

# Transcript of Q3/24 Financial Results Call Knorr-Bremse AG

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O Operator

AS Andreas Spitzauer

ML Marc Llistosella

FW Frank Weber

SW Sven Weier

AG Akash Gupta

GB Gael de Bray

VM Vivek Midha

TF Tore Fangman

HS Holger Schmidt

O Good afternoon, ladies and gentlemen, and welcome to the Q3 2024 results call of Knorr-Bremse. At this time, all participants have been placed on a listen-only mode and the floor will be open for questions following the presentation. Let me now turn the floor over to your host, Head of Investor Relations, Andreas Spitzauer.

AS Thank you, Operator. Good afternoon as well good morning, ladies and gentlemen. I hope all of you are very, very fine. My name is Andreas Spitzauer, Head of Investor Relations of Knorr-Bremse, and I want to welcome you to today's conference call regarding the third quarter results of 2024. Today, Marc Llistosella, our CEO, and Frank Weber, our CFO, will present the results of Knorr-Bremse followed by a Q&A session. The conference call will be recorded and is available in our homepage, [www.knorr-bremse.com](http://www.knorr-bremse.com), in the Investor Relations section. Here you can find today's presentation and later a transcript of the call. It is now my pleasure to hand over to Marc Llistosella, please go ahead.

ML Thank you, Andreas. Welcome, everybody, to our call for the financial results of the first quarter 2024. Let's start with page number two. As usual, I will start with an overview of the highlight before Frank dives into the details followed by a Q&A session.

First, let's take a look at the key messages from today. Number one, Knorr-Bremse is in good shape. This is the result of a great team effort. Thank you to all the colleagues worldwide. RVS is progressing very well with ongoing strong order intakes, fueled by good demand in all regions, and the positive trend continues. CVS shows solid resilience in a weak truck market reflected in

its good profitability. Improvement measures show first effects. Second, BOOST 2026 efforts are continuing. Three assets already sold, the next sales process kicked off as well as a closing of the KB Signaling deal in North America. We are fully on track and happy about the good dynamics of our program. Efficiency measures of BOOST involved divisions are implemented and we are very confident to reach our targets in 2026.

Number three, we were able to secure our long-term financing. We issued a dual branch bond amounting to 1.1 billion euro, including our first green bond. With the proceeds, we strengthen our position as a trailblazer of sustainability and green mobility for our customers. We finance the acquisition of KB Signaling and we will refinance existing liabilities made during in 2025. The bond was four times oversubscribed, emphasizing the strong demand and confidence in our company in terms of many global challenges. Number four, at the recent fairs, IAA Transportation and InnoTrans, Knorr-Bremse could once again more demonstrate its innovation in quality power, customers industry and capital market feedback was equally quite positive, encouraging for our people who are shaping the future of sustainable and green mobility. Last, not least, number five, we slightly increased our guidance for 2024 after closing the deal of KB Signaling in North America.

So let's come to page number three. Let's have a look on that and our presence at the InnoTrans in Berlin, the world's largest rail fair as well as the IAA Transportation in Hannover, the world's largest fair for trucks. Let's start with the rail fair. Rail is and remains the most eco-friendly mode of mass transportation. Given today's clearly defined climate targets, there is an increasingly higher need for sustainable and green transportation of people and freight. Rail is the enabler to achieve these ambitious goals and this was clearly evident at the trade fair. The main topics we presented at Inno Trans were a zero step boarding, more and more a topic to watch. Problem-free boarding and disembarking enables smooth traffic flows which are necessary to cope with the increasing passenger volumes and to fulfill the operator cycle requirements. Personal highlight was the demonstration of our electro-mechanical braking system. The technology provides high efficiency, which strongly supports total cost of ownership for rail operators. Knorr-Bremse is in the driving seat and is the innovator number one here.

Looking at the IAA Transportation where CVS impressed market and customers with not only a fully sustainable bull, but also, we are leading product portfolio. Commercial vehicle fleets must become economical, safe and sustainable. Working close partnership with all our OEMs, CVS has developed the technologies and product required for the necessary electrified, autonomous and digital solutions. We showed a broad range of safety critical solutions in response to transformative industry trends at the fair. This includes zero-emission solutions to support e-mobility, redundancy concepts, automatic driving and new products and business models based on digitalization. A solution regarding electronic power steering, which supports two of the most important developments of the truck industry: Electrification and automatic driving was remarkable, but I also want to mention the introduction of our new electromechanical braking system, EMBS, boosting multiple advantages in terms of installation, space, noise emission and precise control. Plus, it is future oriented and future driven.

Slide number four. Let's have a quick look at the current market environment. Rail in Europe and North America continues to experience good growth in both OE and aftermarket. Demand for new rail vehicles is unbroken and rail OEMs need innovative, modular, energy efficient products that RVS can best provide. Especially in Europe, we continuously see that no given government

budget for rail products is cut or canceled in favor of any other government targets. China's rail market continues to perform quite well this year, particularly in the aftermarket, which benefits from last year's push-outs of maintenance topics and the fact that some trains are in the overhaul cycle currently. The high speed segment also develops better than expected this year. While metro remains on a stable level, it seems like that the rail market in China experiences a slightly different quarterly development this year as far as we see it impacted by some pull-in effects in quarter two and three already from the current quarter to come. For 2025, we expect some normalization of high speed and aftermarket again. Globally, order books of rail OEMs are still elevated, underlining robust demand for new rail vehicles and equipment. The pricing of new contracts and rail remains favorable, which is a clear margin driver for RVS. Ridership levels in financial year 2024 are expected to be higher versus last year.

Now to our trucks. Truck production rates, especially in Europe and North America and China in quarter three declined year over year as expected. On the other hand, pricing for CVS was supportive year over year after the introduction of higher levels last year. On a full year level, we believe that truck production rates in Europe will be significantly, in North America moderately, lower year over year. The truck market in China should perform better and is expected to stay flat year over year supported by higher export volumes. We observe the development of truck market closely will be able to react quickly to all challenges if necessary. In Europe, we implemented short time work in one plan so far, by the way, in our biggest. The cyclical downturn in Europe and North America is nothing what we are surprised to see and it has developed as expected. According to our current assessment, should continue until at least the first half year of 2025, but then be over in the second half year 2025. I would now like to hand over to Frank, who gives you now more insights about the financial results of our quarter number three in 2024. Frank.

FW Thanks, Marc, and a big welcome also from my side. Let's turn to slide five to discuss the financial highlights of the third quarter. Order intake was again very strong with more than 1.9 billion euros, a very good achievement by both divisions considering a weak truck market overall and ongoing challenges in many economies around the world. Book to bill on group level was at 1.02, revenues amounted also to over 1.9 billion euros. Rail saw a very good increase of around 7% while truck did face an expected decrease of around 9%, where - as an example- the corresponding market in Europe went down roughly by 25%. Highlight of the quarter was the development of our profitability. Operating EBIT margin benefited mainly from good operating leverage in RVS, our efficiency measures and better pricing in both divisions. Accordingly, the margin rose to 12.3%, which is 80 basis points higher than a year ago. Rail contributed to this development with very strong figures. While truck margin decreased as expected. Free cashflow improved further and came in at 184 million euros. Please keep in mind that this free cashflow development follows the typical pattern throughout the year. Q1 is always the weakest and Q4 the strongest in terms of our free cash flow generation. The two quarters in between should show a rather sequential improvement.

Let's move to slide six, please. CapEx in the past quarter amounted to 80 million euros representing 4.2% of revenues, slightly decreasing year over year. In the upcoming quarter, CapEx in absolute terms and the ratio should increase significantly and we expect a CapEx to revenue ratio of 5 to 6% on a full year basis. Net working capital increased by 169 million euros year over year driven by the acquisition of KB Signaling solely. Without this effect, net working capital even slightly decreased. As you can see, we continue to take action across all working

capital areas. In particular, further reducing inventories, especially safety stock via our optimization programme “Collect” in order to increase our capital efficiency. Scope of days without KB Signaling also improved year over year as a matter of fact.

Our free cash flow as mentioned before, was 184 million euros in the past quarter. It is a lower figure prior to last year driven by tough comps and the fact that we improved this KPI already in quarter one and quarter two of this year. As a result, on a nine-month level free cash flow improved by nearly 200 million euros from 65 million to 248 million euros, well supported by the before mentioned “Collect” program as well as by better earnings. We are confident to reach our free cash flow guidance for the full year. As a result of improved EBIT and the improved capital efficiency, our ROCE increased significantly from 17.8 to 18.6%, without KB Signaling even to 19.9%. This figure represents a good development and is already very close to our target of more than 20%.

Let's take a closer look at the divisional performances in the third quarter, starting with RVS on slide seven. In terms of order intake, RVS recorded more than 1.1 billion euros in the past quarter, hosting a growth rate of around 10% year over year, organically almost 13% despite FX headwinds. Growth was particularly strong in the Asia-Pacific region. Here, order intake grew especially in India in the OE segment and in the Chinese aftermarket. North America also grew nicely while Europe declined. As a reminder, rail is a project business and business projects do not follow linear patterns, so rail order intake does not go so well with quarterly before. We expect RVS should be able to post an order intake of a billion euros in the current quarter as well. Book to bill ratio stood at 1.13 in quarter three, which means RVS reached a book to bill ratio above one 12 quarters in a row now. We expect a book to bill ratio of around one in the current quarter leading to above one for full year 2024. Order backlog remains at a very high level and well above five billion euros. In organic terms, meaning apples to apples excluding Kiepe and KB Signaling in the third quarter, the order backlog rose by around 9% year over year. The high order backlog provides a strong basis well into 2025 and beyond.

Let's move to slide eight. Revenues of RVS in the third quarter amounted to 995 million euros, which represents an increase of almost 7% year over year. Organically, the division even lifted its revenues by a strong 10%. Both OE and aftermarket business grew on group level year over year. As a result, our aftermarket revenue share in RVS even reached 52% in the third quarter. From a regional point of view, revenue growth was supported by all major regions. This is an encouraging sign as our growth is based on multiple pillars. In Europe, aftermarket business overcompensated slightly declining OE sales. North America and APAC region recorded strong increases in both segments. China saw growing revenue for both OE and aftermarket, especially high speed and aftermarket in particularly benefited from as far as we see it pull forward effects from the current quarter into the second as well as the third quarter. In the coming quarters, we therefore expect some normalization in this regard.

Operating EBIT margin recorded an increase of 160 basis points to 16% driven by operating leverage and efficiency measures of our BOOST programme. Improved pricing of new contracts and the lower share of legacy business further supported this development. In addition, a positive revenue mix driven by a higher aftermarket share impacted the operating margin positively as well. In the running quarter, we expect the profitability of RVS should be lower compared to the third quarter given the project business characteristics of the business itself and some pull-forward effects as mentioned before. Let's continue with our truck division on chart nine.

Order intake in CVS amounted to 823 million euros, a decline of roughly 14% compared to last year. Among others, also driven by negative FX effects. All regions have had weak truck markets. Weak order intakes from Europe came in as expected while North America developed slightly better than expected. Book to bill reached 0.9 in the past quarter, and the order book with more than 1.8 billion euros at the end of September remains on a good level and well above the long-term average. Order intakes in the fourth quarter are expected to face ongoing challenges, especially in North America and Europe. Although the market in North America is holding up better than in Europe, our expectations are based on lower truck production rates, which many customers also indicate for the fourth quarter. We assume that the book to bill ratio will be well below one on a full year basis. Overall, orders in the current quarter should be only slightly higher compared to the third quarter. However, we are very well prepared to overcome these challenges.

Let me walk you through some of the options and measures. High flexibility of our sites and facilities. For example, temp workers generally represent around 10 to 15% of our workforce in the production plants in Europe, which we can lay off quickly if necessary. Following the weakening market, we reduced temporary workers in CVS by around 10% already year over year. Secondly, all major plants in Europe are prepared and ready to introduce short-time work schemes within weeks. Currently, short-term work is introduced in one German plant, as Marc mentioned before, already since May in Berlin. Compared to many of our customers, we still have higher capacity utilization rates in our plants. Thirdly, full year effects of price increases from last year are fixed, which will be counterbalancing shortfalls of volumes. Fourthly, aftermarket business contributes more than 30% of our revenues in Europe and North America and as well supporting our resilience. Last but not least, our BOOST programme targets also structural costs and further efficiency measures, which already mitigated some negative impacts. Please bear in mind that we are not in a crisis mode, but we are well prepared and will continue to do so for a likely further negative market development in the months ahead.

Let's move to chart 10. Revenues declined by 9% to 915 million euros. This development was as expected and a solid performance in such a challenging environment. OE business and CVS as expected, decreased in all regions, mostly in Europe, followed by North America. Aftermarket business on the other hand, remains stable in all regions. In the European market, our revenues have experienced a 15% decline due to weak demand in both the truck and the trailer segment with truck production rate declining by 25% in the quarter at the same time. The stable aftermarket, which generates around 40% of European revenue and the growth in content per vehicle were the main reasons for the strong outperformance of the market. A clear sign of the division's resilience. North America has a better, with only a mid-single digit decline.

Operating EBIT of our CVS division amounted to 91 million euros in the past quarter, down around 15% year over year, organically around 13%. As a result, the operating EBIT margin declined by 60 base points to 10%, partially also due to ethics headwinds. The good resilience of our EBIT margin is based on a combination of achieved price increases, good aftermarket business and positive effects from our efficiency measures. We continue to expect an operating EBIT margin only slightly below 10% for the second half of 2024, meaning that the quarter four could be slightly below the 10% level. With that, I hand over to Marc again.

ML Thank you, Frank. So let's have a look at our guidance for the full year 2024 on slide 11. Major assumptions are unchanged and outlined on the right side of this chart. For full year 2024, we

expect a revenue range of 7.8 to 8.1 billion euros, an operating EBIT margin between 11.5 and 13%, and a free cash flow between 550 and 650 million euros. After closing the deal on KB Signaling, the guidance now includes roughly 100 million euros in revenues. Operating EBIT margin is unchanged due to ongoing uncertainties in the truck market, integration costs of around 10 million euros for the M&A transaction and uncertainties regarding the timing of some larger projects in RVS. Nevertheless, we consider the mid points of our margin guidance to be very realistic.

Slide 12, let me finish with our first thoughts on next year on organic level. The overall rail market will be solid in 2025. As a result, RVS should benefit from the positive trend due to its market innovation leading position with an expected revenue growth mid-single digit next year. We are partner of choice for many rail OEMs and operators globally. In 2025, we expect some positive dynamics, especially in Europe, North America, and India. China should continue to be an important market and value contributor to RVS. Nevertheless, 2024 is a better than normal year for us in this market, driven by higher demand in high speed and in the aftermarket business. By pent-up demand and the fact that many trains are currently in overhaul cycle, in 2025, we expect some normalization in China, which should be reflected as well in the local top line.

Besides further execution of our BOOST strategy, including cost and efficiency measures, we focus on our biggest growth markets, Europe, North America, and India look confident into 2025 and expect mid-single digit revenue and solid operating EBIT margin growth for RVS. Truck cycle, on the other hand, should still be challenging in 2025. We expect truck production rates in 2025, especially the first half of the year to stay on comparable levels, if not slightly below 2024, and believe that the second half of the year should be stronger than the first. Thanks to our pricing activities done in the past, efficiency measures done in present and in the past, cost measures we continuously do and as well as increasing aftermarket business operating EBIT margin should be on a flat level to a slight improvement. Revenues are expected to develop flat to slightly growing next year. With that, I would like to thank you for your attention. Frank and I are looking forward to your questions now.

O Thank you very much. Dear ladies and gentlemen, if you wish to state a question, please press nine star on your telephone keypad. One moment for the first question, please. The first question is from Sven Weier, UBS. Please go ahead.

SW Yeah, good afternoon. Thanks for taking my questions. The first one is just on the guidance for 2024, the margin guidance. You just stated that you're very confident to reach the midpoint of the margin target and I was just wondering, keeping the margin target as it is would seem a bit inconsistent with that confidence and because I guess to get to the low end, quite a few things that have to go wrong to get to the high end is quite a better things have to go right, but why didn't you just then narrow the margin range if you're so confident with that? That's the first one. Thank you.

FW Yeah, thanks, Sven. Thanks for your question. As you rightfully indicated, we usually give ranges so to say by, by clearly having in mind that the midpoint is what we are usually focusing at once we are doing it. We have risen that a range, the midpoint of that range since quarter two which we still believe in that we can do better than what we thought around summertime. This is a given, you can rightfully argue why, so to say, the goal is that big and that Harry Kane is just five meter in front of the goal, so to say. It should be easy to hit that goal. But I would say there are

still uncertainties out there and I agree with you. Maybe we might be not falling to the lower end of the guidance. We might also not touching the upper end of the guidance. Please keep in mind, let us focus on some of the midpoint of it with a bit in the indication, seeing what we said to towards RVS business and CVS business in the fourth quarter that it might be a bit weaker in the fourth quarter than in the quarters ahead. So slightly, maybe slightly below the midpoint is what we are currently seeing. Given all the uncertainties that are still out there, let's not so to say talk around that. So that would be my answer, Sven, hopefully you understand our range still that open.

SW No, and I think it's fair that you gave more quantification around the midpoint and I think we can live with that. Thank you, Frank. Second point, just if I may, on the 2025 slide, and thanks very much for providing that insight so early. I think that's really helpful in these uncertain markets. The questions I just have is on the truck side, you do assume no revenue headwind here, even though, of course it's more second half weighted here, but the thing I'm just wondering about is when I think about your 2026 margin target for CVS, it's still quite a bit to go and you wouldn't make too much progress next year on that. I don't assume you're really happy with that. So is there anything you can do to accelerate the progress? Anything in your hands you can do on that? Thank you.

FW Thanks, Sven. Also, fair question. I think we always kind of mentioned that given the 2026 targets we laid out one year ago, nearly one and a half years ago, is that it's a bit more aspirational, so to say, to go for that truck target margins than going for the rail target margins. As we outlined also several times since we said that whatever happens, we are very confident that Knorr-Bremse overall will achieve the 14% above the 14% but it might be the case that rail maybe delivers more and truck delivers a bit less. Did we bake in back in the days a lot of growth or support elements from the truck market? No, we didn't. Back in the days, we baked in some one percentage point of growth, on the truck side I mean. Obviously now things are a bit different, markets are significantly down in the two major markets for us, but this is not the real explanation because also in 2026 you should then see some pre-buy effects in North America. So over in all, I would say I'm not unhappy with the development of truck at all but there is a good so to say progress that we still expect towards 2026. And you can be assured that we don't leave any stone unturned in order to get the max out of truck, but it might be below the 13.5% but expect rail to be more than the 16.5%.

SW Is it maybe also that on next year the first half revenues will be down obviously, and the operating leverage on the way down is maybe also lower than on the way up in the second half, and that maybe keeps you a bit more restricted on the margin improvement overall next year? That maybe also fair point?

FW That's also clear, fair point, understanding the business, how it works. Yes.

SW Cool. Thank you, Frank.

FW Yeah, you're welcome.

O Thank you very much. We are moving on to the next question. Next question is from Akash Gupta, JP Morgan, over to you.

AG Yes. Hi, good afternoon, everybody. And I got two as well. The first one is on the truck business. So when I look at your slide on operating profit bridge and revenue bridge, and then when I calculate your operating leverage or drop through in the business, I get to around mid-teens percentage points, which is quite remarkable. The question I have is that, is this something that could be sustainable in Q4 or was there anything that helped or impacted? So maybe any comment on the drop through that we should expect in the business going forward? Thank you.

FW Thanks, Akash, for acknowledging this. This is of course a big wishful number. If we could have this all the way down when things are going sour, that would be fantastic. Needless to say, as you know, Akash, we have also so to say tailwinds due to the massive price adjustments that we made that help us year over year to soften such drop throughs. It's getting weaker quarter by quarter, so to say, just as a mathematical model as you know, these price support measures. So maybe not the same amount, maybe a bit weaker that drop through could be in the fourth quarter.

AG Thank you. And my second question which is more of a housekeeping question, it's for your guidance on 2025 margins. So you mentioned that there can be solid growth in margins in rail and flat to slight growth in trucks. So can we read flat to slight as like zero to 50 bips and solid growth means 50 or more? Like, anything that you can help us to quantify how you're defining these slight growth and solid growth? Thank you.

FW Yes, yes. It was very important for me once I came here that we have some kind of aligned vocabulary that we are always using. It's exactly right what you're saying. This is so to say, our definition of the wording so to say up to 50 basis points and above 50 to 150 basis points, so to say. I think that's what we said. And also to connect your question a bit with something I forgot to mention with Sven's question, this is organic so to say development that we of course see. We have not baked in for a specific year of 2025 and effect out of a disposal.

AG And maybe just lastly, a quick follow up on your disposal plan in CVS. Given the weakness in truck market, are you waiting for some kind of recovery in the market? So you may get some better price, and that could be reason behind some delays that might be intentional, or is this not something you are considering? Thank you.

FW Thank you, Akash. First of all, we are not having any delays in the progress. It's rather the opposite. I think we are a bit ahead of the plan when it comes to the execution of our active portfolio management. So very clear, no delays here. We are not waiting here for the one or the other million so to say in let's say talking about smaller numbers. It's also important for us that we are able as a company to focus on the right things. And there it doesn't, in the end, we believe strategically matter whether we make a million or 500, 000 of proceeds more by waiting for the next month to come. As we are using a lot of capacities and skillful people in managing, observing, and restructuring businesses, that's of utmost important for us to focus everything that we have in this company on the businesses, so to say, that perform best and where we can get the best margin out. And that's why we are not delaying anything or waiting for better market conditions in order to get a bit more out of the proceeds.

AG Thank you.

FW You're welcome, Akash.



- O Thank you very much also from my side. The next question is from Gael de Bray, Deutsche Bank. Over to you.
- GB Oh, thanks very much. Good afternoon, everybody. Can I ask firstly about RVS and about the size currently of your Chinese rail business? Is it about 650 or 700 million, something like this? And more importantly, what has been the growth rate so far in your Chinese RVS business in 2024? That's question number one. And maybe I'll go one after the other.
- FW Yeah. Gael, thanks for your question. I mentioned also already, I think over the last month several times that we are a bit better doing than what we told you all strategically what we expect from the Chinese market. When we did lay out our plan, I think it was in quarter two of 2022, where we indicated that maybe 650 would be the low point somewhere in time and then recover somehow towards 700 for mainland China revenues. We are a bit better than that. We are above 700 million. And I think this is showing that clearly the worst is behind us in China and we are benefiting right as we speak a bit of course, from very good demand out there on the high speed train. The high speed train so to say focus is really mentioned in the five-year plan of China. We see a good demand here currently of high speed trains being built, and we see very good as one of the only countries in the world, we see ridership levels that are significantly above the 2019 levels already, which is supporting our aftermarket. And they're just looking at the other situation. We do identify that there must be some pull head effects already happening since around summertime. So that's a bit that's supporting us. Should be coming back to a bit of a normalization going into the next month to come. But I think this somebody has not muted. I think it is a bit annoying. Okay. So it's a good level above 700 that we are currently having, given all those aspects that I mentioned.
- ML To be very precise, in China, we are targeting 790 million of revenues, which is showing that the... There's someone still in the line, either you get on mute or you get out.
- O It's from Gael's side, actually, so Gael, could you please mute yourself? That would be amazing. Thank you.
- ML Thanks, Gael. So the dooming messages, which eventually were said about China in 2022, they don't come through or they don't realize. Also, you can see it in the mix of the business between OE business and after sales business. We see also in the OE business that we are more and more considered by the metros and we are still considered very heavily by the high speed. So that means it seems to be that our unique selling proposition in China is succeeding. And it seems also that in the next years to come, there is no indication that China is contracting. What is important for you, is that our dependency from China, also from rail, is significantly lower than it was in the past. So we are going down from something which was in the range of 46% now in the range in the 30-ish, which is, I think for you more important because that shows that our dependency cluster, so the so-called clustering, is now getting more and more global. This is the reason why we are massively expanding into the American business.
- FW And please keep in mind the number that Marc mentioned as a target, so to say, is including also export business. It's not the mainland China figure alone, but the mainland China figure is also above 700, as I said before.

- GB Understood. Thanks very much. And the second question is about CVS and with volumes obviously being under severe pressure now, could you talk a bit about the pricing environment for new orders?
- FW Yeah, as you can imagine, Gael, and that is the reason also why we did the waves of price negotiations the way we did it. We planned them to be concluded before the first signals of market downswing occurred. It's more difficult, of course, to ask for price increases in a situation where markets are going down. So we concluded everything already towards the end of 2023 that we would be ready, so to say, to harvest it. Of course, the one or the other customer is now aiming to gain a bit back what he gave to us as price adjustments. But you can be assured that we will not be easily giving away any kind of prices that we have negotiated very hard over a certain period of time. But it's of course a bit tougher than it used to be over the last two years. That's pretty clear. But we have not increased the prices to a strange amount. We have gotten our inflation back so to say. And why should there be any reasons if inflation is not so to say turning negative, why should we easily give back any price point? So we will be pretty stiff as you know, from small brands. I can't guarantee anything exactly but we will be very stiff on giving back anything.
- O Thank you very much. Moving on to the next question, but before that, dear ladies and gentlemen, if you wish to state a question, please press nine and star on your telephone keypad. The next question is from Vivek Midha of Citi. Over to you.
- VM Thank you very much everyone, and good afternoon. My main question is a follow up on the rail business. So on slide 12, you said that you expect stronger growth in the aftermarket than equipment. At the same time you've highlighted that aftermarket was one of the contributors to that pull forward effect in China. So that would appear to imply quite a strong growth in the aftermarket outside of China. What is it that's giving you that visibility and that confidence that the aftermarket is going to exceed OE growth? Is it certain projects or overhaul timings? Thank you.
- FW Thanks. first of all, I think what we mentioned in regards to the pull ahead effects regarding quarter 2, quarter 3, should give you a better understanding of the year '24 itself, how this is functioning, where usually the pattern is more that the Chinese aftermarket businesses quarter 4 centric one with very good so to say demand in the fourth quarter. This time around, it looks like a bit more in the second quarter, third quarter. So, this pull ahead effect is something that is really important to understand the dynamics of 2024. Looking at the overall year, year-over-year, then going into 2025, we, of course, so to say do think that aftermarket should grow. We have already nowadays a very bigger growth in aftermarket than in OE. We understand basically in our databases where our brakes in the past have been built into all the vehicles. We know exactly, so to say when to expect them for let's say given empirical evidence for repair work, for maintenance, and when the overhaul cycles kick in. And given that database knowledge, and overhaul projections of the usage of these trains, we're pretty happy with that development that we see into 2025 also in aftermarket. And that makes us confident given that empirical evidences and the projections out of the real usage of these trains.
- VM Understood. Thank you. My second question is just a quick clarification. You mentioned around 10 million integration costs for KB Signaling, if I had you correctly, has any of this already been booked or will all of this be booked in the fourth quarter? Thank you.

- FW Thanks for the question. A bit is already, of course is sitting in the quarter 3 numbers and the rest to become in quarter 4, but also a bit, maybe in 2025. Just started the PMI end of August officially. We kicked it off beginning of September. And the PMI phase will take up to a year. So, also integration costs in 2025 might be occurring. And whether it will be exactly 10 or 15 or 8, not so sure at this point in time, we think about roughly 10 million euros but maybe potentially spread over quite some time.
- VM Understood. Thank you very much.
- FW A lot IT based, by the way.
- VW Thank you.
- FW You're welcome.
- O Thank you also from my side. Currently the last question comes from Tore Fangman, Bank of America. Please go ahead.
- TF Cool. Hope you can hear me. Thanks for taking my question. I got two questions left. First just one more on the signaling integration. Could you just give us a quick update? How is it going? And maybe any phasing of synergies, how you currently see this coming through? Thank you.
- FW Thanks for the question. I think we've found after closing highly motivated, very skillful management team. Nice plans, efficient plans, very well organized, systematically working team, so to say. So we're pretty happy with the deal. No significant issues that we have seen so far. So it looks pretty good. We're pretty happy with that deal. It was never a synergetic case. If you remember, and if you read through our old so to say, explanations about the strategy and signaling that we are having, we might find synergies along the way, though. But this is not the reason why we got hold of the Alstom signaling business. It was a strategic move that we made. Yeah, we might find synergies along the way looking at their plants, they have five sites these days that they're operating in North America. We do have five sites as well in rail, whether we run with 10 plants then into the future. This is I think of course needs to be questioned. I don't think so. But these synergetic moves won't move the needle. It's a strategic deal that we have made here. And I think that was a good one.
- TF Okay. Thank you. Can you still hear me? Sorry.
- FW Yes, yes, of course.
- TF Oh, okay. Perfect. Then my last question would be more like in clarification or a bit more color on the CVS side of your business. Could you maybe speak about during Q3, was it just like overall week quarter, or did you saw like a sequential worsening from July to September? And then as a bit of an add-on here, I think you spoke about in H1 you would see basically further headwinds, but then in H2 you would see the truck site for you growing again. So, what would be the picture for the overall 2025 here concluded for you? Thank you.

FW Wait a second. I'm just taking notes. 2024, within the third quarter, there was not a specific pattern between the month, July, August and September. Some are similar, I mean August maybe a bit weaker but this is in the nature of the game. Usually you have plant closures with the customers, you usually have. That's the best way to kill fixed costs, of course, if you're an OEM there to have longer plant closures than just wiping out the one or the other shift. Needless to say, that's why August is always an awful month usually, but not a spectacular pattern besides that in the third quarter coming to 2025. And that is just a technical thing, quarter 1 and quarter 2 in 2024, the comps which we had, we still had quite okay-ish markets in Europe and North America.

And if we talk about now what's the full year expectation for 2025, and if we say what we said somehow flattish development of the markets going from 2024 full year into 2025 full year, then it's quite logical then the first half year compared to the first half year of 2024 is more on the negative side in terms of half year, over half year. And the second is market related, then maybe a bit better than the half year of 2024. That's how we see 2025. So roughly speaking for the full year markets, somehow plus minus a bit somehow flattish, but then quarter over quarter, quarter 1 and quarter 2 rather minus in terms of growth and quarter 3 and quarter 4 rather, rather plus. So that's the way we see things at this point in time.

ML And overall, Mr. Fangman, it's more important to get the fix costs now under control, because that's the time to do it. Now, the first quarter was good, the second quarter is bad, and the first quarter of 2025 looks not so promising, but that's normal cyclical. If you don't use the cyclical to raise your level of profitability, then you have wasted a chance. So that's exactly what we don't want to do, and this is why we focus very, very much now in lowering the fix costs. And to your question, in the occurrence of the quarter, if you really want to know it, July was strong, August was weak, and September was strong. So there is no downward trend in the quarter. So we could say September was much better than August.

TF Very well understood. Thank you so much.

ML You're welcome.

O Thank you. And then we also have a follow up question of Gael de Bray, Deutsche Bank. Over to you, Gael.

GB Thanks very much for the opportunity again. I just wanted to get a bit of clarification. Maybe if you could elaborate on the supply chain problems with the specialist suppliers for the rail industry apparently not being yet all the best.

FW Thanks. It's gotten better, I think since months it's gotten better, but not yet that good level like you would have with, so to say, the bigger slot suppliers. We still have with some of the specialists some issues that lead to the fact that we are sitting on a bit more inventory that usually would be needed. Also for some electronic stuff usually you have to place some last time by all those so to say, in order to get that all the supply security over time. So there are bit more difficulties in that business that we are having on the truck side. But it hasn't worsened, on the opposite side it's gotten a bit better. But we wait for the time until we significantly can move it into also inventory reductions on our side.

GB Sorry, just to be clear...

FW Nothing to grammatically worry about it. It's getting better, but not on that good level like we see already on the truck side, the supply chain.

GB But is this mainly about electronics or is there any specific component as well, which is...?

FW No, it goes across the floor, I would say. We have B parts affected, C parts affected, even some rubber parts at times. So it's basically of everything a bit.

GB Understood. Thanks very much.

FW You're welcome.

O Thank you. We have more questions in the Q&A session. The next one is from Holger Schmidt of DZ Bank AG. Over to you Mr. Schmidt.

HS Hi, good afternoon, everyone. Thanks for taking my question. And the first one is on Alstom signaling. As far as I remember, you are in negotiation about a larger project, I think the amount is something like 600 to 700 million. What is the probability that you will get it, and how many competitors are in the bidding process? That's the first question. And the second question is on the truck side, one of your key competitors in the truck business, ZF Friedrichshafen, continues to struggle, do you see any change in their behavior? And what are the chances for you?

FW Thanks Holger. First of all, I know that we before mentioned the bigger project on the Alstom or KB signaling side. It's indeed a bigger project. Revenue dimension is around 600 to 700 million US dollar. Over certain years, needless to say, not the one off kind of, but spent over several years. The process is still ongoing as you know, it's always municipalities. And in that case seeing just the pure dimension, you understand, it's even more than just one municipality dealing with that. It's still in the works. Nothing concluded yet. In the beginning it was or let's say right from the start when we were in the due diligence of KB signaling, it was mentioned that around winter time there should be first conclusions in regards to the tender being made. At this point in time, we don't know exactly when this will happen. With larger municipalities, you never exactly know, can easily be also only around springtime or summer of next year. We don't have a clear indication yet when exactly a decision will be made. To how many so to say other parties are involved in the tender, we can't give you details. We know it's one or two others that are involved in that. We should be in a preferred position in the tender process. But the outcome, we don't know at this point in time.

On the truck side, the major competitor ZF has not over the last years... Since WABCO was acquired by ZF, they have not acted irrational, and we don't see that these days as well. So it's all very rational what's going on in the market, how we understand things and negotiations and contacts with our OEMs. Nothing spectacular that happened recently.

HS Okay. Thank you.

FW You're welcome.

- O Thank you very much. And now we are also having a follow up from Akash Gupta, JP Morgan. Over to you, Akash. Thank you.
- AG Hi. Thanks for taking the follow up. And that is basically your US business. Can you share some light on your US business manufacturing, and how much of the business is relying on imports? And let's say if we see a scenario where there may be a flat tariff on all the imports coming in the US, does that give you a relative competitive advantage, or does that give you a competitive risk, so to speak, by looking at your competitors and a production base in the US? Thank you.
- FW Akash, let me start with the latter end of your question. We are true believers in a decentral organization, a decentral entrepreneurial steered organization of Knorr-Bremse. We rely on and we strategically believe in high local contents in the respective market which gave us a competitive edge during the times of supply chain problems, during the last recent years with Russian War over Ukraine, et cetera, you name it. So we believe in that we have very high localization rates in US, by law have to reach at least 62.5, if I'm not mistaken. We are, needless to say, fulfilling that and are even far beyond the 62.5 of localization. So we can easily adapt from 70 to 75 in case it's opportunistic at times depending on what regulations might come out. But we will not shy away from the general pattern of being in the market for the market and drive the business entrepreneurially decentralized. No reason to shy away from that.
- ML So, Frank, are we prepared for Donald Trump?
- FW Yes. If us not, who else?
- ML Good.
- AG Thank you.
- FW You're welcome.
- O Thank you very much, also from my side. With that, I would like to close the Q & A session since there are no more questions in the queue, and I'm handing the floor back over to you.
- FW Thank you all for attending. Thank you. Bye-Bye.
- AS Have a nice autumn and a lovely pre-Christmas time. Thanks and bye.