06 versus 0.92 in the previous year's quarter. The development of the order book at the end of the third quarter was particularly pleasing. Despite the ongoing impact of the pandemic compared with the previous year's order backlog, it increased by 1.2% to 4.46 billion. This level is only 5% below pre COVID-19, which we showed at the end of 2019.

Let me continue with our revenue development on chart eight. In the quarter, July to September 2020 revenues on group level decreased by minus 10% or in absolute numbers by minus 178 million to 1.54 billion euros. On an organic level, we saw a better development. Organic development was better with the decline of only 7%, compared with the development in the second quarter of 2020, where the revenues decrease of more than 20% the drop in quarter three more than half year over year. As in the second quarter, the APAC region must be explicitly mentioned. It entered the COVID 19 pandemic first, but this region was able to continue the good recovery from the previous quarter. As a result, APAC was able to grow by 1% year over year and kept a solid demand across quarter three.

The regions North America and Europe recorded double-digit sales declines in the third quarter year over year, but these decreases were significantly lower than in the previous quarter. Nevertheless, North America still stood at minus 23% versus the levels of 2019.

Let me continue with the development of our profitability on chart nine. In the third quarter of 2020 group's EBITDA was 269 million euros after 313 million in the previous year's quarter. The EBITDA margin amounted to 17.5% after 18.3% in quarter three, 2019. This slight decrease continuously resulted from CVS, volume effects of a declining OE business with corresponding impact on the operating leverage and by a lower aftermarket share. Compared with the second quarter of 2020 with an EBITDA margin of 17.2%, we were able to post already an increase in the last quarter again.

The margin impact of declining OE business was predominantly mitigated by cost initiatives in both divisions and on group level, which continued in the third quarter of 2020. We were already able to reduce some of the measures in the past quarter as the demand situation recovered faster than expected in some segments. For example, RVS was already able to end short term work in July and CVS ended short time work at the end of October,

The aftermarket’s share slightly decreased from 38% in the third quarter of 2019 to 36% in the third quarter of 2020; in absolute figures too. Aftermarket was not immune to the effects of the pandemic and recorded a decrease of 15% to 551 million euros. This decrease was driven by both divisions. The group's EBIT of 195 million euros also saw a decline of 55 million euros, which is less than half of the loss we did face in the second quarter, year over year.

At 12.7%, the EBIT margin was below the previous year's level of 14.6%. The higher deviation compared to the EBITDA of the previous year quarter comes basically from higher depreciation due to increase investment activities. In summary, we consider quarter three 2020 to be a good proof of Knorr-Bremse's business model in the continuously challenging market environment.

Turning to slide 10. We have initiated the CapEx management program in the recent months and watch ongoing spending very closely. In the third quarter of 2020, we realized first effects from these measures. Accordingly, investments did not only increase slightly compared to the previous year. In relation to sales, investments were above our target range of 4-5%.
We expect that with increasing sales, we will again be in this range of 4 to 5%. A substantial amount was invested in future growth options for both divisions. We continue to expand the capacity for air disk brakes in North America to support our market leading position in this segment. We also made strategic investments in further software development for our global steering business and continue to invest what's necessary in technology and innovation. Net working capital at the end of the past quarter showed an increase to almost 1.2 billion euros. The year on year increase was around 100 million euros, which is less than in the second quarter where we had the plant of 150 million euros year over year. This development was mainly driven by measures to ensure the ability to supply our customers. Our corporate policy “customer first” is very important to us and has been a cornerstone of our business success for decades. Accordingly, we have kept a higher level of inventory to support our customers in those difficult times and prevented a potential disruption of their supply chains as well as granted longer payment terms for some customers.

As a consequence, we also accepted a higher level of working capital. Nevertheless, we are continuously working on further optimizations and will reduce our working capital during the last quarter, but we'll still be prepared for quick ramp up of our business in the first quarter of the year 2021.

Annualized operating ROCE was impacted by both lower EBIT and increased working capital, but still, with 22.2% well above most other companies in the capital goods sector.

On chart 11, I would like to continue with the cashflow KPIs or free cashflow in the third quarter, 2020 reached 182 million, which is 10% higher compared to the third quarter of 2019. It is more than three times higher compared to the second quarter of 2020. This significant increase is predominantly driven by stronger profit quality of our underlying projects and products and effective countermeasures regarding cash preservation, such as optimization of CapEx and inventory, but also on reduced tax prepayments in regard to the tax authorities.

Based on the ongoing installed measures and driven by a normal seasonal pattern, e.g. projects tend to be finished at year end, we expect Free Cashflow to be significantly strong in quarter four, 2020.

As mentioned in the second quarter presentation, the cash conversion rate is a very important KPI for me and for us. As a reminder, our definition is Free Cashflow before M&A in relation to the net income. In the third quarter 2020, Knorr-Bremse reached a cash conversion rate of 129% following 90% in the previous quarter and 41% achieved in the second quarter of 2020. While it was strongly negative in quarter one, with a minus of 43%.

On chart 12, I would like to give you an update of the overall impact of the COVID-19 pandemic on our two businesses. Our Knorr-Bremse team is very closely monitoring the market situation and is prepared to act quickly if necessary. Overall, we have seen a good market recovery in the third quarter, but in the rail - both in the rail, but even more so in the truck industry, the major rail marks markets in Europe and APAC have further recovered, even though pre COVID-19 levels have not yet fully been reached. We have not faced any cancellation of projects, but several projects are still subject to shifts and postponements. Therefore, also order intake, revenues and earnings might fluctuate from quarter to quarter.

In North America, the freight market still faces challenges such as a lower number of built rail cars or part locomotives. Ridership remains again on lower levels. But the development in the recent month was encouraging. The long-haul passenger traffic of Deutsche Bahn in Germany for example, was down to 15 to 20% at the peak of the first wave of COVID-19 compared with the pre-Corona timing. In the summertime, this level improved to around 75%. Currently, Germany, like many other countries, is in the middle of the second major lockdown wave. Accordingly, the capacity utilization of trains in the German long-distance passenger traffic is again, down to around 20% of the pre-COVID number.

This development shows us that passenger numbers on trains will recover very quickly when the impact of the pandemic is reduced. What does this mean for our rail division? Our suppliers have showed the stable development in recent months and have more or less returned to pre-crisis levels. Our own plants currently are at high capacity utilization and productivity as well. The key sales markets of our attractive vision have recovered significantly from the lows and are still showing continuously ongoing improvements. Currently, our US customers are back to approximately 90% of pre COVID levels and the European ones on levels of 90 to a hundred percent.

Towards the end of the quarter transport activity was back on roughly the same level as a year ago in most markets, the Chinese truck market remains a class of its own with a market development on a high level, even after record levels in quarter two of 2020. Japan and India, further recover on a moderate level. In order to meet the increasing demand of the industry, we have taken pre-cautious measures with our suppliers and at our own plants, e.g. securing the parts supply and increasing the safety measures at our own production plants even more.

Let's move on to the divisional view, starting with RVS on slide 13. In the third quarter of 2020, order intake of rail vehicle systems was at 726 million euros, a decrease of 24% in total and 20% on an organic basis. Impacts by the pandemic, which led to tender shifts and postponements were the main drivers for this development. Besides I would like to remind you, once more, that developments in the rail industry with its long cycles do not go well with quarterly reporting, so to say.

They are always fluctuating large orders in individual quarters, which make comparisons difficult. The lower order intake in the third quarter of 2020 also resulted from a major order in Germany in the amount of significantly above 100 million euros, which Kiepe Electric was not able to sign. In addition, there was the postponement of the 20 million euro contract in Taiwan. We firmly believe that RVS order intake in the fourth quarter 2020 will be meaningfully higher than in the last quarter. The book to bill ratio developed accordingly to the lower order intake and moved from 1.04 in the third quarter of 2019 to 0.88 in the third quarter of 2020.

The order book, on the other hand, increased by 3% year over year and finished the third quarter at 3.4 billion euros. This level of order book is only 5% below the record level we have achieved in recent years. It provides a good visibility for the revenue development in the coming quarters, and it shows the overall stability of our business.

I'm now moving on to the revenue and profitability of the rail division on chart 14. In the third quarter of 2020 RVS recorded revenues of 822 million euros, which only decreased by minus 5% organically year over year, but minus 10%, including FX and M&A effectss. RVS recorded slightly declining sales in both the OE and the aftermarket business in the third quarter of 2020 year over year. As already mentioned in our last call RVS recorded pull-forward effects from the second half of 2020 into the first half of the year in the aftermarket segment, accordingly revenues in this segment in the third quarter of 2020, where overall around 10% below the previous year's figure. Europe, which was affected by the pandemic contributed about 40% of the year on year decline in the division’s sales. Predominantly the OE business was affected by lower revenues for Metro and light rail vehicles, the divisional passenger business overall grew, and the aftermarket business mitigated the decline of the European business.

APAC, including China, also declined overall, but less than Europe. We see that this region has already recovered significantly from the pandemic, but please keep in mind: it will take time for the process speeds to return to normal level, almost all revenue segments declined year over year. Despite this, our Metro and locomotive business stood out positively recording growth, particularly in China.

In North America, we recorded an overall decline. Lower revenues predominantly in freight could could only be mitigated by the development in the service business.

The profitability of RVS in the past quarter was certainly remarkable, when considering the respective revenue drop.

EBITDA of RVS came in at 178 million euros in the third quarter of 2020 and was down only minus 6% compared with last year's level. The EBITDA margin increased from 20.6% to 21.6% and EBIT margin, too, increased from 17.3 to 17.8%. This margin improvements also based on the following topics.

First of all, the COVID-19 measures had a large impact in supporting profitability in this third quarter. Please keep in mind that the measures are predominantly of short-term nature. Nevertheless, we intend to make the biggest part of it possible and sustainable; also for further years.

Second of all, we sold the loss-making Powertech unit, which supports our business beyond quarter three 2019.

I'd like to continue with the development of our track division on slide 15, incoming orders of CVS were exceptionally strong and one of the highlights of the key figures in the third quarter of 2020 overall. At 902 million euros, the overall figure was 45% higher than in the previous year and fully in line with the organic development. This development is very pleasing after the severe negative impacts on demand throughout the COVID-19 pandemic, especially in Europe and North America. Both regions benefited from catch-up effect in the last quarter.

In APAC, the development of order intake was again supported by China already after a record demand in 2020. Japan and India also saw a solid recovery since the very low levels in the first half of 2020. The order book of our truck division amounted to 1.1 billion euros at the end of September 2020, which is a slight decrease year over year. The order book level of CVS therefore has almost reached pre COVID-19 levels, among other things also supported by the acquisition of Sheppard.

Let's move on to slide 16. CVS posted 712 million euros in revenues for the third quarter of 2020. Compared with last year's figure, this is a decrease by nearly minus 11% and on an organic level of minus 10%. In North America and Europe, the decline in revenue in the last quarter was more than halved compared to the development in quarter two, 2020. Both regions were nevertheless, still strongly affected by the pandemic, but we saw a steady improvement in the general conditions. The North American truck market also improved in quarter three, although a little bit lower due to tougher comparable figures last year.

The APAC region, again, recorded revenue growth in the third quarter year over year, well supported by China and market share gains from our commercial vehicles division.

The share of aftermarket slightly decreased from 30% in the previous year to 27%, which is due to a very strong OE business in this respective quarter three of 2020. In the third quarter, CVS achieved an EBITDA of 102 million euros, which is significantly lower compared to the previous year, but is a doubling versus the second quarter of 2020 with only 51 million euros. The EBITDA margin amount to 14.3% compared to 16.3% a year ago. But also here, compared to the second quarter of 2020, it is the margin improvement by almost 600 basis points. In the past quarter CVS also benefited from the successfully implemented cost measures. In addition, better capacity utilization, supported profitability compared to the second quarter of 2020.

On chart 17, we compare the regional sales development of CVS with the regional development of TPR. In addition, we would like to give you our assessment of the TPR in the key regions until the end of the year 2020. Basically, we are quite confident regarding the truck industry in the foreseeable future.

CVS, once more, strongly outperformed the underlying truck production in all major regions and markets year over year in the third quarter of 2020. The CVS performance is driven by further growth in content per vehicle and market share gains predominantly in the APAC region. Until year end, we expect an ongoing positive trend in truck production rates in Europe and in APAC, the rate in North America should be able to experience a stable development in quarter four versus quarter three. The truck production rates in China are also expected to continue strongly, driven by subsidies to accelerate replacement of vehicles with higher emission standards, as well as further governmental support.

Let's move on to chart 18, which shows our management agenda and things we are on the way to change to support our future development. Please let me dive deeper into five rather important topics for us. First, it's announced in the second part of 2020 conference call, Cashflow has and will have an even higher priority at Knorr-Bremse. In the third quarter of 2020 Free Cashflow already improved to 182 million euros after 48 million in the second quarter 2020. In order to underline this focus, we are planning to include Free Cashflow targets, too, consistently into our management and staff bonus systems.

Second, the world is changing, and sustainable management is becoming increasingly important. We see no contradiction here with the interest of our shareholders - in contrary! Only those who grow profitable have the freedom to successfully implement sustainability topics. We also see opportunities here. Our rail division in particular is clearly benefiting from the desire for more sustainable and greener mobility. In order to strengthen the rising importance of ESG topics within Knorr-Bremse, we are also planning to integrate concrete ESG targets into the compensation package as soon as possible.

Third, earlier timing reporting is one of the focus topics going forward. We completely changed the setup of our IFS migration project to strengthen our efforts and ensure a respective go-live of the project. As an example, we also intend to include the IFS migration project into the management bonus system.

Number four, a relatively young company at the capital market, we want to rise the capital market thinking and understanding within Knorr-Bremse further. Therefore, we will expand the stock based long-term incentive program for middle management and implement a share program for all our global employees, where Knorr-Bremse will subsidize certain purchase of Knorr-Bremse shares for employees.

Last but not least, overall, we believe that Knorr-Bremse has a very efficient and lean overhead and administrative setup, but as in every other company, there's always room for improvement. We want to further optimize our internal processes and digitalize our activities to a higher extent. For example, we are currently organized on a regional basis to be as close to our customers as possible. Why shouldn't it be possible in the next step for efficient regional locations to take over overlapping administrative tasks on a global level? That is for example, what we mean with the acceleration of global business services at Knorr-Bremse.

Let's move on to chart 19, the outlook for 2020 and for most of you also quite important. Overall, Knorr-Bremse performed strongly in the first nine months of this extraordinary year. Our rapidly implemented counter-measures were well able to mitigate the market turbulences in both of our divisions so far. Due to the positive development in the past three months and the expected development in the fourth quarter, we confirm the guidance given in July 2020. Despite the fact that we did face some FX headwinds, especially in last quarter.

Subject to further lockdowns due to the COVID-19 pandemic and any related negative effects on the course of business until end of the year, we continue to expect revenues between 5.9 billion and 6.2 billion euros and operating EBITDA margin between 16.5% and 17.5%. Overall, we feel comfortable with the upper end of both ranges.

I would like to end the presentation with chart 20, which gives you our first thoughts for 2021. We are currently in the planning process here at Knorr-Bremse for the next year. We should be completed over the next few weeks. So, in a nutshell, we would like to share with you our market outlook, our strategic focus and the resulting first high-level indications for financials in 2021.

For the rail segment, we expect the passenger market to develop strongly and the aftermarket overall should only be partially influenced by lower ridership in trains next year. In Europe, we expect more details regarding the green deal initiative, which clearly will be positive for the rail of division mid to long term. On the other hand, we also expect that the autonomous policy in China will continue to grow, which will affect our business in the medium to long term as well. Overall, however, the opportunities in Europe should be much greater than the potentially negative effects in China. According to our initial assessment for 2021, this should lead to a solid increase in RVS revenues, as well as even a slight growth of the EBITDA margin. On the CVS side, initial European and North American data for the truck market suggest significantly higher volumes for 2021.

The development in China should be negatively influenced by pulling effects from 2021 into 2020. The overall aftermarket is expected to recover based on the assumption that transport volumes will recover too. Our strategic focus in the truck segment will concentrate on further increasing the content per vehicle, further integrating the acquired companies in the steering sector and further expanding of our Chinese business in general. Currently, expect CVS should be able to deliver solid growth in revenues and solid EBITDA margin improvements in 2022 compared to 2020.

Once again, these statements do not represent a guidance, but they should help you understand the market and the conditions in 2021, as we see them at this point in time. Please note that these first indications for 2021 are subject to two important conditions: First of all, a generally stable market environment in rail and truck. And second of all, the negative financial impact of COVID-19 are limited and manageable. With this I would like to thank you very much for listening and for your attention. Mr. Laier, Mr. Wilder, and myself are looking forward to your questions from now. Thank you.

Operator: Thank you. If you would like to ask a question, please press star one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has been answered, you may remove yourself from the queue by pressing star two, but again, please press star one to ask a question. We will take the first question from Lucy Carrier for Morgan Stanley.

Lucy Carrier: Hi Gentlemen. Thanks for taking my question. I have three questions. I would go one at a time, please. The first one was around kind of the indication you provided very kindly for 2021. Can you maybe help us to think a bit more precisely about the terminology when you talk about strong and modern in terms of improvement? Because I think you may have slightly different meanings for different people, so, are you able, maybe to provide a range when you talk about strong and modern?

Frank Markus Weber: Was that one question? Or was that already the three?

Lucy Carrier: It's just one question.

Frank Markus Weber: Okay. yeah, as we havesaid, we don't expect this to be a quantitative guidance at this point in time, as I outlined that we are in the midst of a comprehensive planning process, right at this point in time. So, we thought that qualitative kind of explanation would be already helpful for all of us somehow to understand where we are going. Needless to say, that we think that solid is better and stronger than slight. I think that it is very clear that slight for us is a lower single digit growth number somehow and solid therefore would be better than only slight.

Lucy Carrier: Okay. Thank you. Thank you very much. This is helpful. My second question was related to the rail business, and I guess I have two questions to that. One is you've mentioned some delay and postponement in terms of the tender activity. Do you have visibility on when those tenders are supposed to be awarded? Is it too soon or is it kind of indefinitely delayed, and then one comment you've made about the ridership being down and impacting your business. It seems to me that few months ago, at the beginning of the COVID-19 crisis, we were discussing that the ridership was not that much of an importance, but what was more important was the number of trains on the track rather than the number of people on the trains. So, is there a change to that in your view or simply you expecting the trains on the track itself to continue to be quite low because of the ridership?

Dr. Jürgen Wilder: Yes. I'm happy to take that question. There's no change in that interpretation, like we said a few months ago: it is more important of course, that the trains are running and we also continuously see the trains running or the ridership is down a little bit. Of course, we do see a an increased cost consciousness, for example, in Asia or China, in terms of maintenance, or maybe looking forward to stretch a bit, that maintenance cycles that might have a little bit of an impact. But the interpretation that you rightfully had a few months ago is that it mainly depends that the trains ae on the track and that they are running. And that is very valid and will be valid in the future, also. We have just seen, for example, that there is certain impact to it, for example, in France, now, with the second wave.

And there is a bit of a thinner schedule of trains running, and we might see that in other countries as well, but the interpretation is correct. Then your first question regarding RVS and the tender activity? Yes, we have a good visibility of when, what tenders would be awarded. Of course, there always is a bit of fluctuation around when will it really happen? We do expect that what we also said, we do expect a strong order entry in the fourth quarter than in the third quarter where we had little bit lower numbers. That is also due to like Mr Weber pointed out earlier: one project, especially for Kiepe, which was awarded in Q3 and we were not awarded that quarter. But I can tell you that that it is a large order in the three digit million range, but I can also say that there is another order in the pipeline where we have very, very good chances to win in the next few weeks. We have already got feedback from the customer, but there's always timeline for peers. So, we need to wait for that, that will expire basically next week. And if that goes through, then we would be able to, Q4 instead of Q3, to book a major or whatever and that will turn around that situation. And if it had been differently - sometimes you win an order, lose an order - differently that we had won this job and not the other one, for example, then Q3 would have been much stronger. That's how those fluctuations between quarter and quarter are always there. We've also heard, maybe to add that briefly, that also the car builders expect an enhanced order entry over the next half a year and with some delay that goes to the sub suppliers like us. We expect from that also in the midterm an increased order entry level again, compared to how we're seeing it in the past two quarters.

Lucy Carrier: Thank you very much for the color. And I guess my last question was around the free cash flow, very impressive rebound in the third quarter and high conversion. Obviously, the beginning of the year had been a little bit weaker. So, when we think about the fourth quarter that season in Europe is always quite strong, how much should we think in terms of, you know, what's sustainable in terms of what we saw in the third quarter and what was maybe more of a catch-up effect from the previous quarters, which were a little bit more on the low side?

Frank Markus Weber: First of all, I think yes, you're right. The first quarter was rather weak. We usually have the tendency so to say, to improve or to increase the working capital levels at the beginning of the year. And that basically is then the Free Cashflow line in the very first quarter, that was also this year, the reason somehow why these negative results came up. For quarter three, we had some catch back effects of course, but also significant cost measures that we have implemented. And what also needs to be said that the underlying Cashflow richness of the individual projects and products has been quite good. So, underlying a good quality of the earnings in the quarter also plays in, in this quarter, which should be definitely sustainable. Yes, I would say in addition to your question, there were some effects we have also like all other companies as well reduced the prepayments to the tax authorities in Germany and North America. So, I would say this did help us with maybe a not sustainable amount of maybe 40 million, 40, 50 million euros. But we, despite that basically think that the Free Cashflow in the fourth quarter should be at least on this level that we have seen.

Lucy Carrier: Thank you very much.

Operator: We'll now take the next question. We will now take the next question from Sven Weier from UBS.

Sven Weier: Yeah. Thank you. And thanks for taking my questions. Good afternoon, Gentlemen. The first one is a follow up on the rail comments you've just made, and obviously you're quite confident it seems on Q4. So, would you be overall happy to expect the book to build up around one further unit this year? And associated to that, I remember in the H1 and the reports you were indicating that you expect the backlog for the whole group at the end of 2020 to be higher than at the end of 2019, which means that in Q4 your order intake needs to be quite a bit above sales. Is that still your expectation on the group level? That's the first one. Thanks.

Frank Markus Weber: Yeah, let me, let me start with the rail portion. There is indeed we expect that the Q4 will have, as I said before, a meaningful higher order entry than we had in Q3, which is even above where we see the same. So, there should be a positive book to bill, right. In Q4, which would then indeed increase the order book above what we see today. That's what I would expect. Yeah. That will be my answer to the question.

Dr. Jürgen Wilder: So, that's a good thing, thank you very much, Mr. Weber, if this then comes through coming to your second question. I would then based on this assumptions also still confirm what we have written in the second half year report that our order book would then be slightly above the levels of end of December, 2019, we can still confirm that. That would be also nevertheless than true for RVS per se and for the group.

Sven Weier: Okay. Thank you for that. And the other one is another rail question. Obviously, you've been mentioning the structural outlook for China where maybe in the medium to long term you might lose some share over there, but on the other end, obviously we now seen in Europe you are constantly winning business from Alstom. So, is that the right impression that you're gaining share in France on the back off these contracts, or how should we look at that situation?

Dr. Jürgen Wilder: Yeah, I mean, indeed, we see that there are a lot of opportunities for us in Europe, also the upcoming years. The European market it's actually growing quite a bit that has something to do with replacement needs. And it's also quite right, what you said that we improved our position in France with some of the contracts that we have just recently and also last year won there. So, we can participate in a lot of replacement needs in Europe that we currently see. And it's also the right interpretation. I would underline that what you applied that maybe some headwinds that we might see in China because of an enhanced autonomous policy, which was always there, but it might be underlined a little bit because of trade war and also COVID impact is something that we need to watch that we need to react on, also like stretched maintenance cycles that the Chinese for cost consciousness would apply to their fleets. It's compensated by a better outlook in Europe that we see. So, I would confirm what you implied in your question.

Sven Weier: Okay. Thank you, Dr. Wilder and the next one is another follow up from the Mr. Weber. You mentioned that you're happy, to confirm all the upper end of the guidance range for this year. And we had a few companies already making some positive comments, how trading has held up in November, you know, despite the lockdowns though, I suspect that is what you're currently seeing as well, that's this at the moment still no impact from the lockdowns before.

Frank Markus Weber: Thank you. Yes. we, I can confirm that at this point in time we don't see any impact and currently also don't anticipate in our forecast figures internally any headwind from that.

Sven Weier: Okay. Thank you. And maybe one final question, if I may just come back to your point about the temp costs and how you make them permanent, at least that's the intention. Can you just quantify in terms, I guess in Q2, you probably had the maximum temp cost saving. Could you say that were relative to that where you stood in Q3 percentage wise? Was it still like 80, 90% of that? And how do you see that developing then for Q4?

Frank Markus Weber: Oh, thank you. Yeah, I think important question when it comes to, of course also planning a discussions internally, we have reached indeed the peak of our savings in the second quarter is also outlined with more than 50 million euros, in both divisions, combined of savings. And we didn't see a level of 70% roughly out of that in the third quarter. But already, as you can see already significantly lower than in the second quarter to some of the aspects I just mentioned. Nevertheless, I think there is potential still in there that this number will not completely go down to 0% because you have on the expenses side, quite a lot of stuff, if you consider traveling, if you consider consultants et cetera. So, there is quite a lot of - or even infrastructural costs people, more people are working in home offices, et cetera - potential, at least in that would be a sustainable also for the next year to come whether they will be ultimately sustainable. This, we have to answer at a later point in time, but there is potential in there to maybe 20, 30% out of that as my very first guess, at this point in time.

Sven Leir: But you bet you see another step down in Q4 from the 70%. So, does it go down maybe two 50 or what would be the ballpark there?

Dr. Jürgen Wilder: Ballpark would be maybe 50%. Right. And then, so, I think 30% if it is sustainable then in the next year.

Sven Weier: Okay. That's all from my side. Thank you very much for that. Thanks.

Operator: We will now take the next question from Felicitas Bismarck from Deutsche Bank.

Felicitas Bismarck: Yes. Thank you very much. I have another question on the order intake in rail. I was just wondering, do you mean when I look at your solid growth assumption there, do you expect order intake to return to strong growth in 2021 and basically catch up on the postponements that you were seeing now that we have the news on the various vaccines, or what does the low ridership still outweigh the better sentiment and you only expect a slight growth year?

Dr. Jürgen Wilder: Now we expect to return to a higher order entry in 2021, even as I said before, we expect a strong order entry in that in Q4. There is different aspects to it: First of all, I mean, if you're looking at the overall order entry this year, then I want to remind everybody that in Q4 2019, we had a really strong order entry, really strong order entry. And again, I think I said it last time when those orders come on 30th of December or on 2nd of January or something like that makes a substantial difference to the fiscal year order entry. And then, of course, what I what I said earlier, that it really depends on when and what quarter do some larger contracts come. We have always planned in our business plan for Kiepe that we win, let's say, one of those large orders in this year that I referred to earlier. Now we have lost the first one that was given. Of course, you always prefer to win the first one, which was awarded in the industry, but we have lost it. But now it looks very, very positive that the second one that is out there waiting for the peers that is the one thing. So, if we had won that in Q3 also, then the numbers would not look very let's say, remarkable or something like that, or those questions would be asked. So, there's always the question, which quarter you get that.

And then, of course, what we also see is that with the COVID-19 crisis, there is of course, a little bit of a delay of tenders and a little bit of a delay on when car builders award the order to us, because they need to stretch them in your maintenance schedules. And they had some closures in the spring and that will recover the report that they expect to receive the same as the market, and then hence order entry, which were then come down to us. That's why I would say, indeed, we will see a better idea in terms of order entry, next year.

I have to say I'm not really nervous about that. That has nothing to do with when are the orders coming. And of course, a little bit of a dip, but the general trend that we see a positive book to bill and continue on our growth also after this COVID-19 crisis, I don't question that. I strongly believe in that.

Felicitas Bismarck: Okay, thanks. That's very helpful. And the second question I had was also on rail, you had very strong margins. I think you originally actually guided for worse product mix in H2. Can you maybe indicate how you would see this developing going forward? I mean, basically why do you expect only slight growth in EBITDA margin in rail in 2020 despite solid growth in revenues, there is certain effect that comes to mind or is that just basically a base effect?

Dr. Jürgen Wilder: Potentially we see already in H2, we see a little bit of a different mix there pointed out before. And what we have seen for example, in H1, is that all the operators' kind of were a little scared at the beginning of this crisis, that they couldn't keep up their operations and of course, their major tasks to do. They cannot afford to report like Deutsche Bahn or anybody else, and say, we don't have enough spare parts or something like that. So they started an initiative to basically order more spare parts at the beginning of the crisis, which we really benefited from the little, because you think like the crisis sets in, it hits us immediately, but it didn't. And we could deliver on those spare parts on there on the rail side right there. And that's why we had a very strong order entry in the first half and in the second half it is a bit different because you can imagine that the stocks are filled up with spareparts. Now they need to use it before they buy new ones. And when it comes to the outlook for next year, I mean, don't forget that we had a very strong reaction because we didn't know how this all works out. We know now much better than beginning of the crisis with one-time measures on our parts position. So, we really hit the brakes in spring of this year and we still benefit from those measures that we have taken, but those are one-time measures. They're not necessarily sustainable. We need to step off the brakes in order to be ready for growth in the future. And that's why we have are we saying we see a good growth on the revenue side and more than slight growth in the margin.

Felicitas Bismarck: Yeah, absolutely. And the last question I have is on CVS actually, when you were talking about taking market share gains and contents of vehicle, but especially the market share gains in Asia, from whom do you think you were actually taking that share?

Dr. Peter Laier: To be honest. Thanks for the CVS questions. On the one side, the market or the content in the visa is growing. That's why the market itself is growing. That is helping us and we are gaining, maybe over cautiously you're on the other side. Yes. We take some share in the market from others, but it's a mix of competitors. It's not only one.

Felicitas Bismarck: It's not your big competitor, but it might also be some lower quality ones. Okay. Thank you very much.

Dr. Peter Laier: You're welcome.

Operator: The next question comes from Akash Gupta from JP Morgan.

Akash Gupta: Hi, good afternoon, everybody. And thanks for your time. My first question is also on RVS. And I'm wondering if you can discuss business and particularly in a bit more detail. So, you said Q3 was down and maybe there were digits in terms of aftermarket revenues in RVS and that comes after strong H1. So, maybe if you can tell us how much growth you have seen the aftermarket year to date and what are your current expectations for that?

Dr. Jürgen Wilder: If I understood the question correctly, what how much growth we have seen on the aftermarket, right, this year? I mean the aftermarket so far it's a little down. I mean, we see some decline compared to last year on the aftermarket area as well. So, it's somewhat invested, but it is also regionally quite differently. We see continuously say rather strong performance or performance continuous, like last year, for example, in Europe. But we see, for example, in Asia that we go down a little bit in the aftermarket business due to two reasons: first of all, there was also of course at the beginning of the year, a little bit or now, is the impact, as I said, they also ordered some scrap up at the beginning of the year COVID related. But the other thing is that what we have faced in China: there's a bit of a tendency that the Chinese rail operators stretch the maintenance cycles a bit, by, let's say 10, 15% and that their cost consciousness also hits us to a certain extent in supplying spare parts and also services compared to the past few years. That is an impact with some sort of one-time impact if you make a decision to stretch those cycles, because you have maintained those cars in the process, according to recommended schedules by OEMs, which generally are on the safe side. And now you optimize it a little bit. We see a little bit of a stretch there. That's where we mainly see a certain decline.

We also see a certain decline, that is market related really, on the freight of market in North America, because we have seen that the freight market and the logistics market is going way down. There's a lot of cars that are in storage. There's a lot of locomotives that are in storage and of course there will be a catch-up effect once they get out of storage back on the tracks and they need some service in order to do so. And we see that, let's say probably later next year, or even after that effect where we're in North America and that's how kind of the aftermarket business is distributed, but in Europe it's still rather strong.

Akash Gupta: Thank you. And my second question is CVS side. So, I mean, in your recent presentation, you have shown your CVS offering in detail. And the question I have is, is it given the way how your, some of your customers are developing hydrogen fuel cell powered trucks, is it fair to say that your entire product offering can be used in hydrogen powered fuel cell track? Or are there any components that can't be used or are there any other components that you are working on and you can increase and contained in those hydrogen powered cells? So, that's question number two.

Dr. Peter Laier: Yeah, thanks for the question. I would say that way we have a smaller part of our portfolio, but really in comparison to the overall review neglectable, which is combined with combustion engines that is EGR exhaust, recuperation valves and dampers for huge diesel engines that in some maybe double digit million revenue source, small when compared to the rest. The rest of the product portfolio is usable as well in immobility trucks. Anyhow, they have a fuel cell as a power generator or a battery for sure they are some adaptations necessary of the products, but as well those new technologies - fuel cell or battery electric vehicles - are giving us growth opportunities.

We have introduced for that new R&D center, which we call the e-cubator. There we have the intention to bring somehow 50 engineers together, actually, maybe I don't know, between 20 and 30 in there, and we'll enhance it there further, which is fully focusing on additional business opportunities in those new vehicles. Giving you some examples where we are already in: compressed air in a e-mobility vehicle cannot be produced by this classical piston compressors, which are mounted to the combustion engine. They need to be produced by new compressor types. We have the screw crump compressor successfully introduced into the market by the way with a technology, which we carried over from the rail division. They have used it since decades. And we have now developed a new technology, which is called the “Rotary Vane” compressor, which we are offering on the market and have received first awards for that. So, that's typical growth opportunities. Just to name one example.

Akash Gupta: Thank you. I have two follow-up housekeeping questions. The first one is on slide number 17. So, truck production out-performance that you have in your revenues versus TPR, if that revenue is only OI or does that also include aftermarket that you have on slide number seventeen?

Dr. Peter Laier: So, the aftermarket is included

Akash Gupta: And this outlook preparation, is that sequential or year on year?

Dr. Peter Laier: Again, can you repeat, I didn't get it acoustically. Is it?

Akash Gupta: And these bars and these arrow charts that you have for outlook 2020, are they sequential, or are they year on year?

Dr. Peter Laier: That's year-end. So, that means this is outlook basically for the fourth quarter.

Akash Gupta: Okay. And my new one is on tax rate. I mean, for nine months, we had taxed slightly below 28%, which is lower than 30% we have in the last two years. So, maybe comment on what should we expect for the next year?

Frank Markus Weber: Yeah, you're right. The tax rate is on a level that currently foresee on below 28%. This is absolutely true. And your forecast and the forecast you were asking for is what tax rate I see for fourth quarter or for the next year? Sorry, I didn't get it.

Akash Gupta: Should we assume for this year and next year models?

Frank Markus Weber: Yeah, I would basically say for this year, I would assume the just discussed tax rate, as we just say the 28%, ideally below. And for next year, I would expect a higher one at this point in time coming from the 28 towards the 30 maybe in between somewhere. This is what I currently see.

Akash Gupta: Thank you.

Operator: We will now take the next question from Iris Zheng from Credit Suisse.

Iris Zheng: Oh, good afternoon. Thank you for taking my question. I've got two, and I will do it one by one. So first is on the monthly trains because if my memory is correct I think in the last call you've mentioned that over the summer, i.e. July and August, order intake was up at 20% year on year. So very, very strong. While if we look at the Q3 results, then it implies quite a significant slowdown in September. So, I wonder if July and August was mainly driven by very strong pent-up demand, followed by a smaller September. And then how did October and November perform, if we can get some indications. Thank you.

Frank Markus Weber: Yes, of course. I do remember, well, I mean first of all I also clearly mentioned that the positive development year over year on group level, July and August was only driven by CVS where we mentioned somehow after the eight weeks order intake that it was somehow up in the range of nearly 50%. I remember that well, and second of all, it's the vast majority of the effect is driven by September and the RVS Kiepe deal that didn't come in. So, to say that brought the level significantly down overall that unexpected postponement in Taiwan as I also outlined already before. So, if you take those two together, this is basically the explanation. And then in addition, but this is only minor also some negative FX came in, but this is really only minor, but to have the full effects in total. That is the reason why though to say the 20% July, August in the end, ended up with a 4% for the whole quarter.

Iris Zheng: This is very helpful. And what about October and November, if we can give some sort of indication?

Frank Markus Weber: I mean also as already outlined by Dr. Wilder, we expect definitely the fourth quarter to be stronger on the order intake side than what we have seen in the quarter three, which in the end has given the respective revenues. Needless to say, it should give us this strong order book by the end of the year. Yes, it's penetrating what we have there in our planning especially also on the rail side, but we are as Dr. Wilder said, we are fighting for each and every contract here for October I would say it's -

Dr. Jurgen Wilder: … on the rail side, I can say for October, that context, it was as expected. We expect the strong Q4, October within that.

Frank Markus Weber: So, and for the October month to answer your question indirectly but October looks better on group level. We should be higher than September and we are higher than in September, so it looks like it is getting upwards again.

Iris Zheng: Great. And thank you for the indications. My second question is the rail diversion and just because you've mentioned that some of the aftermarket were brought forward to the first half and therefore has had a negative impact in the second half. But if there's any possibility that we can look at this, excluding the pull forward impact then, the underlying market, how do you see it? I'm asking this because I think for one of your major customer, a rail OEM they've motioned for their servers for example in the last quarter, Q3, their service business through mid to high single digits and they see the a market to be pretty much back to the normalized level. And therefore, I want, I just want to have a sense of the underlying markets excluding the pull forward demands impacts?

Frank Markus Weber: If you do allow before Dr. Wilder also gives you his insights. We have discussed, I think, several times that it's of course, hard to grasp what the real pull ahead effect really is in the end, when it comes to your bookkeeping and how much of revenue was exactly pulled forward and what not. And then what was pulled ahead and so on. So it's, it's very difficult then to figure out on the revenue side, as well as on the profitability side. So, we are also not doing that to the most detailed account internally as it's nearly impossible to grasp.

Dr. Jürgen Wilder: Now, it's also not that those impacts are huge. They are visible, but they are not really huge. It doesn't really project the remarkable things going on in the market. If others might say that the maintenance market back to normal also always depends on what you're looking at.

Are you looking at basically the maintenancework that has been important to the trains that might be the second quarter, and then the third quarter. But if you look on the other hand, then to spare parts, which is bulk of our aftermarket business where operator saying that it will be on the safe side and put them on stock and therefore using them up while the maintenance work is done, then the later. I mean, you have all of those kinds of dynamics and like Frank Weber already said, it's really difficult to say exactly what's going on. We see on our books, we had it good, especially on the brake side good orders and also deliveries in Q2, especially the brake side. And to a certain extent, those operators are living on that right now, when it comes to maintenance work and things like that, that might look slightly different.

Iris Zheng: Thank you. So, sounds like the swing factor here is the spare parts of the business, rather than the maintenance part?

Andreas Spitzauer: Could you repeat the question please?

Iris Zheng: Yeah, sure. I just want to double check because it sounds like it's mainly the spare parts business that is currently moving the needles or it's causing the volatility of the aftermarket. So, sounds like the underlying maintenance is not having or causing a lot of volatility.

Dr. Jürgen Wilder: No, all I was saying is that, of course, the bulk of our aftermarket business is still the spare parts business. So, when we saw some pull-ins to a second quarter, we basically refer to that.

Operator: As a reminder to ask a question, please press star one. We will now take our next question from Alfred Glaser from ODDO.

Alfred Glasse: Yes. Thank you for taking my questions. I have two questions. The first one on maintenance and aftermarket service in rail. You said previously that some operators are stretching out maintenance in China over longer periods. Did you see any kind of indications of this also in other countries? And do you think that this might be any how sustainable, or is it just a one-off effect? I'll ask my second question afterwards.

Dr. Jürgen Wilder: Okay. I mean yes, we do see that. I mean, it has something to do with the fact if you recall how China developed: how the railways in China developed and how there were a lot of new trends that were running over the past 10 years. They are expanding that to an extent that's also new to China. And of course, there's an underlying maintenance regime that is kind of also unique for China because the kilometers that those trains are running here is much higher than in other parts of the word. And therefore, as those new trains are ordered, there is always a maintenance schedule that comes with it that is basically recommended also by the car builders. They are generally on the safe side and the lack of experience over the past few decades now signs off, knowing how themaintenance regime works. Of course, it's also not a surprise that they now start to optimize those maintenance plans to a certain extent.

There is another more experience in other parts of the word where these optimizations are constant. I would not say no to the question on other parts of the world, like do we need to see the effect of that in other parts of the word. And the other part of your question, would that be a onetime effect or will it be a continuum? In fact, I mean, you can only stretch it by so much. Yeah. That also has its limits. And once you did that and stretched it by, let's say, you do a major overhaul after 1.2, or let's say after 1.3 million kilometers, we are talking about to be very concrete in those terms and you cannot extend it every year by another hundred thousand or something. So, I would rather say, of course there is a further optimization going on, but it's more so a one-time impact to stretch time maintenance side rather than a continuous impact. But therefore, you can, of course translate the stretches of those cycles into maybe a little bit of a slowdown of the market growth that comes with it. But it cannot be a continuous thing going on forever.

Alfred Glaser: Thank you. That was very clear. My second question was actually on cash, Free Cash generation. You indicated in your slides that you would integrate Free Cash criteria into the remuneration of managers throughout the group. Do you think that going forward this can structurally and permanently improve your cash conversion ratio? Currently you're targeting 80 to 90% on a recurring basis. And then do you think that these measures could improve this target, somewhat?

Frank Markus Weber: Yes. So, first of all, we do believe that by implementing this, we should even further focus of each and everybody at all times to this important figure of Free Cashflow. So in the end we think it will make it more a pet on a general pattern at Knorr-Bremse to also strive for a free cash flow, the same way they are striving for good EBITDA margins just bringing it up to the level of importance within the group. Do I then at the same time intend to raise the targets because of this effect? I doubt so, but I think we will make the targets or the achievement of our targets and then hopefully achieve that with additional view on things. But I will not raise the 80 to 90%.

I also said last time that I somehow see the floor of Knorr Bremse rather levels of 70 to 80%. So, in no case we can imagine the company Knorr Bremse to fall below these levels of 70 to 80%. What's also out there, so to say, or our direction going forward, but long story short answer: I don't see immediately the effect to link that to a target increase, but it's hygienically, I think important to do that consistently. And therefore, we are also not implementing that also in the management, a middle management bonus system, but in the comprehensively, in the overall management, including board members, middle management and employees, that's our intention.

Alfred Glaser: Thank you very much.

Operator: As there are no further questions in the queue. I'd like to hand the call back over to your host for any additional or closing remarks.

Andreas Spitzauer: Thank you, operator. Thank you for all the questions. We hope that you stay healthy, we wish you a lovely Christmas time, as much as possible and we looking forward to staying in contact with you going forward. Thank you and bye-bye.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.