



**Transcription**

# **Knorr Bremse AG – Q&A Teil 1**

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### Q&A 1

#### 00:00:01 Operator

Okay, we now start with the first question, which comes from Sven Weier, UBS, Sven you're line is now open.

#### 00:00:12 Sven Weier (UBS)

Yeah, thank you Sophia. Thanks for taking my questions. Good afternoon. And thanks for the presentation. My first question is for Jan. And that is basically following up I think, shortly before you joined or shortly after you joined I think we talked about the things that could still improve at KB. And I think you just talked about one aspect digitalization, I was more curious about the aspect of automation inside the factories of the company. And also the integration on the previous m&a deals that you've done. I think those are two areas, where you said they would be also upside; maybe you can shed some more color on these. That's the first one. Thank you.

#### 00:00:56 Dr. Jan Michael Mrosik (CEO)

Sven, thank you very much. Talking about automation. It's also part of the digital journey that KB is undertaking. And we are active in a lot of areas in our factories to employ automation cases. Automation is something that is not something that needs to be done because we would like to do it, because, you know, the investments that go with it, have to be carefully selected. And therefore, we are looking at individual used cases. And we systematically build up automation wherever it makes business sense. And wherever it gives us a return of invest. For example, in Berlin, in our factory in our RVS factory and also in CVS, we are already starting with automation activities where a robot is going to replace the manual picking of certain parts. So we do it in a very sensible way. We do it looking at the invest in a very focused way. The integration of activities here we are with our undertaking of standardizing processes, and putting digitalization in place, the Northstar that I've been talking about going through systematically also through the acquisitions of the past, in order to integrate them in our overall KB approach. And as I said before, this integration is happening in a very systematic way. Integration has been happening in the past already, but we add now the digitalization and process aspect to it.

#### 00:02:40 Sven Weier

Okay, thank you for that, Jan. And the second question is from Marcus regarding the capex outlook. Because when I take the ranges you give for revenues and the capex ratio at the higher end, we could land at the capex at above 500 million, which would be a more than 50% increase where you were in the past. On the other hand you said you would be very disciplined about capital spending. So can you elaborate a little bit more on the focus area? Jan has already



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mentioned selected automation but you know, on the other hand, it could be quite a bit of an increase. So I was just wondering there the highlights, and wouldn't that also then have a certain benefit for your earnings bridge? Thank you.

### **00:03:28 Frank Markus Weber**

Thanks. And, yes, you're right, we have indicated some 5 to 6%. That basically means over the cycle, and there could be years depending also on the respective revenue in those years where it's rather on the five-ish side, or other years where it's on the sixish side, just purely mathematically you are right. We have seen in the past also some bigger capital expenditures on the production footprint side in order to cope with the growth that's basically out there. We intend to do that as well in the future. But we did have some real estate investments in the past that will not occur to that extreme anymore in the future, basically that's behind us already. So most of the capex that we are foreseeing in the future is driven by the maintenance issues. It's driven by supplier tooling. It's driven by information technology, it's also driven by digitalization aspects, all these things will come into play. And basically in order to reach the six-ish kind of figure, it has to be a culmination of basically all those things. So I would rather say it's in that range across the board when we come to the next years until 25.

### **00:04:56 Sven Weier**

Okay, thank you, Frank, and I'll go back in line.

### **00:05:04 Akash Gupta (J.P. Morgan)**

Yes. Hi, good afternoon, everybody, I have two questions as well. And my first one is on your software strategy. So when we think of KB, it comes across as a product company, yet you have more than 700 software engineers at the company. Can you tell us more about what kind of projects your software workforce are working on, and maybe if you can provide some split of new businesses versus legacy businesses, and also your strategies to monetize the software offering that you're developing in the company? Thank you.

### **00:05:42 Frank Markus Weber**

Akash, thank you very much. Indeed, we have 740 software people actually working for KB and they are exactly in the fields and that I've been describing my during my presentation. So remember that we as KB are combining a very strong know-how knowledge and basis in the space of mechanical products with electronics, and then software that runs on electronics. And we, in a more and more accelerating way, are working on adding dynamics models of vehicles to our products, and this happens, actually, on the basis of software based modeling. So that's something that has been enhancing our products in the past already and is part of new developments. And on top of that, we'll now go the next



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step in terms of defining digital business models, where data is being taken from our products, where these data are getting analyzed, obviously, through software and artificial intelligence, in order to get conclusions drawn out of this. Either in the monitoring space, or in the predictive maintenance where one predicts from the data, when, for example, a door is going to fail, when a brake needs to be maintained, how a driver should be driving either a train or a truck in both fields. So we have examples here. And this is obviously all products that are being implemented via software. And how is the monetization going to work? It depends on the product. It is either part of a system or it can be part of a continuous contract. In the case of predictive maintenance, or condition, monitoring, just depends on the use case where the software is being applied.

### **00:07:40 Akash Gupta**

Thank you. And my second question is on leverage. So at the time of IPO, have you provided leverage below one times EBITDA? I was just wondering there was no mention of this target in today's presentation, so is this target still on the table? Or any thought on that?

### **00:07:59 Frank Markus Weber**

Akash, thanks. You're right. It was not mentioned in the presentation. We do still hold true to this statement. When it comes to the net debt to EBITDA ratio, we think that we have enough leverage and headroom and flexibility as well going into the future with below one. That's absolutely right. Akash, it holds true.

### **00:08:37 Gael de Bray (Deutsche Bank)**

Thanks very much for the time. Good afternoon, everybody. The first question is in relation to CVS; you mentioned slide 14, it changing in tier one supplier landscape. So could you talk a bit about the competitive dynamics for CVS? And specifically could you indicate the kind of price pressure assumption that is embedded in the growth guidance by 2025? This is question number one. Question number two is about RVS. If I take the revenue targets of between 4.2 and 4.5 billion, it implies a revenue growth of between 6 and 7% per annum over the next four years. And with China expected to be flat, it means you need to deliver growth of between 7 and 9% in Europe and North America. So I'm just wondering what's driving such confidence in RVS market growth dynamics. Thank you.

### **00:09:47 Frank Markus Weber**

Right, so CVS the competitive landscape, there is obviously a situation that happened in the market a little while ago where two companies got together. And obviously a competitive landscape is getting more dynamic. There are also competitors in China that are coming up at low cost and competing with us. On the other side, we believe very strongly



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in our strategy, first of all, in the field of the current business where we are experiencing market share gains throughout the board, and I've presented that during my presentation. So we are very, very successful even in these difficult and increasingly competitive landscape situations. And we further intend to grow that shows you the outperformance that we are aiming for in the market. In RVS, there is the situation that indeed the market is going to grow by roughly 4% past COVID. So there's going to be an extra growth that after the pandemic will be over we expect in the markets to happen before then a normalized growth of 2 to 3% is going to apply again. And we intend to outperform this by roughly two percentage points. And that's obviously something that we would like to do and we are aiming to do by increasing our market share existing portfolio that predominantly in the areas where our market shares is less today, that's doors, it's A track, but over and above that in those additional fields of digitalization, digital services, automation and sustainability related products as well. So, we are very comfortable. These are ambitious targets on the one hand, but on the other side, we are confident that we are going to achieve this.

### **00:11:59 Gael de Bray**

Can I just follow up on this point about market share gains RVS. So you said about two points per annum. In brake systems with the global market share of about 50% you already have and with the competitive dynamic in China being pretty tough still, I guess, it does imply right that most of the market share gains will be in the rest of the portfolio indeed, but then that would imply for those edge backed systems and the likes market share gains probably around, you know three to five points. Or am I wrong in this analysis?

### **00:12:40 Frank Markus Weber**

So we said in my presentation, if you just refer to my presentation here, that it's one to two percentage points above the market. The market is going to grow 4% So that gives you the range that we foresee and forecast and we are aiming for. And it is absolutely right, the increase of market shares in areas where the market share is already quite high is certainly difficult to make and to implement. So therefore growth activities will mainly go into the two fields that I said before, first of all A-track and the doors were our market shares less compared to today. For example, TCMS and others. There, we also have market shares that can still grow. And then we go into these fields that I talked about that will be growth fields for us. And where we can increase the share in the market from all sides quite substantially. So these are the additional growth areas that we're going to tackle.

### **00:13:48 Gael de Bray**

Okay, thanks very much and I will get back in the queue.



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### **00:14:00 Vivek Midha (Citi)**

Thank you very much, everyone. Good afternoon. So I just had one question on the midterm outlook in the margin targets; the highlighted in the waterfall chart, continued press from supply chains, and you highlighted that there's limited space and when that reverts. So my question is, what exactly are the scenarios embedded in the midterm margin targets? Should we think that at the lower end, we have very limited improvement by 2025? How should we think about the different sensitivities within the brain? Thank you.

### **00:14:40 Frank Markus Weber**

Vivek, thank you very much. I mean, we do think first of all, having to say this, that our guidance is a realistic one. We don't think it's a kind of setback one or a too aggressive one. We see plenty of effects coming up into the future, I did elaborate, you're fully right in regards to the supply chain constraints, I think and we all do think that they will linger on for quite some time, at least throughout the whole year 2022. That is what we currently see, with all those effects on the cost side as well. Naturally spoken, some of the extra costs that we have been facing right now will somehow go away just due to the nature of the thing, for example, looking at the semiconductors that we are purchasing on the broker side, this will somehow naturally come to an end. But I think with all those market support that we will be having, except for maybe China, there are on the rail side, and then also the Chinese TPR on the truck side, we are having quite a lot of supportive effects that we will be facing. Needless to say, we have our countermeasures in place. Also, we are proactively counter-steering to whatever cost increases come ahead out of inflation's as the typical fall of a cyclical company. So I strongly believe that what we have given you is a realistic kind of guidance in regards to the top line as well as the bottom line.

### **00:16:28 Vivek Midha**

That's helpful. Thank you.

### **00:16:48 William Mackie (Kepler Chevreux)**

Good afternoon, everybody. Thank you for the time. My first question relates to the strategy to expand your technological capabilities and market positions utilizing an inorganic pathway or partnership route. Could you please provide more detail on the types of partnerships and the methods of expanding your partnerships to benefit the overall technical or market positions of the group, and also the processes that you've adopted to build the m&a pipeline, and where you see the greatest opportunity around that pipeline?



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### 00:17:34 Dr. Jan Michael Mrosik

Alright, thank you very much, William, for this question. So first of all, I would like to also emphasize that a lot of these activities towards new businesses and new business models will also be of organic nature. So it's not that everything is going to be m&a, but what we are going to do is on the basis of what we are organically doing, we are also looking into options and opportunities to further enhance our capabilities. And that can be for example, with bolt-on acquisitions. Partnerships, the partnerships that we are currently embarking on and that have been in existence for quite a while, are for example, in the field of automated driving, and driver assistance systems, where we are working together with Continental. We provide the steering, braking, and in the future in highly automated driving also the truck motion control and all the kinds of stability programs and vehicle dynamics competence as an overall package into either the ADA systems and into a highly automated driving. In ADAs we are a full systems supplier, for example, for emergency braking, for lane keeping, and for other kinds of kind of driving assistance systems, where Continental gives us the sensors and we provide the software and all the functionalities in the actuation space that I've been talking about. In the future for highly automated driving, it's going to be different. We're absolutely convinced that consortia will be formed in order to provide overall highly automated driving solutions. Highly automated driving consists of the perception layer, the decision layer, and the actuation layer. KB will focus on the actuation layer, decision layer and extract motion control right in between. The decision layer will come from specific and specialized companies that are active in the artificial intelligence field, the high performance computing platform will come, in this case, in our case from Continental as a partner, and also the perception layer will come from Continental as a partner. And therefore we are going to be able to provide either the actuation layer as such as KB overall in its entirety, or with partners, either the perception and the actuation, or even the decision layer in between. So that's the kind of partnership approach that we're taking in CVS. And in RVS there are companies that we invested in like Rail Vision, Rail Nova that we took a share in that are contributing their technologies into our digital solutions. So there's this own development, and also then a kind of a partnership approach. Because in these very complex environments, one needs to work together in order to provide overall solutions.

### 00:20:59 Frank Markus Weber

Jan, if you allow, William, I think you asked in addition to our process now in regards to how we come up with respective m&a targets. I mean, our headquarter is significantly below 150 people, we have a small strategy department. So basically coming to the point, our m&a processes are bottom up driven, basically the pipeline consists of all the proposals that are coming up from the bottom up perspective to group level, it is nothing basically that's coming from the top down perspective. So I think that's maybe also important to understand. So basically, there where the people are located in the markets, where they know their customers, where they know the business, they basically bring up the respective potential targets. I also understood from Andreas that Gail, we missed out on one remark that you had in regards to the CVS pricing pressures year over a year, and how that is baked in the guidance. Needless to say, it's of course to the best of our knowledge baked in. It's part of the industry, part of the supply business, that you have these kinds of annual OEMs trying to save some money on the procurement side. We are working on that with countermeasures each and every year for decades. So this is nothing new for this company. And to the best of our



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knowledge, what's going on in the industry what Jan just outlined, we are of course baking that in on the revenue side, as well as on the respective profitability impact side.

### 00:22:39 William Mackie

Thank you. Can I ask my second question, please? Which would build on, well, some of the questions Gail asked, actually, but could we just go back to China? And can you perhaps step through, specifically your working assumptions around China's outlook within RVS with respect to the progression on the OE side, and also the evolution of the long awaited pickup in the aftermarket side of the business over the forecast or the strategic period to 25? Thank you very much.

### 00:23:23 Dr. Jan Michael Mrosik

Yes, as far as the China market is concerned, we believe that in the medium term until 2025, the markets on the RVS OE side will decline very slowly. So it's almost kind of flatlining with a soft tendency. That's what I would call it. And this is due to the fact that the Chinese government has decided to put in kind of a consolidation step right now. There has been exorbitant build-outs on both the high-speed as well as the Metro side in the last couple of years. And this is going to kind of normalize now to consolidate and optimize the use of assets in the Chinese rail and Metro environment. Having that in mind, there's also the autonomous policy that to some extent is going to kick in. The countermeasures of what we're doing here are also quite clear, localization, decentralization in order to be close to the customers. And we see in a nutshell that Metro is rather going to consolidate right now we see opportunities on the high speed side and we see opportunities indoors in A track and other systems where our market share is today not that high. And we see particularly an opportunity in the aftermarkets, because the installed base is increasing and therefore over time aftermarket and service requirements are going to increase. And we're going to tackle these while these decentralization and localization efforts to be close to the customer. And that's why we believe in the medium term our turnover and our volume in China is going to be flatlining and going to - as a result of all these different elements and market influences - stay stable.

### 00:25:32 Iris Zheng (Credit Suisse)

Great, good afternoon, everyone. And thank you for taking my questions. My first question is around the r&d expense. Now, if I compare the new guidance versus 6 to 7% to versus the previous guidance, which was at 5 to 6%. So it's just now arguably a bit higher [absolutely indecipherable 25:58] guidance scheme but I still wish to get some understanding around maybe, which are the areas that you feel now that might be worth more r&d spend needed than maybe





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previously expected by the previous management team. And also, if you could give a bit color on the allocation of the r&d budget between the two divisions. Thank you.

### 00:26:24 Dr. Jan Michael Mrosik

Yes, I would like to give some key points first, before then Frank is going to step in there in order to go into the details. r&d increase is mainly caused by the fact that we're moving into these new fields in digitalization, in automation, and in sustainability. And this both in Rail and Truck and these new fields need investments, where we need to get the new technologies on board now in order to implement them into the products that that we would like to grow with then in that wave that I've been describing. And secondly, r&d is also associated, at least adaptive r&d, with customer contracts. And the more we grow in specific business, and the more we capture contracts with customers, the more we also have to spend and invest into adaptive kinds of developments for these customers. And let me give you an example. We just recently won a tender on the electric power steering side, where customers in a short period of time wishes to implement this into his product on the CVS side. And for this, we need to do an accelerated development, just one example where we are very successful. But we need to also fulfill these requirements now and get therefore r&d going.

### 00:27:56 Frank Markus Weber

Jan, basically everything is answered. I mean, the only thing that is somehow left is I would say in rather 60% CVS side and 40% RVS side if you talk about the split, so to speak, between the two divisions that we're having, and that's valid as of today, and we don't see a significant change moving into the future. That's fine. Iris.

### 00:28:28 Iris Zheng

That was very helpful. And thank you. And if I could follow up with a second question, kind of still touching on the China real market. And it's very clear that you've mentioned maybe expect the market to be rather flattish or maybe slightly down in the midterm. And then could you touch a bit on the market share side? And I mean, because you've already gone through a very significant period of market share once because of the autonomous policy? And do you expect further pressure on the market share going into 2025 from the current spaces? Maybe because of the further kind of localization required by the Chinese government, and also kind of is it only on the OEM side? What's about the aftermarket? Do you see any challenges to the aftermarket side as well? Thank you.

### 00:29:18 Dr. Jan Michael Mrosik

Yes, Iris, thank you. That's also a very important question. I would like to highlight that in the past, our market share in high speed used to be very, very high. And then over time, through decisions within China the market share there went



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down in the OE business aftermarket, the installed base is still there, and therefore we're benefiting from the aftermarket business here. But at the same time, we've been increasing our market share quite strongly in the metro field as the metro market grew and we established a very solid position there as a supplier. And therefore, all in all, I would say there was a strong growth momentum in China also, combined with market share increases, but structurally it changed. What is this going to look like in the future? We think that in the OE markets in Metro there might be a kind of headwind that we are going to face. But on the other side, we see in general, in those in A track opportunities going forward, and as well in the aftermarket, where our installed base is going to grow with each and every contract. And where we believe that will result in this kind of stable turn over development that we are going to see in the future. And as far as Metro and high-speed is concerned, there's totally different market dynamics. You can imagine high speed as one very big project, gigantic project in China, where very centralized decisions are being taken. In Metro, it's different. There the local authorities, the cities are deciding what kind of system they want to employ and what kinds of systems they want to use. And therefore, we believe that the market there will be more resilient, that we'll have more opportunities there; it's not going to happen like in the high-speed case that very suddenly the situation will change dramatically. And that's why we come to the assumption that this market will be more resilient for us and therefore all in all, we are going to see a stable turnover and top line development in China going forward.

### 00:31:53 Operator

Okay, we now conclude our first Q&A session and look forward to the divisional presentation.