**Transkript – Knorr-Bremse Q3/22 conference call on November 11, 2022 (Presentation and Q&A)**

## Presentation

**Frank Weber, CFO Knorr-Bremse**

### Introduction

- Thank you, Andreas, and welcome to our Q3 conference call. Thank you for joining us!
- Today, we will talk about the operational developments of the last quarter and the guidance for 2022. Afterwards, Jürgen Wilder, Head of RVS, Bernd Spies, Head of CVS, and I look forward to your questions.

### Chart 2

- Let’s kick it off on chart 2 with our key messages:
- On October 13, we announced that Marc Llistosella will join the executive board of Knorr-Bremse as CEO on January 1st, 2023. The whole leadership team is very much looking forward to having him on board soon. We are strongly convinced that Marc is a great additional member and he will complete our team, especially due to his international background and strong industrial experience. I respect Marc very much and have already worked with him for several years.
- Overall, the underlying market demand by end customers in both rail and truck remains strong in all markets, excluding China which is still facing significant market weaknesses. Overall, the activity in most regions continues on good levels, primarily driven by focus on emission reduction and the need for additional transport capacities.
- There is an increased uncertainty about the global macroeconomic development. Geopolitical headwinds but also higher input costs and ongoing supply chain disruptions lead to an ongoing challenge for all market participants. We at KB are making very good progress with our price increases and all other cost measures

to pass on our cost headwinds. In addition, our low vertical integration and strong localization strategy is very supportive in the current environment. I strongly believe that we have the necessary strength to face all current and future headwinds.

- Sustainability has a high priority for Knorr-Bremse. Thus, we decided to further expand our sustainability efforts by committing to extend the companies climate targets also to value chain processes. In this context, we are aiming to join the Science Based Target Initiative (SBTI) in early 2023 to set the framework for our decarbonization efforts. This Scope 3-commitment is also part of the 700 million euros sustainability-linked bond that was issued in September.
- Last but not least, we confirm our guidance for the full year 2022.

**Chart 3**

- On chart 3, I want to share our market view with you.
- Looking at the rail market, we see that the underlying demand in most regions in both OE and AM business continues to be high, visible in a continuously good order intake. Ridership levels and rail traffic are recovering slowly but steadily driven by the overall Covid-situation easing. As a result, the tender development in the industry is also very pleasing which results in high order books of our global OEM customers. This is a good foundation for further recovery in the quarters ahead.
- The market in China continues to be weak with low investments in rolling stock. Nevertheless, the higher investments in the rail infrastructure will also lead to a higher demand for trains.
- Europe remains the strongest rail market for RVS, but also North America continues to be a solid contributor. Both markets will be driving our growth in the foreseeable future.
- Overall, we are confident that we will see a subsequential improvement in the global rail industry in the coming quarters and years.
- We expect demand to remain solid, which should also be reflected in a Book to Bill ratio above 1 for full year 2022. The supply chains in the rail industry remains

tense and inflationary headwinds are part of the game, which will stay for some time.

- The truck market also faces ongoing good demand. Truck production rates in Europe and especially in North America in the last quarter developed positively year-over-year. This trend should continue throughout 2022, only potentially limited by managed order books of our customers. Truck production rates in China continue to be weak as expected BUT I would like to highlight that CVS again grew above market driven by content per vehicle and will continue to do so. For the full year 2022, we have now reduced our expectations for the production of heavy duty trucks in China to around 620,000. Nevertheless, long term the market should provide attractive growth opportunities again. As soon as the market recovers, we will benefit due to our leading market position and the unbroken trend of higher technology and demand for quality trucks.
- The situation in the global supply chain has improved over the past months but is still unstable and characterized by disruptions and unpredictability, but we continue to see slight improvements recently compared to the first half of 2022.
- Higher input costs are an ongoing challenge for the whole industry and we see that some suppliers are under strong financial pressure.
- Regarding pricing discussions with our customers, we continue to make good progress. CVS was able to successfully finalize the first wave with all customers, which will be beneficial for our profitability in the coming quarters. We also expect the frequency of price discussions to increase in the future and represent the some kind of "new normal".
- Aftermarket business benefits from high utilization rates and increasing milage. This trend should continue as well.
- In September, we participated at the most important fairs, showing our exciting new products and innovations and received superb feedback. Therefore, I would like to hand over to my colleagues Jürgen and Bernd to speak about their experiences, meeting our customers and the media.

**Chart 4 – Dr. Jürgen Wilder, Head of RVS**

- Thank you, Frank, and Hello everybody. I am Jürgen Wilder, head of RVS and I hope everyone is healthy and well.
- Let’s have a look at chart 4 and our presence at the InnoTrans in Berlin, the world largest rail fair.
- Given today’s clearly defined climate targets, there is an increasingly pressing need for sustainable transportation of people and freight by rail.
- Rail is and remains the most eco-friendly mode of mass transportation. It is currently in an evolutionary transformation and the industry is becoming increasingly interesting than ever before.
- The main topics we presented at Innotrans fair were
  - Traffic flow – supporting capacity increase within existing steel and concrete and that pays into avoiding additional investments in concrete and steel in order to increase the capacity of a network
  - Trains operations & maintenance – lowering life cycle costs which becomes increasingly important regarding tender criteria and awards in the markets
  - Smart solutions & applications as well as ecological footprint
  - With these topics we are the front runner to address the rail sector’s industry trends
- My personal highlight was our new Digital Automated Coupler. The new electric contact coupler will support end-to-end power and data lines on freight trains. This will significantly reduce the time needed to assemble freight wagons and at the same time noticeably increase flexibility. Both are important for increasing the share of transport by rail. Longer term this is a decisive step forward in the development of automated system solutions for digital freight transportation.
- We also showed new solutions in doors and HVACs that increase passenger safety and provide solutions for the growing hygiene demands. These are just a few highlights and examples of our portfolio that we presented at the Innotrans that I wanted to share with you.
- With this I would like to hand over to Bernd now.

**Chart 5 – Bernd Spies, Head of CVS**

- Thanks Jürgen and welcome everybody from my side as well. This is Bernd Spies speaking, head of Knorr-Bremse's truck division.
- I would also like to share some insights about the recent commercial vehicle fairs "Automechanica" and "IAA Transportation".
- First, we see us and our products as enabler for Highly Automated Driving by being experts for Truck Motion Control. We are best-in-class in coordinating interactions of actuators for vehicle dynamics and will further strengthen our position with our newest developments in the pipeline.
- We showcased redundant ready systems like our state-of-the-art all-electric power steering EPS, our redundant global scalable brake control GSBC or our power management system. They will all play a key role in the field of driver assistance, highly automated driving and e-mobility.
- Our GSBC forms the basis for a completely scalable system and is currently requested by all leading manufacturers and AI companies as a basic system for brake control. Here we have invested in time in a platform that will carry us for the next 10-15 year.
- Second, our customers were delighted by our solutions to further push E-Mobility. As experts of compressed air, we received good feedback for our e-compressor solution and we strongly believe that air will remain in truck of the future. Furthermore, we introduced our new brake hardware SYNACT COMPACT leaving through the compactness a design freedom to our customers and a reduced weight of 12 kg per axle.
- At Automechanika in Frankfurt we presented our extended range of aftermarket products and services. With our brake drag torque reduction system, supporting the controlled release of brake pads from brake disc to minimize friction, we even won the innovation award in the "Parts & Technology Solutions" category. Another important topic was our recent acquisition of 55% of Cojali, which will strengthen our Connectivity portfolio and will pave the way for Condition Monitoring and Predictive Maintenance. It was highly valued in the discussion with our customers. Summarized, we see us in a strong position with the right portfolio to further extend our growth based on special and focused development areas.
- In my view both fairs showed that we are on the right track. Traffic safety, automated driving, e-mobility and connectivity are the dominant industry trends in

the next 10 years and beyond. CVS will be one of the key players with our focused and market leading portfolio.

- Now I hand back to Frank.

**Chart 6 – Frank Weber, CFO**

- Thanks for the insights, colleagues.
- Let’s move to the details of the third quarter on chart 6.
- Knorr-Bremse generated significantly growing revenues of around 1.8 billion euros, which were up by 13% versus previous year.
- Our operating EBIT margin came in at 11.3% and showing an improved trend versus the previous quarter.
- CVS posted revenues of 938 million euros at 9.2% operating margin and RVS 855 million euros in revenues, resulting in an operating EBIT margin of 15.6%.
- We were able to narrow the profitability gap to last year over time in the last quarter.
- FX effects supported the development of revenues and EBIT but did not support the EBIT margin.
- Free Cashflow in Q3 was already significantly better than in the two previous quarters, turning positive as expected by reaching 38 million euros.
- Order intake of 1.9 billion euros was much higher year over year and our order book with 6.9 billion euros reached a new record high. This foundation strengthens our confidence for a high utilization rate well into 2023.

**Chart 7**

- Let’s move to chart 7.
- Capex in the last quarter with 85 million euros was slightly higher year-over-year in absolute terms and even slightly below our guidance range in relative terms. As usual, capex spending should increase in the fourth quarter.
- Net Working capital – like in H1 – is still accepted on higher levels by us as current uncertain times with all existing supply chain constraints require safety stocks and higher flexibility, sometimes even explicitly requested by our

customers. In such times, we are clearly prioritizing delivery capability over optimized inventory levels. The industry currently faces elevated challenges and we position ourselves as a strong and reliable partner. Therefore, we temporarily need to accept higher stock levels and accounts receivable. In the fourth quarter we will reduce net working capital as we have done in previous years as well. At the same time, we also see that our customers are putting more focus on cash management, which leads to postponements of payments. Important: we do not see any risk of general defaults.

- At the end of the last quarter ROCE amounted to 16.1%, affected by both: reduced operating EBIT and higher working capital.

**Chart 8**

- Let's move to slide 8 and towards the free cashflow situation.
- Free cashflow at 38 million euros was much lower compared to the previous year's level. The improvement quarter over quarter should continue and result in a much better Free Cashflow in the fourth quarter.
- The higher net Working Capital was the main reason for the third quarter development and clearly limited the turnaround of the free cashflow situation in the last quarter.
- After several tough Covid years, higher input costs as well as higher inventory levels to fight supply chain disruptions, we see that some suppliers and customers react stronger to the increased challenging business environment. This does not meaningfully affect our operations today as we have a very broad and localized supplier base BUT this topic affected our free cashflow to a certain extent. Let me be very clear: It is not a question of whether we receive the payments, but at what exact time.

**Chart 9**

- Let's have a look on the divisional performances in Q3, starting with RVS on Chart 9.
- Order intake of RVS was solid after three outstanding quarters, each above 1 billion euros. In the third quarter RVS posted an increase of more than 18% to 877

million euros year-over-year, mainly driven by our strongest growth region Europe again, despite Russia.

- The order book also increased by more than 40% year-over-year to 4.8 billion euros. A very solid foundation for our factory loading in the quarters ahead.
- The Book-to-bill ratio in Q3/22 was 1.03.

**Chart 10**

- Let’s move to page 10.
- Revenues amounted to 855 million euros, an increase by 6% year-over-year and higher compared with the second quarter, too.
- RVS recorded flat revenues in the OE business overall.
- But the aftermarket business was up 14% year-over-year driven by all regions and over-compensating the OE development. The aftermarket share increased from 45% in the third quarter 2021 to 48% in the last quarter.
- This development is remarkable and underlines the resilience of our business set-up once more.
- China, as mentioned, continues to face a reduction of investments in rolling stock and a very slow recovery from economic challenges. Accordingly, the OE business was lower yoy, while aftermarket developed favorably and more than made up for the OE decline.
- In North America, we recorded extremely strong sales in the freight business.
- We expect a further quarterly improvement and anticipate that in 2022, overall, RVS revenues should grow, including some acceleration in the fourth quarter.
- Operating EBIT margin of RVS in Q3 reached 15.6%, after 17.6% a year ago. The main influencing factors of this development were the regional mix with lower profit contribution from China, missing accretive Russian business as well as higher inflationary costs. These higher input costs could be only partly offset by higher OE pricing due to longer contract durations so far. On the other hand, RVS has been very successful in increasing AM prices and implemented cost measures contributed positively.

- Compared to the last quarter, we do not expect RVS EBIT margin to increase in the current quarter. The main driver for this should a less favorable revenue and profit mix in the APAC region.

**Chart 11**

- Let's continue with truck on slide 11.
- Incoming orders of CVS amounted to 1 billion million euros, which is a remarkable increase of 44% year-over-year. Especially remarkable since most of our customer base still limit their order books towards end customers.
- Demand in Europa and North America remains very strong driven by the continuing high demand in the transport industry, which led and still leads to pent-up demand.
- APAC – especially driven by China – remains weak but please keep in mind that this is solely market driven due to the ongoing zero Covid policy and missing political stimulus. We expect a recovery next year and CVS will strongly benefit from this recovery in addition to the content per vehicle growth in China.
- The order book of our truck division reached 2 billion euros at the end of September, which is an increase by 30%, reaching a new record level.
- Book-to-bill in Q3/22 was 1.07.

**Chart 12**

- Let's move on to slide 12.
- CVS posted 938 million euros in revenues in Q3 – which is an increase of 20% year-over-year and again a very strong result, considering ongoing supply chain disruptions and the very weak market situation in China. Revenues in the past quarter also benefited from the price increases that were introduced and customers have ordered higher volumes from us due to our very good delivery performance – meaning: our "Customer First" strategy clearly paid off.
- In Europe and North America, CVS saw a positive development in all channels, OE as well as AM.

- The APAC region, dominated by China, still ranges on very low levels after the China-6 introduction last year and the additional industry slow-down driven by the zero-Covid policy. India on the other hand keeps developing on strong levels.
- The utilization of fleets and demand for used trucks continues to be high, driving demand for spare parts and services. Consequently, the share of aftermarket revenues increased to almost 30% quarter-over-quarter.
- I would also like to mention that the Cojali acquisition is closed and its financials will be consolidated starting from November 2022. With this move, we clearly strengthen our aftermarket business and its data driven opportunities, which are very accretive for us.
- CVS should be able to further post solid revenue growth in the current quarter and finish the year with a strong performance. This positive outlook is fully founded on a strong underlying truck market.
- In Q3, CVS achieved an EBIT of 87 million euros, which is a slight improvement year-over-year but nicely up versus the previous quarter. The EBIT margin amounted to 9.2 % compared to 10.8% a year ago and 8.1% in the previous quarter. This margin development was still affected by the lower contribution from China as well as Russia and continuous inflation.
- We expect a further improvement of the margin in the fourth quarter as CVS concluded wave 1 of price negotiations with all customers already and other measures bearing fruit as well.

**Chart 13**

- On chart 13, we confirm the operating guidance for 2022.
- We continue to expect revenues between 6.9 to 7.2 billion euros, an operating EBIT margin between 10.5 and 12.0 % and Free Cashflow between 300 and 500 million euros for 2022.
- From todays' point of view our Free Cashflow guidance could be slightly ambitious as the before-mentioned supply chain constraints linger on and the current industry focus is on tighter cashflow management. This could lead to continued necessity of higher inventories and some delays of payments, especially towards

year end. We are doing our very best within that environment and expect to be rather at the lower end of the free cash flow range.

- Please note that this guidance is based under the assumptions outlined on the right side of page 13.

**Chart 14**

- Let’s finish with some final remarks on page 14.
- We consider Knorr-Bremse to be a very strong and resilient company, having a strong business set-up and a financial backup to master all current and potential future headwinds.
- Our aftermarket business and high localization degree supports our resilience. Market leadership is fueled by our very innovative and convincing product portfolio and it is the basis to grow stronger than the rail and truck market.
- We focus on improving margins not only with pricing actions but also by carefully selected M&A activities like Cojali. We are reviewing and optimizing our existing portfolio as we did with Kiepe, for example, and we will continue to do so.
- With this, I would like to thank all colleagues, employees and business partners for their outstanding efforts in these globally challenging times and with that, I'll turn the call back to the operator to start the Q&A session. Thank you.

**Q&A**

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| **M** | **Moderator** |
| **FW** | **Frank Weber, Knorr-Bremse AG** |
| **JW** | **Dr. Jürgen Wilder, Knorr-Bremse AG** |
| **BS** | **Bernd Speis, Knorr-Bremse AG** |
| **SV** | **Sven Weier, UBS** |
| **IS** | **Ingo Schachel, Exane BNP Paribas** |
| **VM** | **Vivek Midha, Citigroup** |
| **CC** | **Calvin Chen, Credit Suisse** |

**MZ** **Marc Zeck, Stifel**

**AG** **Akash Gupta, JPMorgan**

**WM** **William Mackie, Kepler Cheuvreux**

**GB** **Gael de Bray, Deutsche Bank**

**AS** **Andreas Spitzauer, Knorr-Bremse AG**

M The first question comes from Sven Weier UBS. Please go ahead with your question.

SV Good afternoon, thanks for taking my questions. The first question is on the order intake outlook. For the remainder of the year you have very strong track orders, obviously in Q3, which I guess might have been a bit more backend loaded. I was just wondering if the strengths you might have seen in September have actually then continued in Q4 and we should see a similar level for the fourth quarter and likewise on rail? I know it's a very lumpy business of course, this time the order intake has been a bit lower, I was just wondering what the pipeline looks like for the current quarter. That's the first one, thank you.

FW Sven thank you so much for your question, let me start with the overall picture for the group. As you rightfully said, it's kind of a lumpy thing, always looking at all the order intake on a quarterly basis for us. Especially in a rather long term oriented business like we have in RVS, even more so, than in CVS. We do see that this third quarter is on the level that we should also be able to achieve in the fourth quarter in regards to order intake, from a group point of view. I think this is the right way to look at it, already of course as always I have to say that we need to see that it's a lumpy thing. But, we would expect somehow similar levels on order intake in the fourth quarter like we have seen somehow around in the third quarter. I think that's a fair judgement, and that holds true for basically both divisions.

JW Yes, I confirm that.

SV Okay thank you for that guidance. The second question I have is just obviously on China, I know you had an update on only in August for the mid and long term, but of course, I think we had two developments in the mean time, I think on the one hand the number of high speed trains that are supposed to be delivered next year has been revised up from 60 to 80, and secondly, everyone's now talking about reopening. Wouldn't you think that both developments at the margin could still be helpful for you? I know it's still the metro business, which is one of the bigger businesses that might be a bit more late cycle. But I would still think on the high speed and maybe on the service side, there would be some benefit of that. Thank you.

FW Thank you Sven. First of all, to put things into perspective talking about high speed and looking at the revenue share of high speed that we have in China, and we talked about that a lot around quarter two. This isn't the biggest chunk of our revenue generation overall, it's only a minor part of our Chinese business, we have below ten percent of our revenue in China coming from high speed business. So yes it helps, but 20 or 15, 16 additional high speed trains, but that wouldn't move the needle in that dimension that you would be seeing it significantly in our figures, bottom line results. I think yes, you are also right that there is a slight improvement that we see, maybe on the ridership side. In China this is true, quarter three was significantly better in ridership than it was in the second quarter, but also here please keep in mind that not immediately increased ridership levels, take its tall in our top line performance, so there is a certain time delay needless to say, also for aftermarket revenues, to cope with the increased ridership levels. But also when it comes to quarter four, we don't see really that the ridership levels should be going up further than quarter three, that's at least currently the look how we see things. And I ask of course always Jürgen to add some additional comments if you like to Jürgen. But that's the way we generally see it, I think.

JW Yeah most of it has been said by Frank. You're right, we see a little bit of an uptick of high speed trains. Not where it used to be, it used to be more like in the two hundred ranges per year, that might come back in the few years to come but not short term, we don't believe so. And I also agree with your judgement you said, part of your question, that on the metro side recovery is a little delayed compared to that.

FW Okay that's fair, thank you both. It's probably fair to say that it stops being a headwind next year. It was a headwind now for quite a number of quarters, but that should at least stop I guess.

JW But not a headwind compared to where we are now, I would see it that way, yes.

SV Okay thank you Frank, thank you Jürgen.

FW You're welcome Sven.

M And the next question comes from Ingo Schachel, Exane BNP Paribas. Please go ahead with your question.

IS Thanks for taking my question and I think your remarks already made a few positive cautiously optimistic comments on the expected volume development for next year, pointing to a few pockets of improvement. I was just wondering if you could also, assuming that you'll get a scenario where you can at least achieve maybe a low single digit top line growth, what that means for your profitability expectation without being too specific on that one, I guess we're hoping that you might end up somewhere between this year's level of 11 and last year's of 13, maybe in the middle at around 12, I'm just wondering whether that's directionally a view that you would share, or whether you think we are missing certain sectors such as steep labour costs, inflation, further price erosion in China?

FW Thanks Ingo. I was clearly expecting that question, I mean last year around that time, we gave some qualitative indications in regards to the upcoming year, that it was a bit of a different situation, we had the CMD in November last year and we wanted to give you some guidance in between five year ahead time horizon and today's perspective. This year's a little bit different, times have really led to even more uncertainty in the market out there, all the additionally incoming macroeconomic volatility that we all know and been talking of since the beginning of the year. We did shy away from doing so. This time around, please understand that we do clearly see, I think that it's well-aligned within our company, that we see markets growing, we see in both divisions the markets growing, not on tremendous levels. You have just recently seen the UNIFE study, so to say we do expect markets to grow, our promise of Knorr-Bremse with our excellent products to outperform the markets somehow. I hope that is at least for the time being, so to say, acceptable for you. We will come out at the beginning of the year in February and shed some detailed light on our guidance for 2023.

IS Thanks, that's fully understood, and of course you kindly did it last year, and we won't push you into an early outlook every year, but wanted to try. Maybe one other question on your governance related aspect. Maybe on both the new CEO, he's not yet on the job, but you probably know him from your time at Daimler Trucks, I was just wondering whether you already have a view or whether that's an official Knorr-Bremse message. I think one thing that is obvious is that he has more of a truck background, how we should read this, whether we should interpret this as meaning that you see more strategic opportunities and development potential on the truck side, or whether it's just a pure coincidence that you picked a truck person because that happened to be the best candidate available? And then that context, maybe you can also briefly comment on some of the discussions around the stake of the Thiele family, and if it is true that it not might end up on a foundation, how we should read this? And whether, in the past I think you said that the Thiele family was committed to maintaining a high stake in Knorr-Bremse, whether this commitment is also applicable to Julia Thiele-Schürhoff as an individual, or whether any previously made statements do not apply to Julia Thiele's view?

FW Yeah thanks for that additional question, more tricky one, and maybe three questions in one. But I'm happy to try and answer that best possible. First of all CEO, of course I know Mark since quite some time, former days as a colleague, and as my CEO then for two years at least in Daimler Trucks Asia.

You said you have chosen, I mean, you obviously mean the supervisory board, because I have not chosen him, it's the supervisory board that made the decision, I was not involved in that process and I assume also none of the other colleagues here at the table, but I do think that just looking at the background of Mark, being a very international person, being a very good industrial person who is very knowledgeable in regards to the industry and not necessarily talking about truck only, but I think it's about the industry knowledge that was at the forefront of any decision-making. That was important, I think he's strategically smart guy, I do think that he also has strong implementation skills, so he's not only strategically well-educated but also a strong leader, and a strong implementer in times, and I think that maybe lead to the decision, but that I can only assume somehow. I think we always said, and when you asked me, your colleagues asked me in previous meetings, what this guy should have, we always said industry background, and a deep understanding of the industry is important, and we always said it doesn't really matter whether it's more a truck guy or more a rail guy. And he also knows clearly that he's in the CEO role and doesn't have to follow up on truck things, and leave at the side the rail things, so he knows he's the CEO of Knorr-Bremse group, consisting of both divisions, and I'm sure that he will focus on both and not only on one. In regards to the share of the Thiele family, the executor of the last will in regards to the Knorr-Bremse shares, we have still the message out there that the executor of the last wish of Mr. Thiele, doesn't need to sell shares in order to pay the inheritance tax, so there is no pressure coming from that one. That statement was already true and out there in the market once the Lufthansa shares were sold back in the days. So that is the last information that we got since the unfortunate passing of Mr. Thiele. We always felt and got messages from the Thiele family and the executor of the last wish in regards to stability and continuation for Knorr-Bremse and no signs of selling any kind of shares. But it's definitely a private matter of the Thiele family, and the executor of the last wish, and I can't tell you exactly what they would be going to do in the future.

IS Okay thanks very much.

FW You're welcome.

M And the next question comes from Vivek Midha, Citi, please go ahead with your question.

VM Thanks very much everyone. Could I just ask, on your business in Russia, do you have any latest strategic thoughts that you could share with us on what you want to do with that business? Thank you very much.

FW Thank you Vivek. Nothing has changed in regards to our last detailed discussions about our stance on Russia and our actions that have been taken. We have been shutting down the joint venture that we had with Kamaz on the truck side. We are not doing any kind of OE business anymore, and not acquiring any new orders for the OE business**,** we are still delivering on the spare part side, on the aftermarket side, what we are obliged to do given some old contracts that we have in order not to run into any significant claims there. We have dramatically shut down the business and reduced the business, we talked about dramatic revenue loss out of that decisions that we have been taking already in the second quarter I think. And it's unchanged, the situation.

VM Okay, thank you very much.

FW You're welcome, thank you Vivek.

M And the next question comes from Calvin Chen, Credit Suisse. Please go ahead with your question.

CC Hi, thank you very much for taking my question. If I may ask a question on volume versus price growth, if you could provide us a little bit more colour on the split of the two, that would be great, for both rail and truck. And then also the second question is on more net working capital. I understand that you provide quite some colour on Q3, but for Q4 and full year, if you could provide us more colour, especially on account receivables. That would be very helpful.

I understand that there is uncertainty, some customer payments in Q4, but if any more colour that would be great. Thank you.

FW Thanks for the question. May you please, the first half of your question, volume price, shed some light on this? What do you exactly mean in regards to 2022?

CC Yes in regards to Q3, Q4, and 2022, what's the contribution from volume versus growth, if that's something that you could give us.

FW I would say the growth figures that we are aiming for, is our guidance range, that we've just been reconfirming, so if you take as an example the midpoint of the guidance range, then potentially the best guess, if I may say so, not indicating much more details than just the range, and if you take it, look at that growth level, compared to last year's figures, you should see that we have around two hundred plus, maybe 220 million Euros, somehow around that of price measures. I think that is a pretty precise answer to your question then, if that was the question. So we expect in a year over year to achieve 220 million Euros revenue growth by pricing, and the rest is then in the end basically volume, mix, of course then also FX driver in there, but that is the price component. Looking at working capital, yes as I said, we have been, and if you look at our balance sheet also by the end of last year you see that we have significantly been increasing, especially since the Russian war over Ukraine started our inventories. We have been increasing our accounts receivables, which by the way is coming from a December standpoint, where usually a lot of Asian customers especially wait for quite some time and then finally pay in December. There's also a tremendous increase coming from December 31st levels to nowadays, but I would say roughly we have 200 plus million Euros increased accounts receivables, and we have some 300 plus million Euros increased inventories, and we are intending of course to reduce significantly both towards quarter four end, meaning December again. As you rightfully said, we can somehow not always be hundred percent sure whether, especially when it comes to potentially also Chinese customers who usually pay very late at the end of December, those all payments finally come in. In the previous years they did so, and we of course work closely with our customers in order to make sure that they do so again, but finally it's not under our control in the end, that was what I was mentioning. So that's a significant amount of reduction that we plan in the fourth quarter coming from that levels that I just mentioned.

CC Thank you very much for that.

FW You're welcome.

M The next question comes from Marc Zeck, Stifel. Please go ahead with your question.

MZ Thank you for picking my question. Just quick one on RVS, you said that you don't expect a large improvement in margin for fourth quarter. Could you maybe elaborate a bit on when you expect let's say blank price clauses or efficiency measures to really kick in for RVS seeing improvements year over year? And can you maybe also touch on how negotiations with Deutsche Bahn and SNCS are developing… If I'm right, especially Deutsche Bahn was a difficult customer this year regarding the acceptance of price increases. Has this changed or is it still a tough nut to crack? Thank you.

JW Maybe I will refer to that question. First of all, as we said before, I strongly believe and that never changed, that over time it will clearly recover all those cost increases that come from inflation. You just need to keep in mind that it takes a little bit of time, because there's different types of let's say, contracts. So first of all, we have a share of the business that is like aftermarket spare parts, that are ordered basically when they are needed. Some of them have frame contracts, and those types of business we did, and we can quickly adjust, in terms of pricing. So, reflecting the cost basis. And then there is of course especially OE contracts, that are tied to specific project contracts, where you specifically agreed with the customers basically to deliver a certain system or certain amounts of systems for specific train contracts, and they stem from basically sometimes previous inflation times, and that is very hard to adjust of course, because you would run into other liabilities if you would not deliver on those. So, to give you a number of growth out in 2022, the majority of the contracts in that specific subject basically is fixed through contracts that will be lower than already next year, next year we're talking about say 35 to 40 percent of the business that was already fixed basically in 2021, and then subsequently less. So, as you can see, it will take, let's say 2024 until we completely recover, but we will completely recover, and your specific questions, Deutsche and SNCS, essentially the same system applies for that as well. When it comes to spare parts and things like that we also are able to increase those prices there.

MZ Thank you very much.

M The next question comes from Akash Gupta, JPMorgan. Please go ahead with your question.

AG Yes hi, good afternoon everybody and thanks for your time. I joined the conference call a bit later so apologies if this has been already answered, but my question was on free cash flow, if I look at alignment for cash flow you have minus 229 guidance, guidance for the year is 300 to 500, which would imply 529 to 729 million in free cash flow in Q4. I think you already mentioned the comment that capex will go up in Q4, so can you indicate what are the moving parts behind the guidance range, and is if fair to expect we might be lending towards the lower end of the range rather than the upper end of the range? Thank you.

FW Akash, I take that one indeed, I commented already in my speech and in a question as well, nevertheless I try to make it short and summarise it. I clearly said that given the current still ongoing or lingering on situation of the supply chain constraints and all the stuff, we'd rather see it as a necessity to keep somehow a certain level of safety stock flexibility, kind of stock, in our book, for quite some time. Nevertheless, we aim to reduce, but as a matter of that, we rather think that the guidance range for 300 to 500 is getting more and more challenging, so we thought that it's a good so to say indication for you to guide you towards more the lower end of that range. That was what I was saying before. And then one colleague asked in regards to what kind of levers we would have in our working capital and how to get there, over the last three months of the year, and two big elements that we are putting measures upon is on the one side, accounts receivables, and inventory levels. And both in the dimension of roughly 500 million euros. So that would be then towards the lower end of that guidance range. But this is the tremendous effort that we are striving for, looking at all the uncertainties out there, the more intensified cash flow management that also the customers are applying, so that is the situation**.** So strong efforts in the fourth quarter in regards to inventory levels and accounts receivables.

AG Thank you.

FW You're welcome Akash.

M At the moment there seem to be no further questions. If you would like to ask a question please press nine and star on your telephone keypad. We have a question from William Mackie, Kepler Cheuvreux. Please go ahead with your question.

WM Yeah good afternoon gentlemen, thank you for the time. Three questions. The first I suppose goes to Bernd, but could you provide an update or share your view on the strength and capability of your partnerships within CVS, to address the elements of perception and decision, alongside your actuation capabilities to provide a full line platform towards the autonomous truck of the future? Do you think that you have all of the relationships required or are there areas that need to be strengthened? That's the first question. The second relates to perhaps more detail for Jürgen, if you would share your view on the volume outlook for OE in RVS, going into 2023. You have a lot of visibility with the backlog, should we be thinking about Europe up five or ten? In terms of volume going into next year. And the last is perhaps more of a step back and thinking about the changing complexity of the geopolitical landscape. Can you share some thoughts on if the company is very happy with the footprint, the manufacturing footprint and the supply chain relationships? Or perhaps whether there's a necessity to shift over the next years towards more onshoring in certain regions? Thank you.

BS Yeah good questions. Bernd here. Let me start with the topic of partnerships. If you have asked that question three years ago, we would have probably come up with a list of capabilities and partnerships that we need to collect together and surround ourselves with in order to be a full service provider for automated driving. The times have changed, and many companies have learned their lessons on how much effort is baked into such a system in the future, and we will focus on our capabilities. Our capabilities are the vehicle motion, the break control, the actuation systems, breaks, steering, but also controlling the dynamics of the truck, and that we have inhouse, and that's what we have actually exchanged over the last fairs on the IAA with our customers, and it's very much welcome. We provide the full redundancy in the truck for all these actuators, and we are good partners to the AI companies, but we don't need them in our close proximity, they can be partners, they can be customers, and that makes us very flexible in that surrounding, and makes us a most welcome partner at the moment for the OEs when they go down that path.

JW Maybe on your questions regarding OE growth, I mean overall yes, globally we would see an OE growth, despite the fact that we see, as you know, Russia as we just discussed, and China being a little bit more flattish, the growth comes to a large extent from Europe, that is true. Overcompensating those other things, there are some limiting factors, some regions in Europe for example, if you look at UK or so, then there was in the past ten years a lot of new OE business that is flattening a little bit, but therefore other regions in Europe are growing faster. The question always will be good order entry that we also have seen, as we have reported, there is of course with the supply chain, always a little bit of a risk when that turns into sales, also with the car builders, we are depending a little bit on that. That also needs to be counterweighed a little bit, and then your last question is the footprint. I think we are well-positioned in terms of also geopolitical situations. We always have put a lot of emphasis to be largely an increasingly independent in the individual regions, that's what we have also in the past few years have had a continuous focus on and implemented actions towards that, and that pace of I think now, depending on the scenarios, what will happen in the future.

FW If I may add to that, what Jürgen just rightfully said, one other perspective that over the last two years, especially being hit by Covid-19, being hit by the semiconductor situation and the issues later on, we have experienced very successful supply chain throughput times, and not massive disturbances in our own processes, given that local for local approach, that decentralised approach of our supply chain, and our own operational footprint. And we also do hope that it would further support us think about just energy, whatever worst case is you could paint on the wall. For example, Germany we have a revenue share of 25 percent in the sales, but only ten percent of our global workforce in assembly work in Germany, so we're pretty happy with that, so to say, our decentral approach of local for local with high local content in that market, that helped us, and we believe that will also help us in the future.

WM Thank you, just one follow up if I may. You made very insightful comments about the pricing delays or the realisation of price in OE in rail, with your customers there, could you share some similar thoughts about the success in achieving indexation plus if you like, increases in pricing across your CBS customer base, on those platforms?

BS Yeah of course I can. To be honest, the results that we have showcased today are heavily depending on our success here. We have now concluded first wave of negotiations with all customers, all channels are covered. And in the mean time, we are already preparing the next wave, at that has all been announced to the OEs. They're prepared to it, they know it's coming and after let's say a longer period of negotiations, we expect now a much shorter settlement on this.

WM Thank you very much, good afternoon.

BS I look positively into that topic.

M The next question comes from Gael de Bray, Deutsche Bank. Please go ahead with your question.

GB Thanks very much, good afternoon everybody and thanks for squeezing me in. I wanted to follow up on the price equation and I apologise in advance, but I'm afraid I missed part of what was said profusely on the topic. Did I understand correctly that the pricing realisation is around three percent? Is this correct and could you provide more colour on the order pricing dynamics? Maybe for both RBS and CVS, in a more quantitative way as well. That's question one. Question two is around RVS backlog, which is clearly much higher than usual, around 18 months of revenue equivalent. But lead times are obviously also much longer than normal, so I was wondering if you could give us some indication on what is the share of this backlog which is actually due for conversion next year. Thanks very much.

FW Gael, if I may start quickly and then hand over of course to the colleagues who know much more details. You're right if you just mathematically take my say 200 million plus in corelation to the seven billion of revenues that is the simple maths, so to say, which I do as well, discussing with my colleagues, needless to say, but I mean the reality of what are the underlying contracts in OE business, in rail, in truck, and aftermarket, in rail and truck, and looking at different channels that you would have for example in aftermarket with the OE channel and the independent aftermarket channel, and then seeing the different countries you're operating in and the different customers, their market strength, our market strength, our market share in specific markets, it's getting complex and complex. You can do that simple maths, and then you would end up with a roughly three point something percentage points on the seven billion, that's right, but the colleagues shed a little bit more light, that you understand, so to say, how diverse the respective contracts are that are in place.

JW Yeah I mean if you talk about contracts and price increase contracts, some contracts basically are more or less let's say frame contracts, so where you agree if there's certain volume in the future of a specific car type, that we are the preferred supplier there, and there's some also agreed pricing on there, and with those contracts we can sometimes have the discussions with the customers and we have them in order to maybe increase them. And there's specific project-based contracts, where we have so to say, clearly defined delivery times for very specific systems, a quantity of that, for specific projects that are delivered from a car builder to a customer, that follows pretty much a scheme that also the car builders are currently a little bit are suffering from the price discussions with the customers, they are very difficult but generally fixed. Some of those contracts when they are longer running, have some price increase clauses depending on some indices that is generally at the end of the year review, then therefore also adjusted. We also benefit from those. And then there's a share of the business that is mostly in the service business, where it is more about spare parts and order spare parts, that's obviously the easiest part to increase prices, and that's what we also are doing, so I think we need to differentiate those and not just calculate a price increase number in percent across the board, because it's very different in those individual categories. And you also had the question I think regarding RVS in terms of increased backlog and how much is locked in basically for next year. Also there we need to differentiate first of all between regions, in Europe it's higher than in Asia because the lead times aren't so much higher in Europe than in Asia for example, especially in China, that has traditionally always been the case, nothing unusual, and then on the OE side it's rather high, it's let's say generally more than 60, 70 percent at this time around the year, where's on the aftermarket side it's rather low, and that's how it's kind of distributed, I would say.

BS Yeah on the truck side maybe a bit more light, you have to distinguish the different channels independent aftermarket and aftermarket at all. We have used all our pricing power to the limit of the price elasticity, we didn't want to lose orders there and give it away to other participants, which we didn't, and did a good recovery there. On the OEM side, if you look at different materials that we're buying and using, there are already material clauses in place. Those clauses have certain hysteresis which kick in after a certain time limit.

We have opened every contract that we had and have renegotiated every contract, either in certain payments, in certain new recoveries. That's why I can confidentially look into the future about our costs that we will have and what we already had. And our customers have welcomed our way forward how we did it, how we made it transparent, but also how persistent we were in getting it done.

GB Very useful, thank you very much.

FW Thank you Gael.

M And then next question comes from Calvin Chen, Credit Suisse. Please go ahead.

CC Hi, thank you very much for taking another question from me. I've just got a very quick one on your pricing dynamics again. You mentioned that in 2023 you've got roughly 35 to 40 percent of the sales from your 2021 price contract, and then in 2024 that will be better, and will lead these contracts will be fully pricing up. So the question is, what percentage will this number be for 2022? So versus the 35 to 40 percent for 23, please.

JW First of all, those numbers mainly applied to Europe, since I just also mentioned that the lead times of course in Asia are much different, and also applied to the transit in North America. But for 2024, the number is much lower than that, it's not like 35, 40 percent, it's more to the extent… let's say between 10, 15, around that, maybe to 20, depending on where you look at exactly.

CC Sure thank you very much. And if I may squeeze in another one on raw material. Given that you hedge on raw material, do we expect any impact on margins in 23, given that you might be hedging at a relatively high level of raw material price this year? Is there any issue on that?

FW So first of all, if you allow, we are not hedging on raw material. First of all we are only hedging currencies, second of all our direct exposure in regards to annual volume of buy for raw material is less than two percent of our overall annual volume of buy direct raw materials that we would purchase. Needless to say, the vast majority of our purchasing volume, the raw material comes in via subcomponents, so to say components and premanufactured material. So we rather have then the indirect impact in the end in our material costs. And there is of course the situation different from cast iron to aluminium to plastics, what have you, they are different situations or phases we are currently in, in regards to their pricing. I would say on the overall average we have not yet seen average 22 numbers which are below the average 21 numbers, even though in the last four or five months the prices have come down basically for cast, for iron, for steel, for aluminium, plastics, rubber. But in regard to average price levels, not yet on the full year level or below the full year levels of last year. So hope that did shed some light on your question.

CC Sure, thank you very much for that.

FW You’re welcome.

M As there are no further questions, I would like to hand the floor back to Andreas Spitzauer for the closing remarks.

AS Thank you operator. Thanks for your questions, and we hope you will have great afternoon. We are looking forward to talk to you next time. Thanks and bye.

JW Thank you very much, bye.