



Transcription

Knorr-Bremse AG - Earnings Call Q1/ 20

EV00107902 – 90 Min

28 May 2020



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PRESENTATION

00:00:00 Operator

Dear ladies and gentlemen, welcome to the call for the earnings of Q1 2020 of Knorr-Bremse AG. At our customer's request, this conference will be recorded. As a reminder: All participants will be in a listen-only mode. If any participant has difficulty hearing the conference, please press star key followed by 0 on your telephone for operator assistance. Today's conference will be led by Bernd Eulitz, CEO, Dr. Jürgen Wilder, Member of the Board and Head of RVS, Dr. Peter Laier, Member of the Board and Head of CVS, and Andreas Spitzauer, Head of Investor Relations. May I now hand you over to Andreas Spitzauer. Please go ahead, Sir.

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 release of the first quarter 2020 results. As a reminder, the conference call will be recorded and is available on our home page www.knorr-bremse.com in the Investor Relation section. Here you can find today's presentation and later, a transcript of the call. It is now my pleasure to hand over the call to Bernd Eulitz, our CEO of Knorr-Bremse, Jürgen Wilder, Head of our Rail Division, and Peter Laier, Head of our Truck Division. Please go ahead, Bernd.

00:01:28 Bernd Eulitz

Thank you, Andreas. Dear ladies and gentlemen, I warmly welcome you to our conference call for the first quarter results of Knorr-Bremse in 2020. First of all, I would like to present the highlights of the first three months of 2020, followed by a more detailed explanation, especially on a divisional level. Thereafter, my two colleagues in the executive board, Jürgen Wilder und Peter Laier, would like to give you an update on the current Covid-19 situation and its divisional effects, before I conclude with a summary. Overall, Knorr-Bremse's start into 2020 was actually very sound, despite the well-known market turbulences. First and foremost, our financial results have been solid in both our rail and truck divisions. The increasing sales in the aftermarket business and its positive impact on our profitability is an important proof of our resilience. We started early with countermeasures against the impact of Covid-19 and implemented them quickly. In this respect, our European and American operations benefitted greatly from the experience of our Chinese colleagues. On the financial side, Knorr-Bremse is very solidly positioned. We further increased our liquidity, which enables us to manoeuvre the company safely and confidently through these difficult times. In addition, this solid financial basis enables us to take advantage of any opportunities as they may arise.

Let me continue with chart 3 and our KPIs in the first quarter 2020. Knorr-Bremse's start into 2020 was obviously not as we, or anyone, would have expected considering the Covid-19 pandemic. Nevertheless, our performance was still very solid and showed a high level of resilience, especially when compared to our peers and other segments in the industrial goods industry and pure play automotive. Let me take you through the most important KPIs. Orders received were at



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€ 1.6 billion, a decrease of 16% compared to the same quarter last year. Reasons have been first effects of the Covid-19 pandemic, especially in China, as well as the already expected weaker demand dynamics in the truck market. In addition, the timing of contract awards in the rail division, influenced by the year over year development. You will remember, we reported a very strong order intake in Q4 2020. Having said that, with €4.7 billion, our order book was almost stable compared to the previous year, which gives us a good visibility for this challenging year. RVS supported this development with an increased order book. At €1.6 billion revenues decreased by 7.3% or by -€128 million compared to the first quarter of last year. This development was driven predominantly by CVS. Our EBITDA margin consequently decreased from 19.0% to 17.8% in Q1/20. Given the current adverse economic and market environment, we consider this to be a very solid level of profitability.

Let me dive deeper into our results on chart 4. Order intake on group level at the end of March 2020 declined by 16% to €1.59 billion compared to the same period in the previous year. This development was partly supported by the FX developments and the integration of the Hitachi steering business last year. On the other hand, Powertech is not included in the Q1/20 figures. Our book-to-bill ratio in Q1/20 remained solid, reaching 0.98. The development of the order backlog in the first quarter of 2020 was particularly pleasing. Compared with the previous years and the previous quarter's figures, the development of the order backlog has been almost stable. It reached €4.65 billion end of March 2020.

Let me continue with our revenue development on chart 5. In the first three months of 2020, revenues on group level decreased by -7.3% or in absolute numbers by -€128 million to €1.63 billion. On an organic level, we saw a decline of 7.9%. The revenue development overall was positively driven by dynamics in the APAC region, which showed a much more stable development despite early Covid-19 pandemic effects over February in China. This development was foremost driven by the truck division and the fast recovery from plant shutdowns. In Europe and North America, we recorded significant declines in revenues. As expected, the reasons for this are the declining truck production rates of the truck OEMs, which could not be offset by the positive revenue development in rail in Europe. The revenue development in April was challenging. The Covid-19 pandemic and the associated lockdowns of customer plants had a significant negative impact on our revenue development in Europe and North America. On a group level, we recorded year-on-year revenue declines of more than 40% in both regions. Fortunately, we saw a slightly positive year-on-year sales growth in APAC, including China. Overall revenue in April closed around 30% below last year, but with positive EBITDA, with positive EBIT and a positive cash flow. May should be on a similar level as most OEMs are back in production, but still at lower levels.

Let me continue with the developments of our profitability on chart 6. In the first three months of 2020, group EBITDA was €290 million after €334 million in the previous year quarter. The EBITDA margin amounted to 17.8% after 19.0% in the previous year. This decrease mainly resulted from volume effects of a declining group OE business, with corresponding impacts on the operating leverage. This margin impact was mitigated by high-margin earning contributions from growth in the aftermarket business. The aftermarket share increased from 31% in the first quarter of 2019 to 37% in the first quarter of 2020. In absolute figures, aftermarket increased by 11% to €603 million. This increase was supported by both operating divisions. The group's EBIT of €224 million also saw a volume-related decline of € 51 million. At 13.8%, the EBIT margin was below the previous year's level of 15.6%. The higher deviation compared to the EBITDA of the previous year quarter comes from higher depreciation due to increased investment activities. In summary, we consider Q1/20 to be a solid proof of Knorr-Bremse's business model in the currently challenging market



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environment.

Now, turning to Slide 7. Our free cash flow in the first quarter 2020 was negative, reaching -€61 million. The year-on-year decline is due to lower profitability, higher capital expenditures and the US\$12 million payment for the settlement agreement of a class action lawsuit in the US. In addition, please keep in mind that our free cash flow was quite strong in the fourth quarter 2019. Therefore, we had a different starting point regarding cash flow at the beginning of this financial year. Analysed ROCE was impacted by lower profitability as well, but with 26.7% well above most other companies in the capital goods sector. While we have initiated a CapEx management program, we still see an increase of €19 million to invest in future growth options in both divisions. For example, we continued to expand the capacity for air disc brakes in North America and invested in measures to increase the level of automation in our plants. Also, investments were made in software development for our steering business and R&D to prepare our competitiveness post Covid-19.

We are very pleased that all regulatory approvals and requirements for the acquisition of the steering system manufacturer Sheppard in the US have now been met. We expect the closing of the deal within the next few days. This acquisition will transform Knorr-Bremse into one of the world's leading steering system manufacturers for commercial vehicles. And together with our leadership in the brake business, we are now in an even stronger system supplier position to set new standards in the industry.

Let's move on to the divisional view, starting with RVS on Slide 8. In the first quarter of 2020, order intake of rail vehicle systems were down 16% to €874 million. This decline was no surprise after the very strong performance in Q4/19. I would like to remind you that developments in the rail industry, with its long cycles, do not go well with quarterly reporting. There are always fluctuating large orders in individual quarters, which make comparisons difficult. Projects and rail are generally independent of seasonality or cyclicity. In addition, the Covid-19 pandemic also led to a limited decline in RVS order intake in Q1/20, as the first effects were felt in China. In the current discussions on economic support programmes to counter the negative financial consequences of the pandemic, we are seeing initial government considerations to promote the rail industry. Should these become more tangible, RVS would certainly benefit. Overall, we believe that the existing long-term trends in the rail industry hold true despite the current uncertainty. While the order intake level in the first quarter of 2020 in Europe was similar to the level of the first quarter 2019, North America showed a significantly lower demand in the freight sector, locomotives and the aftermarket, due to lower utilisation rates of existing vehicles resulting from lower transport volumes. The book-to-bill ratio developed accordingly to the lower order intake. It moved from 1.14 in the first quarter of 2019 to 0.98 in the first quarter of 2020. The order book, on the other hand, increased by 6.6% compared to the same period of the previous year, which provides good visibility for the rest of the year. We assess the order backlog of our rail division as very solid and do not expect any order cancellations. We do see selective shifts of tender bidding processes.

I am now moving on to the revenue and profitability slide of the rail division on chart 9. In the first three months of 2020, RVS recorded revenues of €892 million, which decreased by 2.1% year over year and was flat on an organic basis. Europe was the growth engine of the division in the first quarter, supported by the good development in the aftermarket. In North America, on the other hand, we recorded overall a decline. Lower revenues in freight and locomotives could not be mitigated by the positive trend in the service business. APAC, including China, also declined overall. The lockdowns in Q1 had a negative impact on most revenue segments like high speed and the aftermarket business. On RVS group level, noticeable growth in the aftermarket business compensated for the weaker OE business. Respectively, the



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aftermarket share increased further in the first quarter of 2020. The development of RVS profitability in the first quarter of 2020 was mainly affected by the lower revenue in the profitable APAC region and a less favourable project mix. The positive contribution of our implemented cost measures could mitigate some of the margin decrease. EBITDA for RVS came in at €186 million in Q1/20 and was down 7% compared with last year. The EBITDA margin fell from 21.9% to 20.9%.

On Slide 10, I would now like to continue with the development of our trucks division. The order intake for CVS was €750 million in Q1/20, which is decrease of 17 % year on year and of -22 % on an organic level. This development was expected and reflects the normalisation of the European and North American truck market after a period of strong growth. In addition, there were first negative effects of Covid-19 on demand in both regions. In APAC, the development of order intake in the first quarter of 2020 was stable year on year, well supported by the acquisition of the Hitachi steering business. The order book of our truck division amounted to €1.1 billion at the end of the first quarter 2020, which is a decrease of 19% year on year. Compared to Q4/19, so before the Covid-19 crisis, the order backlog decreased only by -1.9%, which can be called almost stable, especially under the current conditions.

Let's move on to Slide 11. Our key message here is that Knorr-Bremse managed to outperform the truck production rate-induced downturn across all regions. Our CVS division posted €736 million in revenues for the first quarter 2020. Compared with last year's figures, this is a decrease of 13% and on an organic level of -16%. While this development is not pleasing, it also shows that we clearly outperformed the global truck production rates, which showed a 27% decline. The revenue development of CVS in every major region strongly outperformed the respective truck production rate year on year in the first quarter 2020. This clearly shows our market strength as well as the support from growing content per vehicle and aftermarket as well as market share gains. Driven by a lower truck production rate in Q1/20, customer demand was lower in the European and North American truck markets, which led to lower OE revenues. Besides the mentioned expected market slowdown in March, OE revenues were already affected by Covid-19 impacts. In the APAC region. Covid-19 negatively impacted our revenue development in Q1/20. But we gained market share in China, where CVS is now the market leader. Overall, and like rail, the truck division reported a very gratifying development of its aftermarket business, which grew year over year 10% to €211 billion in the first quarter of 2020. In Q1/20, CVS achieved an EBITDA of €108 million, which is 24% down compared to the same period of the previous year. The EBITDA margin amounted to 14.6%, compared to 16.6 % a year ago.

In context to the current environment, this is a good performance of CVS, also when compared with our peers. It was supported by our sales mix, our fast-implemented cost adaptation and cash measures, and in general, the quick reaction to the Covid-19 pandemic by our Task Force Team. With this, I would like to hand over to my colleagues now, first Jürgen Wilder, Member of the Executive Board and Head of our Rail Division. So Jürgen, please go ahead.

00:20:28 Jürgen Wilder

Yes, thank you very much, Bernd. I warmly welcome you, dear ladies and gentlemen, to our conference call for the first quarter results of Knorr-Bremse in 2020. On the next two charts, I would like to give you an update on the Covid-19 situation and the concrete effects on the rail division. And let's start with chart 13, with the impact on our customers. On



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the left side of the chart, I have compiled various statements, mainly from our OE customers that they have made in recent weeks. The core statement within all customer announcements is that, although there are negative effects from Covid-19 over a few months, the long-term positive trend in the rail industry is unbroken. This has also been confirmed in our direct customer contact, which is also shown by the fact that there are no cancellations. In contrast to the last global crisis in 2008 and 2009, however, the rail industry is also affected by temporary lockdowns of customer plants and depots, which have an impact on our OE and partially also on our service business. However, we see that these negative influences are only temporary and that our customers have resumed work in the plants. At peak times a good share of our customer plants was closed. There were actually between 60 and 70 plants closed, with time lag, starting in China, of course. Nearly all of those plants have started operations again. We are currently seeing that our customers are producing at lower capacity levels, but they are still producing again. In the upcoming weeks and months, this leverage should increase again significantly based on their feedback. We assume that after the shutdowns over several months, up to a year or more, there might be somewhat lower train ridership as passengers make adjustments due to social distancing.

Longer term, however, the industry does not expect any lasting adjustments. The reasons for this are the following.

1. The need to reduce CO2 emissions will continue to be a global priority. Public transportation and especially trains have a clear advantage over cars and planes.
2. One way to ensure social distancing on trains might actually be to operate more trains with lower passenger density. That is what we also currently see as we go through this crisis.
3. Certain stimuli that are currently being discussed are directly intended to promote the rail industry. And we will for sure benefit from this in the future.
4. There are currently no signs that car sales would increase significantly in the coming months or years and take away market share from public trains.
5. In China, we see a positive development of rail after the end of lockdowns. The number of trains in operation has quickly returned to normal levels, and utilisation rates are improving fast. For example, in subways, passenger volume has picked up to 80% compared with last year by mid-May versus 70-75 % in April.

Let's continue to chart 14. Covid-19 has indeed impacted our supply chain. At peak times, around 20% of our 5,000 suppliers worldwide were closed simultaneously. In the meantime, the situation has improved considerably. Currently, no supplier of RVS is closed because of Covid-19. They are producing at lower capacity levels compared to the situation before the pandemic, but they are still producing and have started to ramp up their production again. We are in close contact with them, and in the coming weeks and months, capacity will continue to increase. Above all, our high degree of localisation has helped us to limit the impact of cross-regional supply chain disruptions. I would also like to remind you that our OE business depends on freight, with a share well below 10 %. Especially in this current crisis it proves to be a clear advantage for us. The situation at our plants has also improved considerably. Work is in progress at all plants, and capacity utilisation at the major plant is positive under the current conditions.



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What measures have we taken to mitigate the Covid-19? Our more than 250 measures that we have in place against Covid-19 are perfectly adapted to local opportunities and negative influences. In Europe, we are using 20% short-time work for employees in administrative departments. In China, demand has recovered so quickly that limited measures are necessary. What is more important here is whether we have enough capacity and are able to make up the losses in February and partially in March this year. However, the situation in the US, especially in the freight sector, is more difficult and calls for structural measures.

What does this mean for the financial KPIs of RVS? In the OE business we see some project shifts, but no cancellations. The high margin service is also affected by Covid-19. But there are stipulations in our customer contracts for important and safety-relevant parts of the train to be replaced after a specified time limit has been reached. So it is not only dependent on kilometres or miles that are run by those trains. The negative effect of Covid-19 should be most pronounced in the first half of the year and especially in the second quarter. In the second half of the year, based on the conditions of further recovery of Covid-19 and stable demand, we expect the revenue trend should improve compared to the development in the first half of the current year. Nevertheless, we expect full year revenue of RVS in 2020 to end up below 2019. The long-term perspective still is: We will have a growing rail market depending on the scenarios of Covid-19, certainly supported by stimuli that are currently in discussions. And in the future, we expect to benefit from that. With this, I hand over to Peter Laier.

00:27:53 Peter Laier

Thank you, Jürgen. And a warm welcome as well from my side to all of you. The situation on the truck side is certainly different than on the rail side. We at CVS Division have also responded very quickly to the current challenges and acted appropriately. The Knorr-Bremse way I would call it in other words. It was already foreseeable last year that after a period of strong growth over the last several years, production figures for trucks would decline and return to a more normalised level, especially in Europe and North America. In addition, Covid-19 has had for sure a negative impact on truck demand since February in China and from March on in Europe and North America, followed by South America and other Asian countries, specifically now India. Our customers closed their plants according to the virus spreading around the world, and as well our supply base closed their manufacturing facilities, mainly due to governmental shutdown regulations. We adapted our operations fast to the dynamic environment around us, established a global Task Force Team and implemented a related cost reduction programme immediately. I will talk about some details on the next slide. Before we come to the next slide, I just want to continue talking about the actual situation. Now nearly all of our customer plants are open again and work on the ramp-up in different ways and in different ways in the regions. The assessment of future demand has developed very heterogeneously in the recent weeks and months among our customers and within the regions. This mixed picture of the actual adjustment can also be seen in the statements on the left half of chart 14.

How do we see the actual situation? In China, we are currently seeing a V-shape recovery back to the strong growth situation we had observed in the fourth quarter of 2019, provided a second Covid-19 wave does not occur for sure. We are using the momentum in China in the moment, having our operations running on a very good capacity load, and we are supplying from Europe to China, which brings capacity load to our European plants. We want to further expand our



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market leadership in China based on the strong customer relationships we have built over the last few years. Despite market share gains, one other reason for our good development in China is that we are leveraging our global leadership position in ADB, in air disk brakes. Since the beginning of the year, for example, by regulation, air disk brakes must be installed in China in trucks carrying dangerous goods.

Very much in contrast, the OEM demand in North America is severely reduced and this trend is likely to continue in the coming quarters. In Europe, the OEM demand was clearly impacted in March and April and will be impacted in May. We see now first signs of recovery, specifically for the third and fourth quarter, but on a lower level than before the crisis started. In this context, it is pleasing to see that our content per vehicle growth continues. Regulatory requirements to introduce our safety and emission reduction technologies are unchanged and, as well, the worldwide migration from drum brakes to disc brakes continues. Nevertheless, for sure, the content per vehicle growth this year is obviously far from being sufficient to compensate the significantly lower truck production rates.

Let's now move to chart 16, which summarises more details of the Covid-19 impact on the CVS division. We, as truck division, are close to our customers, and we have traditionally a strong local presence. The proximity to our customers helps us a lot to adapt our plants to the new demand situation and steer our suppliers accordingly. CVS has around 1600 suppliers globally. At peak times, more than 20% of these suppliers were temporarily closed. In the meanwhile, the situation has improved significantly and today, only around 1%, somehow 15 of our suppliers are still closed, none of them having a significant impact on our business. Specifically in Asia and Europe, the supplier situation is now nearly normalised again, while in Mexico and especially as well in India, we are still having some challenges to overcome. But as well, those challenges have actually no critical impact to our business.

We are very proud that in the whole crisis situation, we were able to manage our supply chain so that we did not cause any supply shortage at our customers globally. Knorr-Bremse has for a long time had a very balanced operations strategy between regional and global manufacturing. The CVS division produces a significant part of its products and value-adds in the respective region. In the recent years, we have further developed this strategic approach and now we are benefitting exactly from that. This helped us to react fast and supply our customers even in times of fast-changing demand without any problems. The situation in our own plants has also eased considerably. With the expectation of only a few days, our own plants were open and produced at reduced capacity, depending on customer demands in the different regions, and had a stable base demand for aftermarket needs.

The safety of our employees is always having highest priority. Due to that we implemented immediately, after the virus outbreak was recognised, the related safety measures in our working environments to protect our people. Together with our employee representatives, we were able to find individual models of fast cost adaption actions, including short-time work models, wherever they were applicable. This helps us to adapt the cost structure per plant very quickly according to the changing customer demand. In the last years, we already developed plans and defined plant-specific measures to adapt to regionally different scenarios of the truck production rate. We reported about that in earlier calls as well. This preparation has now saved us a lot of time, and we were able to react immediately on the demand reduction in the OEM business. We have introduced a global cost adaption and cash program, called COVCAP, to adapt our cost structure to the actual demand situation.

In Europe, for example, we have introduced 40% short-time work for all employees, both productive and administrative.



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In the US, we have laid off more than 400 people.

The measures introduced in China at the beginning have already been largely reversed. Based on the current development, we do not believe that further short-term structural measures with corresponding special costs are necessary for CVS. However, should truck demand develop worse than expected, for example, due to a second Covid-19 wave, we are prepared to take additional and even more stringent measures. For the mid-term future, we need to get more clarity about macro-economic development globally to define our cost structure accordingly.

As far as the key financial figures are concerned, CVS sales will decline significantly in 2020 due to lower truck production rates. But we are confident to develop better than global truck production rates due to the relatively better development of the aftermarket business and further content per vehicle gains. As a result, profitability will for sure also decrease in 2020. But even in our more pessimistic scenario, we assume that our resilient CVS business model and our countermeasure programme COVCAP are sufficient to remain positive for the operating EBITDA in 2020. With this, I'd like to finish my part of the presentation and I want to hand over back to Bernd.

00:38:32 Bernd Eulitz

Thank you, Peter. With chart 17, we would like to highlight why we believe that Knorr-Bremse is well-positioned to master the current Covid-19 crisis. Our first and main focus was and remains the well-being of our employees. Respective measures for their protection are reviewed and updated regularly. We started costs and cash measures early on and can see first results. From April onwards, reductions in personnel costs will be visible following the implementation of short-time work. Overall, we have defined and are implementing a program of measures totalling almost €200 million that will help us cushion the impact of Covid-19 this year. We have a very robust financial position. As of mid-May, our gross cash position stands at €2.5 billion, following the drawing of additional credit lines to the tune of €750 million in March and April. The latter to be repaid as soon as the economic environment becomes more predictable. Based on the current planning, we do not expect our program to lead to restructuring costs. However, if our worst-case scenario, that means longer shutdowns and significant order cancellations, should occur and last longer, we would not rule out such extraordinary costs. But right now, we do not see them coming. For the time being, we assume the main Covid-19 effects to be limited to this year and to see a better development in the second half of this year, especially in the rail division.

Let's move on to chart 18, my concluding slide. Let me summarise today's presentation with some final remarks before we start the Q&A session. We believe that we have managed the crisis well so far. The experience of our Chinese colleagues in particular has helped Europe and America to quickly adjust to the Covid-19 pandemic and respective measures. This has enabled us to cater to the safety and well-being of our Knorr-Bremse employees. We have started countermeasures early and implemented them fast - the typical Knorr-Bremse way of dealing with such challenges. We have the financial strength to weather this crisis well and emerge from it stronger. One sign of this is the uncompromised continuity of our dividend policy. The relatively high order backlog supports the capacity utilisation in our plants and gives us confidence for the coming months. Last but not least: customers first. Especially in times of crisis, we ensure that Knorr-Bremse stands by its customers. They have been relying on us for many decades and can do so also during the



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current challenges. With this, I would like to thank you very much for your attention. And now we all look forward to your questions.



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Q&A

00:41:52 Operator

Ladies and gentlemen, we will now begin our question and answer session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask your question. If you find the question is answered before it is your turn to speak, you can dial 02 to cancel the question. If you are using speaker equipment today, please lift before making a selection. One moment, please, for the first question. The first question we have received is from Ingo Schachel of Commerzbank AG. Your line is now open, Sir, please go ahead.

00:42:33 Ingo Schachel (Commerzbank AG)

Thanks so much. My first question would be on the European aftermarket business and the rail vehicle systems. In Europe, the aftermarket business seems to have been very strong. Just curious whether you can shed any light on whether there are any unsustainable elements in there - maybe the timing of large projects or restocking of spare parts. And in this context, maybe also give us a small indication on how you would expect the European RVS aftermarket to develop in the second quarter with all the lockdowns and the shorter timetables of the operators. I mean, should we fear a double-digit decrease or would the Q1 performance suggests that even in Q2 it could be more resilient?

00:43:14 Bernd Eulitz

Thank you, Ingo, I would suggest, Jürgen, you take that question.

00:43:19 Dr. Jürgen Wilder

Yes, happy to. Well, if you look at the first quarter then, indeed we have seen, especially in Europe, a high degree of increase in the service business, especially in our brakes business and especially for example in Germany, but also in Austria, we have seen those upticks. I do not think, it is not really that there is any special effect in there. In the first quarter, the impact of Covid-19 was still limited first of all, and therefore it was more or less as expected. But even if you look now into the future a little bit and look at Covid-19, I mean, you yourself have read in the press and everywhere that utilisation of Deutsche Bahn, for example, or also others in Europe and supportive governmental measures like in the UK, for example, to sustain traffic. So, trains are largely utilised at a lesser level during the crisis, sometimes even 80 to 90% of ridership is down, but the trains are still running. Sometimes they are running on a little print-out schedule, for example, in the regional trains, the one or the other operator goes on a Sunday schedule, let's put it that way. But on the other hand, some operators also use this time, for example, to do some maintenance that is overdue and that needed to be done anyway and to work off this backlog. I would not expect a decline in our service business based on last year



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going forward. I think our service business is going to stay strong. We have seen so far in the crisis also, the service business declined to a lesser extent than the OE business. Just because projects in the OE business might be a little bit delayed because of plant closures and things like that. But I would expect that the service business going forward further on is a stable anchor in our business development.

00:45:47 Ingo Schachel (Commerzbank AG)

Ok, that is very clear, thanks. And talking about the decline, maybe also a question on the commercial vehicle systems segment. Can you tell us a bit how we should think about your cost base in the second quarter? I mean, by how much do you think you can lower your costs in the second quarter compared to the first based on additional short-time work and maybe a few job cuts in North America, what you see there.

00:46:10 Bernd Eulitz

Peter will take that question.

00:46:13 Dr. Peter Laier

As I mentioned in my speech, we have early introduced a cost reduction program. This is nothing new for us. We have defined those related actions some time ago and now we have implemented them. That shows the resilience in the first quarter already and we are definitely having a significant program in place for adapting costs further for the second quarter so that I am confident that we are able to reduce costs further. As I have told you, we have for example laid off 400 people, more than 400 people, in North America. We have 40% short-time work now in Europe. And based on that, I am quite convinced that we are able to do that.

00:47:08 Ingo Schachel (Commerzbank AG)

OK. Thanks very much. And just a quick follow-up on the cash flow side. I think the way you, Bernd, explained that it was a sort of observation, rather, that you had a normalisation of net working capital at the end of March compared to very favourable to the end of last year. Shall we assume that your net working capital rather stays stable, or is end of March rather a weaker figure and normalisation would mean that net working capital should improve in the next two quarters?



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00:47:41 Bernd Eulitz

I would sort of roughly assume it stays stable from all we see right now.

00:47:47 Ingo Schachel (Commerzbank AG)

OK, thank you.

00:47:59 Sven Weier (UBS)

Yes, good afternoon and thanks for taking my questions. The first one, the first two, would be on CVS. And the first one that would be on the aftermarket, which was up nicely in Q2. But it also said on the slides that you see pent-up demand in the aftermarket business in CVS, which surprised me a bit, given that it was already so strong in Q1. So maybe you could give us some more colour on that aspect. That is the first one. Thank you.

00:48:28 Bernd Eulitz

So, Peter will take that question.

00:48:31 Dr. Peter Laier

OK, at first, as you rightly said, yes, there's been an increase in aftermarket year over year. As you all know, aftermarket specifically depends on transportation volume and mileage of trucks. And that is why based on that there is not too much influence in the first quarter from Covid-19. If you look to this specific situation, we need to say, looking specifically to Europe, that as we reported earlier, we had some adjustments in last year's Q1 on the OE's side in regard of stock level at some of our OE's customers. If you compare that year on year, you will see this effect. Right now, this is helping Q1/20. And in addition, we had some good orders in Q1/20 from the distributors in aftermarket, in independent aftermarket channel, which support that further. For sure, actually, everybody is observing the behaviour in aftermarket, how much service the trucks are getting and how much people are bringing their trucks into service based on mileage use. And that is why a prediction is difficult in the moment. But beside those two effects I have mentioned, there is no special effects in Q1.



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00:50:06 Sven Weier (UBS)

OK. Thank you for that. The second question is on your outperformance against truck production rates, which obviously also goes back to content per truck. But I was also wondering, because from some OEMs we heard that they did some pre-buy of parts into the closing down of the factories to be ready to ramp up afterwards. Did you see a positive impact from that, or is it hard to distinguish what was maybe a pre-buy or stocking of the truck makers, or would you say that this outperformance of the truck production rate was really on the back of content per truck and nothing else?

00:50:45 Dr. Peter Laier

The effect of pre-buy is, from my point of view, negligible. There is for sure, one, two days happen because of this sharp ramp down of the customer. And we had to fill some parts in the supply chain. But that is already used because most of the customers have done their ramp up again. So there is no big influence on that. The outperformance was due to three factors: The first factor is high resilience in aftermarket, which is supporting our business. Second factor is the content per truck sales, specifically via regulations. We have talked about some Chinese regulations, for example, which helped us, but as well take rate increases in driver assistance, for example. And the third topic is market share gains, and specifically in China, we were able to gain further shares in the market and that helped us to be more resilient than the truck production rate behaviour.

00:51:53 Sven Weier (UBS)

So that all sounds like sustainable factors here. Thank you for that. The last question is just a follow-up. You kindly shared at the April data, that's appreciated, -30% for the group as a whole, which I guess is quite in line with what the market expects for the second quarter as a whole. Did you say that May was also down 30%? You said it was similar as April, which would surprise me a bit, given that, you know, April must have been the most extreme month with the factories closing and so forth. So I would have expected May to be a little bit better than April.

00:52:30 Bernd Eulitz

Thank you for the question, Sven, but I think it is a bit too early to really come out with concluding views on May. From what we see, May is going to be similar to April because the restart of many customer plants sort of was end of April/beginning of May, and the ramp-up shows still low order intake from quite a few customers. But again, I think the more important message was that I was trying to put in a floor using April, which is positive EBIT, positive EBITDA and positive cash flow, which I think is the key message. And I am actually not able to give you more, but I think that is still a strong message, as I believe you will understand once the quarter is really closed.



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00:53:21 Sven Weier (UBS)

Yes, that is well understood. Thank you for that. That is it from my side. Thank you.

00:53:37 Akash Gupta (JP Morgan)

Yes, hi, good afternoon everybody, and thanks for your time. My first question is on CVS, which is a follow-up of earlier questions. If I calculated correctly, then excluding growth in service, your truck sales decline was around 20% against 27% decline in truck production or roughly about 7% outperformance. Can you provide some breakdown and maybe some high-level breakdown in terms of how much of this is coming from market share growth and how much of this is coming from content per vehicle, and maybe, if we try to extrapolate the 7% for the full year, then what are the pluses and minuses? So that is question number 1.

00:54:23 Bernd Eulitz

So thank you, Akash. Peter will take that question again.

00:54:27 Dr. Peter Laier

Yes, I will take it, but sorry, I cannot give you the breakdown of market share gains and content per truck gains. The only thing I can give you as an indication is that we think that both topics will remain so that is not a one-time quarter effect. It will continue in that way for the course of the year. And I am still thinking that specifically in some countries in Asia we have further opportunities of market share gains.

00:55:12 Akash Gupta (JP Morgan)

My second question is on RVS. Some of your rail customers have seen significant impact on production. And one of your customers shown in the chart in their presentation regarding rate of production, which is kind of indicating that you too will see a sharp decline in in production levels. The question I have is that: How do you account revenues in RVS? Do you us percentage of completion? So, even if customers are closed, you can still recognise revenues they do completing these projects of production factories or do you recognise sales delivery, which would indicate that Q2 may see a sharp decline in that, maybe some comments on how do you recognise revenue in OE?



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00:55:58 Bernd Eulitz

So Akash, if you allow, I will take that question and then hand over to Jürgen. Based on IFRS accounting, we do percentage of completion method for accounting for projects, which is part of the IFRS definition. And I do not know, maybe Jürgen, is there any flavour you would want to add to that?

00:56:21 Dr. Jürgen Wilder

First of all, of course, that's how we do it. Second of all, if I understood the question correctly / the line broke up once in a while and if I do not answer it correctly, just feel free to ask again, but as far as I understood you ask also for the little bit longer-term outlook for the next steps in OE business. I mean, at the end of the day, you have seen that our order backlog, our orders on hand is still very strong. And I think that is a very, very clear statement for the next, for the rest of the year, and even a little bit beyond, what to expect. The order intake in Q1/20, which is a little lower than in Q1/19, as Bernd just pointed out, has certainly something to do with a very, very strong Q4 that we had. And you might appreciate that those projects that we get in order, a little bit lumpy, they are larger projects. And if they come on the 29th of December, or they come on the 3rd of January, it makes a difference in terms of how those numbers come out in the different quarter. So if you take both quarters together, then there is nothing unusual behind it. And I would also, except maybe for one exception, maybe in China a little bit in February where offices were closed and some orders were delayed, we do not see any irregularities there. In the shorter term, we are also, the car builders are trying to work off their workload, basically, and deliver those cars based on the closures of the plants in April, I am rather positive. I think we should basically watch our supply chain, which we do very closely in order to make those deliveries. The next phase basically will be, as you can imagine, that tenders - tenders until they are awarded to car builders take, I don't know the process, about nine months or something like that - that in this current phase of insecurity, those tenders might be delayed a little bit and might take a little longer. And the question will be, depending on the scenarios, whether all of those tenders will come into the future or whether the one or the other will be cancelled. We believe that, going forward, there will be, as I pointed out, a strong need for rail again and once this Covid-19 crisis is over we will go right back again into the CO2 discussion and then rail will be the mode of transportation of choice. And also government stimuli, I would expect, would go into that direction. I would rather be positive about that, that those tenders that are delayed right now to the car builder, there will be a catch up and then there might be a little bit of that period in between of delayed order entry or something like that. But long term, I think there will be a catch-up effect and we won't feel that too much.

00:59:43 Akash Gupta (JP Morgan)

Thank you. And my final question is: Do you have any update on a stimulus program, particularly in China, which you discussed?



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00:59:56 Dr. Jürgen Wilder

What we see right now is discussions, quite a bit of discussions, and some first decisions. Especially we see that, for example in Europe: let's say UK is one of those examples, we just saw that basically the operators will be supported by government. So it is a little bit of a reverse effect to what we saw 10 or 20 years ago or even beyond that in the UK, that it will be government-supported just to make sure that infrastructure keeps running. We see a similar discussion in Germany, for example, by the German government. We just saw it in the last week when it was discussed in the Supervisory Board of Deutsche Bahn, that due to this strong revenue decline that Deutsche Bahn sees, there will be more government support that comes with direct support or also with the extension of the limit of debt that Deutsche Bahn is allowed to make; just to follow the direction, basically, that is also the political wish not to have a decline in trains on the network. Ridership will adjust accordingly, of course, into the future once this crisis goes away more and more. And we also see those things in France. I think that takes a little more time also in the political discussion before we see real concrete action but I would expect some of those. And I think we can all follow that anywhere in the news or in public discussion in the future. So we will closely watch that. But the impact on our business also won't be really short-term. I mean, except for maybe the service business, where it is important that the trains keep running for us. But when it comes to further stimuli like additional trains, then first of all, there needs to be a tender process, there needs to be awarded a car builder. And then the car builder structures their project in-house and then awards the sub-components to the suppliers like us. So an effect on the OE business out of that for this year, especially would be a bit too early.

01:02:41 Iris Zheng (Credit Suisse)

Hi, good afternoon. And thank you for taking the questions. Firstly, I have got a question on rail. Just to follow up on the previous discussion where you talked about government's potential stimulus packages. I wonder how do you think the shape of the rail division sales growth is going to look like in the next, say, one, two, three years? Because on one hand, maybe in the short-term you talked about expecting 2020 sales to be lower year-on-year but expecting service to be stable going forward. So potentially there will be a slower OE, maybe slightly lower demand because of the slower tendering process. And on the other hand, on a longer-term basis, you talked about potential government stimulus that could maybe be beneficial to maybe a longer term. So how do you see the shape of the rail division sales going forward? Or, let me put it in another way, that if you say: do you think that 2021 sales for the rail will be on par with those in 2019 after a decline 2020?

01:03:54 Bernd Eulitz

Yes, over to you, Jürgen, I think that is definitely your area.



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01:03:59 Dr. Jürgen Wilder

Yes, that is a very good question, of course. How will 2021 look like? You know, at this point in time, that is hard to say. It depends on - maybe I should discuss different cases depending on what comes through in the next few months. I mean, if we have a V-shape recovery, then basically - and we do not have a second wave of this Covid-19 crisis, then I would assume that at the end of the day, 2021 would again look better than 2020, for sure. It would increase again. It is to be seen whether it will be exactly on the level of 2019. It could well be, I would not even exclude it. And if we see a second wave or something like that, where orders might be delayed and tender processes might be delayed further, like we see some signs right now, then that might even have some impact on our sales numbers towards mid to end of 2021. And that is to be seen to be honest. It is hard to make any predictions right now. So there is a little bit of, it is so far unclear how 2021 will be. I think we will have a much better view on that in a few months when it goes into fall. Then I think we really can see how that would look like. And I would wait a little bit with a clear statement on that. Long term, though, I think, you know, there is different scenario calculations that have been done, also in market studies. And, you know, they all go by the regular schemes, a V-shape, a U-shape or an L-shape development with different preconditions. The remarkable thing about that is that they all are rather close together for the rolling stock market at the end of the day, and especially for our business. So once the ridership changes, which is vastly fluctuating right now, there is a much lesser extent on rolling stock supply and again, almost a lesser extent on our business. So we believe that we are in the process of figuring out what it means long term. But in fact, the fluctuations between a V-shape, a U-shape or an L-shape scenario are not that huge. All of those studies, if you look at the market development between now and let's say 2025 or so, they all come to the conclusion that the K growth, the market growth is still positive. So we expect positive market growth mid- to long-term, 2021 to be seen. I think if we continue the path we are continuing right now, it looks rather positive. If there is a second wave, we need to consider what that means.

01:07:21 Iris Zheng (Credit Suisse)

Thank you, Mr. Wilder. Can I just follow up on that. So, let's say, in a scenario where we see maybe in the next year or so the train utilisation rate is 10% lower just because maybe people just do less travelling so that the rail operators just run a weekend schedule with service or with utilisation down 10-20 %. How would this impact your services revenue in your scenario or in your best guess?

01:07:52 Dr. Jürgen Wilder

Well, you know, it's not that if it is 20% lower or something like that, that you can one on one put that on our business. The nice thing about our business is the impact on our business is much, much lower than those fluctuations as long as those trains run. And we are seeing now, even in the deepest crisis, that in the different countries the tendency is that trains keep running, although their utilisation is lower. And as long as they run, it doesn't make a big difference on our aftermarket numbers. And the second impact is that some of the maintenance work that needs to be done is not only dependent on mileage. You also need to maintain a train as time goes by. Some of those systems have expiration dates and they need to be replaced anyway. That is the second statement that I can make. So in summary, to answer your



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question, I would further see a positive development of the service business depending on the scenario, what we see in the future. The question is, is it as we expected or is it a little lower? But I would expect further positive developments in our service business.

01:09:26 Iris Zheng (Credit Suisse)

That is very helpful. And just a final question, just on the April and May run rate. I appreciate the 30% number. I just wonder if we could get more details on OE versus aftermarket sales in rail and CVS positions if possible?

01:09:46 Bernd Eulitz

OK, here, I'll take that for the whole company, I think it is too early to say anything to that. But I would say the trends we have seen, there is no big shift or any significant change we see. But again, I think it is too early to take a call for the second quarter.

01:10:09 Iris Zheng (Credit Suisse)

I am referring to the month of April and what may be the growth rate for OE versus aftermarket within that -30?

01:10:21 Bernd Eulitz

Again, I would say, please bear with us until the quarter is closed. I think that is too early to really take a call on that. But again, there nothing that caught our eye as being a surprise.

01:10:52 William Mackie (Kepler Cheuvreux)

Good afternoon, Bernd, Jürgen, Peter. Thanks for the time. My first question relates to the rail segment, again, Jürgen, with you. Can you throw us some views on when you would expect the production levels across your platform or across your business to return close to the 2019 levels? I think the question here is directed more towards, you know, the thesis that this is a supply-side issue, not a demand-side issue. And the fact that many OEM railcar builders are looking to recover lost ground from the first half of the year in their production rates. So should we expect your second half to be back up and close to what we saw last year? And are you seeing any pressure from the OEMs to increase overtime in the second half to allow for that catch up?



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01:11:58 Jürgen Laier

Yes, well, it is too early to say whether there will be pressure or whether there will be overtime in the second half, I think. As I said before, many of those plants were closed, and now they are largely open again. I think there's only five or six in the world that are still closed, and they are minor plants, basically, not the major plants. They are not fully utilised currently or under full steam as you put it there, utilisation is less than it could be. But under full steam - and they are in the process of ramping further up. You know, when it comes to our own plants, maybe that is also important to understand. I mean, if we look at the first quarter, end of the first quarter, March or something like that, our major plants in RVS were still fully utilised. With some exceptions, maybe, because we put in some safety measures for our employees. So if we had a change in shifts, then, of course, we made sure that those employees do not meet each other just in case there would be a Covid-19 outbreak we could limit it to a limited number of people in terms of making, performing appropriate risk management there. So there was a little bit loss of productivity maybe because of that. But we were in those major plants, we had a good level of utilisation in our plants. In Berlin or even in Budapest, we did not even introduce short-term work. We introduced short-term work more in the administration staff just to prepare the latter for a little bit lower demand. And this continues right now. And then there is other plants - so we need to differentiate a little bit - like in February in China, where we had a low utilisation, or still currently in India, where we are in the process of ramping up again because we have very different situations there. And that we ramp up quickly, though, to a level where we can go. The limitations were more so due to other measures like I said, shifts could mean there could not be an overlap and things like that. And we lose a little bit of productivity. We have heard from some of our customers to your other part of the question that they indeed intend to catch up to what they have lost and that might lead in the second half to some extra work or not. And it might be also a balance between different customers who have different plants and different situations, depending on how pressing different contracts are that they have. That is really hard to predict. But in general, I can say about our plants, we did not really ramp them down where we still could run them, because it was allowed for governmental regulations. And so there where we needed to ramp them down, we are now aiming and doing everything to get them back to rather normal levels with some exceptions for safety measures.

01:15:24 Bernd Eulitz

And William, if you allow, all these forward-looking discussions are always subject to how this pandemic develops. [Jürgen Laier interjects: Good that you mention that, Bernd.] In case there is another wave, our customers need to shut down again or some of our suppliers might be in trouble, things might change quickly. And that, on purpose, is the reason why we have not put out a new outlook yet, because we still see the whole market as being very uncertain.

01:15:55 William Mackie (Kepler Cheuvreux)

Yes, that is clear. Thank you. Obviously, with every crisis comes opportunity. And Knorr-Bremse has always maintained an exceptionally strong capital structure. You have adequate liquidity. I wonder, I mean, the acquisition of Sheppard has provided another step in your strategy to increase the content in the CVS business around driving and driving control or steering. Do you see in either division - what is the environment for M&A? Are there opportunities or are there further



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white spots which you've been able to consider? I'm sure there is much on your plate. I wonder if that is reached the top of the priority list at this time. But how should we think about strategic development over the next six to nine months?

01:16:46 Bernd Eulitz

So in general, we keep a lot of smaller bolt-on M&A projects running and discussing. We keep scanning the market, looking at opportunities. So in case there was a larger opportunity that evolves - also maybe because of the crisis and the pressure on another company - we are ready and good to engage and we will look at it. But right now, we are sort of, as usual, looking at a few smaller bolt-on opportunities, just like Sheppard or even a bit smaller, in both divisions. But we are ready and obviously we have the financial backing to engage with something larger in case something comes around. But on the other hand, also, to be honest, right now, there is nothing imminent.

01:17:42 William Mackie (Kepler Cheuvreux)

Thank you. Can I ask one final question? Sorry. On CVS, just with regard to your working assumptions for the rest of this year. I mean, in the North American market specifically, North America is now at an annualised production rate with the OEMs which is perhaps more than 50% below the 20-year average. Obviously, it is very depressed in the first and second quarter. But what is your working assumption for the second half? You have indicated perhaps limited recovery, but there must be some normalisation as we get through to the second half of the year?

01:18:22 Bernd Eulitz

Peter, over to you.

01:18:25 Dr. Peter Laier

It was mentioned several times before that in the moment for everybody it is hard to predict really how markets will develop. A little bit of an insight into North America, how we see it is, we see somehow at least a reduction of -50% in comparison to last year. For us, the big difficulty of prediction is that, as you know we had some very good years in regard to truck production rate in the last few years. So that means there is no urgent need, specifically at the big fleets, to reorder. They are somehow monitoring right now the markets and monitoring the development of economy and related transportation volume. But in the small and midsize fleets, they are more in a position to order as well right now, because they need to work on replacements. And that is giving a little bit of difficulty to predict the market. But short-term, we are not expecting a fast recovery in North America. And for this year we are as well more on the lower side of expectations.



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01:19:59 Operator

Before we take the next question, just a reminder, if you would like to ask a question, please press 01 on the telephone keypad now. The next question is from Felicitas Bismarck of Deutsche Bank. Your line is now open, Madam. Please go ahead.

01:20:15 Felicitas von Bismarck (Deutsche Bank)

Thank you very much. I have a couple of questions left. So I understand in rail that you do not expect a dramatic impact on the long-term growth outlook. But I would be interested if you expect a change, for example, in the regional mix. So that you expect more stimuli in the Western countries or in the industrial countries, that there is maybe weaker developments in emerging markets? And also, if you expect the value of orders to change from need to have to nice to have.

01:20:51 Bernd Eulitz

Thank you, Felicitas, I hand that question back to Jürgen.

01:20:56 Dr. Jürgen Wilder

The last part of the question I have not understood, there was some— difficulty? Could you please repeat the last one?

01:21:05 Felicitas von Bismarck (Deutsche Bank)

If you expect a change in the order value. So from basically that people are saying, OK, I have to order a train but I would rather just order what I really need and not what would be nice to have on top.

01:21:18 Jürgen Wilder

OK. Maybe if we start with that. No, I would not expect that because I believe that procurements in - and that is what we have also seen in the past - there is also a, let's say, a scale effect in terms of those procurements. Of course, if the demand is not needed, then that might cut down a little bit. But generally, customers and operators try to bundle their procurements to a certain extent in order to have a higher leverage in terms of price negotiation with the car builder.



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That's the general trend. So at least what I would not expect is that they split it into smaller lots or something like that. It always pays off to have a deep dive analysis, what do we really need, and then bundle it a little bit and procure that.

And then the first part of your question I believe, stimuli, where do we expect them? Yes, that is a good question. Do we see much differences? I mean, it is too early to really make a clear statement about China, I would assume. I could imagine that there will be additional stimuli. But that also needs to, as I said before, we need to give it a little time. We see a lot of discussions in Europe, especially with the goal of CO2 reduction. And that makes me also confident that, as I said before, if this crisis is over, we will be right back to the discussion of CO2 reduction. And we will be right back to the discussion of what stimulus is the right stimulus. Is it subsidising individual car buyers as we just discussed sometimes? Or are we not better off if we do a structural change in terms of what our infrastructure wants to have. And in the light of CO2 reduction there is more, for example, a higher train to passenger rate. So I would really, with the sensitivity in Europe towards that topic, assume that there will be some stimuli in Europe. But again, as we said before, it is really hard to predict right now. I think we need to give it a few months time or so in order to see how that discussion develops.

01:24:05 Felicitas von Bismarck (Deutsche Bank)

Thank you. And a question on CVS: When you say you are taking market share. Who are you taking it, especially in China, who are you taking this from? Is it the Chinese players or rather the other Western players?

01:24:17 Dr. Peter Laier

You know, I am quite sure you are following closely the quarterly reports of as well others. You can see first differences there. But typically, such a question cannot be answered. Singularly, we take shares from different competitors on the one side, and on the other side we are traditionally in a strong customer relationship with those customers who are gaining market share as the truck manufacturers in the Chinese market. That gives us further opportunities. For sure, what is helping us are new regulations in China, which are focusing on products we can provide. I talked about ADB before, but as well EBS introduction in China is ongoing, just to name a few. You know as well that the emergency braking for pedestrians will be introduced, and we have now a departure warning introduced in the market by some regulations. So all those things are helping us to increase our share.

01:25:33 Felicitas von Bismarck (Deutsche Bank)

Thanks very much. The last question would be on the margin development in RVS and how it was actually a little bit surprising, given a strong aftermarket curve in the flat sales. But apparently, the regional mix is so important. How do you expect this to develop going into the rest of the year, with China probably coming back earlier than the other markets? Should there be a significant lift-up from this?



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01:26:01 Dr. Jürgen Wilder

As we said, we also have for the rest of the year, for now, withdrawn our guidance. I think we need to closely watch that, see how Q2 comes out. And I would be a little cautious now to make a prediction how it will develop for the rest of the year. What I can say, though, is maybe just some general comments. It is always in, especially in rail, that the project mix that we have and also the regional mix, of course, impact at the end of the day on quarterly margins. As you also could see last year, there were some fluctuations between quarterly margins. That is not unusual in the rail business. And we need to see going forward how that develops.

01:27:03 Iris Zheng (Credit Suisse)

Thank you a lot for squeezing me in. I just have, very quickly, a last follow-up just on the costs, on cost of materials, which went down by almost 400 basis points in the quarter. I wonder if it is just a case of the lower material price maybe related to steel, or other materials as well. And presumably, given that the prices stayed low, do you think it will benefit you into the next quarter?

01:27:32 Bernd Eulitz

So maybe I will take that. Our material costs are roughly 50% of all our costs, which comes from our asset-light model. We do not have asset-heavy production like forging or casting inside our company. We buy these things outside. That is, by the way, something that helps us adjust our costs to what is happening in the market. And basically, the reduced material cost is a reflection of the lower sales and it is part of the adjustments we can do fast and flexibly as the market changes. So these will swing as our sales swing, and it helps us keep our profitability on a very reasonable level. I hope that answers the question.

01:28:24 Iris Zheng (Credit Suisse)

Yes, partly, I am talking about cost of materials not as absolute terms, but more like as a percentage of sales. It seems like it has gone down by quite a bit in the quarter, so I just wondered if that is something sustainable in future quarters as well?

01:28:48 Bernd Eulitz

OK, so there is, yes, there is a small effect in there, obviously, because of the change of the mix and our aftermarket being stronger, the cost of material for the aftermarket obviously is lower because we take back what we call the core, basically a used part and refurbish it. And for that, obviously, you have less material, less material costs. That is an



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additional effect on the cost of material.

01:29:25 Operator

As we have received no further questions, I hand back to Andreas Spitzauer for closing remarks.

01:29:32 Andreas Spitzauer

Yes. Thank you very much for your questions. Looking forward to talk to you at our second quarter results, when we release them in September. Stay healthy and have a very nice afternoon. Thank you and bye, bye.

01:29:48 Operator

Ladies and gentlemen, thank you for your attendance. This call is being concluded. You may disconnect.