Transcription

Preliminary FY20 Results

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PRESENTATION

00:00:00 Andreas Spitzauer

My name is Andreas Spitzauer and I'm Head of Investor Relations of Knorr-Bremse. I want to welcome you to KB's webcast and conference call for the full year preliminary results for 2020. The webcast, as well as the conference call, will be recorded and are later available on our home page, 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 Dr. Jan-Michael Mrosik, our CEO, and Frank Markus Weber, our CFO. Please go ahead Dr. Mrosik.

00:00:45 Dr. Jan Mrosik

Thank you, Andreas. Before I start with the formal presentation today, I would first like to talk about a tragic incident that happened last week. With the deepest sadness we have to inform you that Mr. Heinz Hermann Thiele passed away unexpectedly at the age of 79, surrounded by his family last week. He was one of the greatest industrial leaders in Germany, dedicating his entire life to the service of our company with tireless personal commitment. He always set highest standards for himself as well as for his employees. As a farsighted entrepreneur, Heinz Hermann Thiele had already placed the management of the company in the hands of external managers almost 15 years ago. A further step towards securing the future of Knorr-Bremse was the IPO in 2018. Mr. Thiele always combined entrepreneurial and personal success with social responsibility. We will continue Knorr-Bremse AG's successful growth path in the spirit of Mr. Thiele. Our deepest sympathy and sincere condolences go to his family.

Dear Ladies and Gentlemen let me continue now with the presentation. My name is Jan Mrosik and I warmly welcome you to our conference call for our preliminary results of 2020. I highly appreciate you joining us today and hope that you and your families remain healthy and safe. This conference call is special for me as I'm speaking to you for the first time as the new CEO of Knorr-Bremse. Today's call is made up of three parts. First, I'd like to introduce myself and want to present the highlights of last year, then my colleague, CFO Frank Markus Weber, will present the details of last year's financial results, including the guidance for 2021. And finally, I would like to share with you my first impressions of Knorr-Bremse and the top priorities of the executive team. Afterwards, we look forward to your questions and comments.

Before I start with the highlights of 2020, I would like to say a few words about our employees at Knorr-Bremse. The whole executive board is very proud of the strong engagement, motivation, and execution by the team in the past challenging year. Everyone remains very focused and is highly committed to serve our customers and Knorr-Bremse as a company. We think that this is outstanding and worth mentioning. However, health and safety of our colleagues, our customers and business partners has been and will be our number one priority at Knorr-Bremse and our guiding principle.

So now let me introduce myself, I've been CEO of Knorr-Bremse AG since January 1, 2021. I'm 56 years old and I've recently moved to Munich with my wife and our two children. I studied electrical engineering at RWTH Aachen and also got my Ph.D. in the subject of electrical engineering. Moreover, I studied Business Administration to complete my university education. For more than 20 years, I've held various management positions at Siemens. Most recently, I was chief operating officer in the Digital Industries Division, which employs 76,000 people, generating an annual turnover of around 16 billion euros. When I look back on my professional career, I can say that it was often characterized by managing complex international businesses with a focus on digitalization. In the past, I've had a lot of contacts already with customers of Knorr-Bremse. Electrification of rail networks, software management of energy networks for rail operators, automation of production lines for automotive and truck manufacturers, and digitalization of product lifecycle management. These are valuable experiences that I now bring to Knorr-Bremse. Out of my perspective, Knorr-Bremse is a very exceptional, innovative, and global company with a consistently successful track record and an amazing technology portfolio well positioned for the global megatrends. The whole management team has been a great support in helping me during my onboarding at Knorr-Bremse so far. As CEO and chairman of the executive board, I'm looking forward to representing Knorr-Bremse to all our stakeholders, customers, employees, investors, press and the public in general. My key responsibilities inside Knorr-Bremse are strategy, HR, IT, Audit, Communications, Digitalization, as well as Marketing. I have completed eight weeks at Knorr-Bremse today and have been able to get a very good introduction into numerous exciting projects. I have found highly committed and very technology-oriented teams in various centers of competence where we manage our different technologies at Knorr-Bremse.

Let me start with the group's full year highlights of 2020 on chart 4, allow me to walk you through the most interesting events and activities at group level. Corporate Governance is a very important topic at Knorr-Bremse. Last year, we were able to make further improvements in this area and, for example, were able to gain some strong additions to our supervisory board. Dr. Weimer, CEO of Deutsche Börse, is one of the most reputable advocates of the capital market in Germany. He will support us in our cultural development as a listed company. As CEO of Airbus, Tom Enders led one of the world's most global companies, and he brings extensive industrial experience to the table. Business expansion last year: In order to benefit from the global megatrends, immobility and autonomous driving, we have expanded our truck business by the acquisition of R.H. Sheppard in the United States last June. This was the next step in becoming a global supplier of commercial vehicle steering systems. In addition, we have paved the way to become a global system supplier of integrated steering and braking systems at the same time. This will be the basis for further driver assistance and highly automated driving systems following the acquisition of the Hitachi steering business in early 2019.

Let me continue with chart 5 and the highlights of our rail division in 2020. RVS won major international contracts in this year. Siemens, for example, awarded us a large contract for entrance systems of 94 underground trains in London. In April 2020, at the peak of the first pandemic wave, we received an order from the Russian train manufacturer Transmashholding in Egypt for brake systems with a volume in the mid-double digit million euro range. By year end 2022, we will equip a total of around 1300 passenger cars in this populous country. Knorr-Bremse also announced in April 2020 to supply Siemens Mobility with braking entrance and HVAC systems, windscreen wipers and power electrics for 13 high speed trains in Russia. The Velaro Russia trains require very high quality components due to difficult weather conditions, which we are able to deliver. Together with the Israeli startup Rail Vision, we will equip multiple shunting locomotives with a remote controlled maneuvering system for obstacle detection. After successfully completing the prototype tests at the end of the first quarter of 2021, we are examining further business opportunities for integrating the systems into rail freight vehicles. This is a good example of the high focus of Knorr-Bremse in terms of innovation.

As we have almost completed quarter 1 2021, let me say a few words about recent order wins. In January 2021, our rail division announced that it will equip 23 high speed ECX trains of Talgo with brakes, door and A track systems, which will be operated by Deutsche Bahn. Additionally, as announced today, Knorr-Bremse was able to secure a major order to equip more than 600 new subway cars for the Berliner Verkehrsbetriebe, BBG, in collaboration with Stadler Rail. We will deliver again breaks, door and A track systems, in addition, our rail division will be responsible for spare parts supply and digital maintenance services for more than 32 years. Let me proceed to chart 6 with the highlights of our commercial vehicle division in 2020.

In November 2020, Knorr-Bremse and Schmitz Cargobull signed a multi-year supply agreement for trailer brake and chassis Control Solutions. This underlines our long-standing partnership in terms of future technologies as the order covers the next generation trailer EBS, a new universal Trailer HMI.

In order to meet the strong demand in China, the truck division expanded manufacturing capacities in China. We are market leader there, and by building a new plant, we continue the strategic cooperation on automated manual transmission, advanced driver assistance and highly automated driving with (inaudible 12:10). With a new retrofittable turning assistance introduced, Knorr-Bremse aims to increase safety for all road users and reduce situations with the high risk of accidents. Profleet Assist Plus combines proven technology from Mobile Eye with Knorr-Bremse's knowhow in the development of safety critical products for major OEM and aftermarket customers.

I would also like to mention the expansion of our compressor product portfolio with regard to eMobility. This vein compressor technology called Rotary Vein is scalable to variable e-truck air requirements. As a young, listed company on the capital market, it is particularly important for Knorr-Bremse to continuously increase the confidence of our shareholders. Accordingly, it is important to keep promises. At the IPO, we highlighted two important cornerstones of our equity story or why investors should have confidence in our business model. Growing faster than the respective markets and high resilience of profitability. We were able to prove both topics last year. Knorr-Bremse gained market share during crisis and reached a strong EBITDA margin of 18 percent. Last year, effective countermeasures were implemented to fight the Covid 19 pandemic, and these measures have fulfilled the expected goals, namely, to safeguard the margins and the business development in both divisions. The high focus on cash and cash conversion rate has paid off as well. We achieved a free cash flow of 729 million euro and a cash conversion rate of 137 percent.

On chart 8, I would like to give you an update on the impact of Covid 19 on both divisions. Knorr-Bremse is very closely monitoring the situation and is prepared to act quickly if necessary. Let me briefly summarize the situation. In the rail sector our suppliers have completely recovered from the crisis and we are not experiencing any shortage of components today. All plants of RVS are experiencing good capacity utilization and they are performing well. Rail operators are currently running fewer trains on the tracks, which is having a negative impact on service and sports business, but please let me emphasize on a few positive aspects that should not be forgotten here. Some rail operators report a train load factor of only 20 percent, but the number of trains on the tracks is still high, approximately 80 percent, as the availability of mobility is an essential task of governments and cities. Trains that run on tracks are returned to service after breaks must meet all regulatory obligations. Therefore, trains must be maintained regularly. Countries that have lower numbers of people newly infected with Covid, again see a significant improvement in train utilization.

Furthermore, we have signed an interesting framework agreement with Deutsche Bahn that addresses the opportunities related to condition based maintenance and the use of data in the field of aftermarket. Last but not least, there are no cancelations of contracts, but postponements and shifts of tenders are ongoing. This is a clear signal for us that future demand of rail mobility is unchanged, but still volatile at this moment. On the truck side, the market shows encouraging signs. Truck mileage has recovered, and truck demand is developing very strongly. In our own facilities, the Covid 19 related impacts are under control and all plants of CVS are reporting quite good capacity utilization. The issue in the truck segment is rather on the supply side. We are currently concerned about the noticeable shortage of semiconductor products and tighter supply of other components, which is having a negative impact on truck manufacturers production. At this point in time, we assume that these shortages will not lead to a reversal of the positive momentum in the industry, but growth rates should be definitely lower.

Let me continue with an overview of the market's development on chart 9. Overall, we see ongoing good market recovery both in the rail, but even more so in the truck industry. Major rail markets in Europe and APAC have further recovered, even though pre Covid-19 levels in some segments have not yet been reached again. We have not faced any cancellations of projects, but many projects are still subject to shifts and postponements. This ongoing trend will also have an impact, for example, on order intake in the individual quarters in 2021, especially in quarter 1. Frank will go into more details later. The North American freight and transit markets are still heavily impacted, and projects are still subject to delays. Please keep in mind that RVS topline depends only 10 percent on the North American market. So what do we expect by year end for our rail division? Market development in the OE segment should be generally positive and in the AM segment stable, depending on the development of the Covid 19 pandemic. Our positive assessment regarding the e-business is also reflected by our customers, the rail OEMs, which expects growing order intakes in the coming months. Overall, we expect the OE business of RVS to increase more strongly than the AM business in 2021. The key sales markets of our truck division in Europe and North America have recovered significantly from the lows and are still showing continuous improvement. The Chinese truck market remains a class of its own with a very strong market development supported by good underlying demand and pull-in effects from 2021 into 2020. In 2021, this will lead to a pullback in market demand, especially driven by the introduction of the new emission standard CN6 in the second half, and safety standards like electronic brake systems for trucks loading dangerous goods.

Japan and India further recovered on a good level. The main drivers for the aftermarket business will be the development of mileage of trucks in the inventory situation of workshops, the development of the global truck production rate until year and 2021 will depend heavily on how the shortage on the supply side will develop. In general, however, we expect a positive trend, especially in Europe and North America. Furthermore, the ongoing Covid-19 pandemic continues to create uncertainty, and it can still lead to additional restrictions that could impact us, our business partners and our customers.

Innovation is the major cornerstone for every company to successfully manage the future. On chart 10 I put together some examples for innovative products and systems at KB. Overall, we kept our spending on research and development at a constant level in absolute terms in 2020, investing around 400 million euros. In 2020, we focused, for example, on the following R&D activities: In the rail business, our innovative EP 2002 3.0 brake control system enables precise braking and is a basic prerequisite for smooth train operation. Our A-track systems support passenger safety on trains through intelligent air distribution, as well as filter and purification systems. Here we use, for example, high intensity UV radiation in the air flow to kill viruses and bacteria. In our truck business, the latest generation of global scalable brake control GSPC seat is the successor to our well-known ABS and EBS solutions. To prepare our truck division for the coming generations of e-vehicles, we have launched the group's internal incubator as an agile think tank. With this, I would like to hand over to my colleague, Frank Weber.

00:22:21 Frank Weber

Thank you, Jan. And a warm welcome from my side as well. Thank you for joining us today. I would like to echo Jan's thoughts and especially express my deepest condolences to the family of Heinz Hermann Thiele. Let us get into the numbers now, first with a look at the overall full year performance before we later look deeper into Q4 of 2020. But before I start doing so, let me express my utmost appreciation to all the great colleagues at KB around the world who worked with their full dedication in order to master such an extraordinary year for KB as well. They are all the foundation of what we can see here in terms of facts and figures. Considering the economic environment being strongly impacted by the pandemic around the world last year, KB's overall performance and resilience has been extraordinary. The numbers confirm the high-performance culture and the special robustness of our business model. Nevertheless, KB was not fully immune to the negative impact caused by the pandemic, even though to a significantly lesser extent than compared with other companies in the industrial sector. Order intake was down by almost 9 percent to 6.4 billion euro. The order book, on the other hand, grew once again by 6 percent to record heights of almost 5 billion euro, a very solid basis for the current fiscal year.

Despite the 11 percent decline in revenue in 2020, we achieved an EBITDA margin of 18 percent. Significant cash preservation measures led to a strong free cash flow of 729 million euro and a cash conversion rate of 137 percent, which is of course, not sustainable, but a very welcome contribution within the crisis. Let us proceed on chart 12 and have a look at the guidance 2020, despite the challenging environment driven by the pandemic we kept our promises and achieved our revenue and profitability guidance for 2020. Last year, we were one of the first companies to come out with a quantitative guidance again in summer. With better visibility around Covid-19 impacts in July, we provided a guidance for topline and EBITDA margin. In September, together with the Q2 results, we were able to narrow down the guideline ranges and could confirm reaching the upper end in November at our Q3 results calls. With revenues of 6.16 billion euro, we have reached the upper end. Due to our quick reaction and implementation of countermeasures at the start of the pandemic, we were able to safeguard our margins at a high level. We over-fulfilled the margin guidance of 16.5 to 17.5 percent, with a group margin of 18 percent in 2020. Other KPIs are also in line or slightly above market expectations, such as group order backlog of 4.98 billion Euro, EBIT margin at 13.2 percent, net income of around 532 million euro and earnings per share stand at 307 euro.

Let me give you a short overview about the development of KB'S balance sheet KPI's on a full year basis before diving into the details of the fourth quarter results. Considering the uncertain economic environment last year, it was very important for KB to maintain a high level of stability and flexibility in terms of our liquidity position. We were able to increase the liquidity by almost 25 percent to overall 2.3 billion euro. In this respect KB also launched a 3 billion euro debt issuance program in order to increase the financial flexibility quickly if needed. At the beginning of the pandemic, we drew credit lines of 750 million in April 2020. Due to the good development of our cash flow during the year 2020, we were able to pay back 250 million euros of the credit line already last October. And in addition, 150 million euro just last month.

Next month, we will be repaying the remaining 350 million euro. In all our efforts, we try to maintain a healthy level of equity, which stands at 1.92 billion euro and represents a relatively stable equity ratio of 26 percent. Despite the credit drawn credit lines I have just mentioned, which were extending the balance sheet. The strong resilience of our balance sheet and the good development of our business activities are also confirmed by the rating agencies. Moody's, for example, rates us at A2 and Standard and Poor's at A; both just recently confirmed their ratings.

Let's continue on chart 14. We initiated a CapEx management program in 2020 and we prioritize and monitor our ongoing spending very closely. In the third and fourth quarter 2020 we realized first effects from these measures, but with a clear focus to safeguard our position as innovation and quality leader in the respective markets. Accordingly, investments in absolute terms still slightly increased compared to the previous year in relation to sales investments reached 5.6 percent. I would like to mention here a few examples of our investments in future growth technology. We expanded the capacity for air-disk brakes in North America. We developed software applications further, we expanded our global steering business and continued to invest what's necessary in technology and innovation. Networking capital at the end of last year showed the decrease to 746 million euro after 809 million at the end of the previous year. In the first three quarters of last year, we had a significant buildup of working capital to ensure the ability to supply our customers. Our corporate policy customer first is very important to us and has been a cornerstone of our business success for decades. Accordingly, we have kept a higher level of inventory to support our customers and suppliers in these difficult times by avoiding a potential disruption of their supply chains and liquidity. In this respect, we granted longer payment terms for customers, too. As a consequence, we also accepted a higher level of working capital throughout the year.

In Q4, we significantly reduced our networking capital by lowering the accounts receivables and inventories and also worked on the payables. At the same time, we reduced CapEx, R&D cost and achieved lower tax payments overall. In addition, networking capital benefited from the improved operating results of the fourth quarter as well. In the current fiscal year, we expect that networking capital should be higher again, also due to the impact of sales growth going forward. Annualized operating ROCE, return on capital employed, was impacted by both lower EBIT and increased working capital, but is still at 26 percent well above most other companies in the capital goods sector.

Let me continue with our free cash flow on chart 15. The free cash flow in 2020 reached 729 million euro, which is 9 percent higher compared to 2019, when excluding the nonorganic one-time effects of the sale and leaseback transaction in Q4 of 2019. Consequently, the cash conversion rate defined with us as free cash flow divided by profit after tax reached a very high level of 137 percent. The main drivers were the effects on net working capital just mentioned. However, our strict management with regard to investments, R&D expenditures as well as lower tax payments and the good quality of earnings also contributed positively to this development. Due to the targeted sales growth and the increased networking capital in 2021, as mentioned before, an impact from higher tax payments, we expect that the net cash conversion rate will be below 100 percent in the current fiscal year.

In order to maintain our market leadership, which is based on technological innovation and quality, it is very important for us to keep investing in research and development. During Covid-19, when we saw that some customers pushed several R&D projects, we slowed down our investments in H1 one accordingly. Due to the recovery of the market sentiment overall, demand in the field of innovation by our customers increased again. As a result, we brought the R&D investments to a higher level in H2 and kept R&D in absolute terms at the same level overall, like in 2019. In the 2020 financial year, 396 million Euro 6.4 percent of sales were invested in our research and development activities at group level, the target R&D ratio of 5 to 6 percent of revenues has not changed and will be focused on going forward. At the start of the crisis, we quickly implemented countermeasures and a stringent cost program, which included strictly managing headcount in 2020. Despite employees added through acquisitions. Last year, we were able to generate our sales and profits with even fewer employees than previous year on average. KB is highly flexible in terms of its workforce. We reduced the overall number of employees in 2020, but we rehired new staff when the economic recovery set in again in H2 therefore we are now also in a position to have sufficient personnel capacities to cope with the good demand going forward.

Let me continue on chart 17. I would like to give you an overview about our ESG activities at KB and our progress last year as this is one of our major strategic cornerstones for our group. Corporate sustainability means striving for economic, social and ecological goals equally and simultaneously. This is based on the foundation of a good corporate governance. We want to create lasting values of good working conditions and treat the environment and resources carefully. Our sustained efforts on ESG issues are also confirmed by our external ratings. We are rated by the major rating agencies and we are able to improve our ratings, in some cases significantly even compared to 2019. With our climate strategy we want to contribute to achieving the goals of the Paris Climate Agreement. Our climate strategy includes achieving the goal of being carbon neutral by the end of 2021 and having our CO_2 emissions by 2030 cut in half. In order to meet this decarbonization target KB is continuously working on improving the energy efficiency of our production, using more self-generated renewable energy and expanding purchasing of renewable energy as a whole. We have further pushed the measures of reaching the targets e.g. by placing solar photovoltaic systems on our plants in the US and in Hungary. We are fully on track to reach our goals for 2020. We have started to take on EcoDesign criteria for the prioritization of our innovation products in the R&D division in 2020. Our employees have the highest priority and we also strongly focus on their health and safety. As a result, we were able to further decrease the number of accidents to the lowest number ever recorded at Knorr-Bremse. Additionally, in order to increase sustainability across our supply chain, we are gradually rolling out our code of conduct for suppliers across our entire supplier base. As already mentioned in the Q3 conference call, we plan to anchor ESG targets in the management's compensation system as of 2022, as a sustainability is an important topic for us. Besides all these implemented measures and efforts, we truly believe environmentally friendly and efficient mobility is one of the greatest tasks of our future. We see rail and truck as mobility of the future for people and goods.

Let me continue with an overview of the financial highlights of the fourth quarter on chart 18. Order intake was strong at 2.1 billion euro on group level, and so was our order book reaching 5.0 billion euro. This provides a very solid foundation of visibility in the coming quarters. At 1.6 billion euro revenues only decreased by -4 percent, compared to the fourth quarter of last year, driven organically by both RVS and CVS, but also by FX headwinds. On a comparable level our EBITDA margin increased from 18.7 percent to 19.3 percent in quarter four 2020. If the nonorganic events, sale and leaseback, and additional effects for the closure of the site in Wülfrath back in those days are excluded, which is an apples to apples comparison. Free cash flow reached 560 million euro in the quarter due to the previous mentioned reasons. However, this high figure should not be expected as a sustainable level. Let me dive deeper into order intake and order book on chart 19. Order intake on group level in Q4 increased by 9 percent to 2.1 billion euro compared to the same period in the previous year. On an organic basis, the increase was even higher at around 12 percent. In general, the development of order intake in 2021 should be quite good, but we expect that quarter 1 should be rather a weaker quarter due to seasonality. I will go into this in more detail in the divisional part. Our book to bill ratio Q4 was positively impacted as well, reaching 1.33 versus 1.18 in the previous year's quarter. The development of order book at the end of the fourth quarter was also particularly pleasing as it increased by 6 percent to 4.98 billion euros. This level marks a new record in KB's history.

Let me continue with our revenue development on chart 20. In the quarter September to December of 2020, revenue on group level decreased by -4 percent or in absolute terms by -57 million euro to 1.57 billion euro. On an organic level, we saw better performance, organically the decline was only 2 percent. Just like in the quarters before the APAC region continued to develop particularly well and showed 2 percent growth on a year on year comparison, this region becomes more and more important for KB's top line and represents almost one third of our global business activities. Europe also continued its recovery, which started in Q3 already and was on a full year basis with -1 percent only slightly below previous year's levels. It still accounts for the lion's share of our total revenue, with share of around 45 percent. North America, which was hit hard by the Covid-19 crisis, recorded double digit sales decline in the fourth quarter year over year. But this decrease was significantly lower than in the first half of 2020. All in all, nevertheless, North America still stood at -14 percent compared to the previous quarter of 2019.

Let me continue with the development of our profitability on chart 21. In the fourth quarter of 2020, the group's EBITDA was at 303 million euro after 304 million euro in the previous year's quarter. Please keep in mind that this operating comparison of profitability excludes the onetime effects of the sale and leaseback transaction in the Q4 and additional extra costs related to the planned closure in Wülfrath. The EBITDA margin amounted to 19.3 percent after 18.7 percent in Q4 2019. This increase clearly shows the resilience of our business model.

The ongoing negative impact from the market environment could be overcompensated by strict cost measures implemented in both divisions and on group level. In the fourth quarter, we were already able to reduce some of the measures compared to other quarters, due to the fact that the demand situation recovered faster than expected in some segments. The aftermarket share remained relatively stable year over year at around 35 percent in the fourth quarter of 2020. In absolute figures aftermarket was also not immune to the effects of the pandemic and recorded a decrease of 7 percent to 553 million euro. This decrease was driven by both divisions, but predominantly by CBS. The group's EBIT of 222 million euro also only saw a slight decline of 15 million euro year over year, at 14.2 percent the EBIT margin was only slightly below the previous year's level of 14.6 percent.

Let's move on to the divisional view, starting with RVS on slide 22 in the fourth quarter of 2020 order intake of the rail division was at 1.1 billion euros, a decrease of 4 percent in total and only 2 percent on an organic basis. The improvement compared with a weaker third quarter of 2020 is remarkable and amounted to more than 350 million euros. RVS was able to win some larger contracts in the past quarter as some postponed orders from rail operators were placed. As mentioned before, contract awards in the rail industry are very difficult to put into a quarterly number, as they often last several months and even years. In 2021 we expect RVS to book significantly more orders in quarter 2 to quarter 4 than in the first quarter of the year. It might be that the quarter one could be the weakest quarter in 2021 regarding order intake and revenues. The development in China should have a negative impact at the beginning of the year due to shifts in the high speed segment and in the aftermarket business, because governmental restrictions around Chinese New Year slowed down passenger traffic significantly. In addition, we also see postponements of tenders in India, especially for coaches, the book to bill ratio in Q4 developed favorably as well as at 1.41 versus 1.32 on a year to year comparison. The order book also increased by 4 percent year over year and finished the year 2020 at 3.7 billion euros. This level provides a good visibility and is the basis for a solid revenue growth we expect overall for RVS in 2021.

I now move on to revenue and profitability for the rail division on chart 23. In the fourth quarter of 2020, RVS recorded revenues of 774 million euros, which is a decrease of - 11 percent year over year organically, - 8 percent. RVS recorded declining sales in both the OE and the aftermarket business in the fourth quarter year over year. Partly RVS faced some pull forward effects in the aftermarket segment from the second half of 2020 into the first half of the year. As a result, revenues in this segment in the fourth quarter of 2020 were overall around 4 percent below the previous year's figure. Please keep in mind, trains in service are more important than the pure ridership levels. But some operators have reduced the number of trains due to lower ridership numbers, the aftermarket business was affected by this trend in Q4 and in the full year. At a closer look, however, the regional development was encouraging. In Asia, where the Covid 19 effects and figures have decreased significantly in some cases, the aftermarket business has already developed positively again. Europe was predominantly affected by lower revenues from all vehicle types. Only OE sales of regional and commuter trains and freight costs increased in this period. The aftermarket business decreased slightly in Q4 2020 year over year, driven by the tense situation for rail operators.

APAC, including China, also declined overall in Q4 on a year over year basis. This was driven only by the OE-business aftermarket increase by 3 percent versus Q4 of 2019. China posted a positive development in the OE-business driven by Metro as well as in the aftermarket business. In North America we recorded an overall decline in both segments, OE and aftermarket. Freight improved slightly compared to the third quarter but was still well below last year's level. In 2021, overall, RVS revenues should grow solidly. This development should be supported predominantly by the OE business, due to the lead time between order intake and turnover of minimum six to nine months, we expect that revenue development in H2 2021 will be stronger than in H1, especially due to the expected slower development in the first quarter of the year. The profitability of RVS in the past quarter was certainly once more remarkable when considering the reduced topline. EBITDA of RVS came in at 196 million euro in the fourth quarter and was down only -6 percent compared with last year. The EBITDA margin increased from 24.2 percent to 25.3 percent, as well as the EBITDA Ebit margin, which went up from 20.7 to 21.3 percent. These margin improvements are based on the following topics. First, the Covid-19 countermeasures had a large impact on profitability in quarter four 2020, contributing roughly 16 million euros. Please keep in mind that the measures are predominantly of a short term nature. Second, the accretive aftermarket revenue share increased favorably and went up from 44 percent in the fourth quarter 2019 to 47 percent in the fourth quarter of 2020, basically led by a stronger decrease of OE sales in that period. Last but not least, the revenue share from accretive regions like Europe and APAC increased year over year. So a positive mix effect.

Let us continue with the development of our truck division on slide 24, incoming orders of CVS were exceptionally strong and one of the highlights in the fourth quarter of 2020 overall. At 992 million euros, the overall figure was 29 percent higher than in the previous year and in line with the organic development of plus 31 percent. This development is very pleasing after the severe negative impacts on demand through the Covid-19 crisis, especially in Europe and North America in the first half of the year 2020. Both regions benefited from catch up effects in the second half of 2020. Freight volumes of both industrial goods and consumer goods continue to grow in main markets also in the fourth quarter. The e-commerce trend among consumers has been further fueled by the Covid-19 pandemic, which drives freight volumes. Altogether this has led to increased freight rates and shortages in transport capacity, resulting in truck operators both replacing old trucks and expanding their fleets. In APAC, the development of order intake was again supported by China.

The underlying positive trend in China was additionally fueled by pull forward effects due to regulatory changes in 2021 and governmental stimulus programs in the context of the Blue Sky program. In terms of order intake in 2021, the development of CVS could be other way around compared to RVS. We assume that Q1 2021 could tend to be CVS's strongest quarter in terms of order intake and sales in 2021. In the following quarters, we do not expect the trend reversal, but driven by component shortages and other supplier and custom on the supplier and customer side, as well as a weaker truck production rate in China, definitely less positive development overall. The order book of our truck division amounted to 1.3 billion euro at the end of 2020, which is remarkably higher year over year. The order book level of CVS therefore has almost reached pre Covid levels. Book to bill was well above 1 in the fourth quarter.

Let's move on to slide 25. CVS posted 793 million euro in revenues for the fourth quarter, compared with last year's figure this is an increase of 5 percent. In Europe, top line developed positively compared to previous year's quarter, as well as compared to all prior quarters in the year 2020. In North America the revenue development was stable year over year. This was the best quarterly performance in 2020. The region was nevertheless still affected by the pandemic, but we saw a steady improvement in the general conditions. The APAC region posted revenue growth in the fourth quarter of 2020, plus 15 percent year over year and plus 22 percent versus quarter 3 of the same year, well-supported by China. The share of aftermarket sales decreased from 29 percent in the previous year to 24 percent, which is due to a strong OE business in that fourth quarter. In addition, the aftermarket revenue faced tougher comparables year over year because a strong recovery took place in the second half of 2019, after workshops optimized their inventory in the first half of 2019. In terms of revenue development and 2021, we expect CVS to have a stronger performance in H 1 than in H 2 in the fourth quarter 2020 CVS achieved an EBITDA of 121 million euro, which is 7 percent higher than the previous year.

The EBITDA margin amounted to 15.3 percent compared to an operating level of 14.9 percent a year ago. CVS has thus returned to late 2019 levels in terms of margins, also benefiting from the successfully implemented cost measures. In addition, better capacity utilization, coupled with a lower cost base, supported profitability in the last quarter.

Let's move to my last slide, probably one of the most interesting ones for most of you, our guidance for the year 2021. As always, the outlook for 2021 is under the disclaimer of a stable political and macroeconomic environment. No further setbacks driven by the Covid-19 pandemic and based on current FX rates. In addition, the shortage in the semiconductor sector should be kept in mind when looking at the outlook for 2021, as we expect that this topic will remain with us in the second half of the year 2021. But at this point in time, we assume that potentially lost production volume can be made up in the further course of 2021, driven by general capacity adjustments of the supplier base of the truck industry. Please note that we will focus more on EBIT regarding profitability guidance when moving towards 2022, in line with our capital good peers. To make the transition as easy as possible for you, we provide guidance for EBITDA and EBIT along in 2021. We expect revenues between 6.5 to 6.9 billion euros and EBITDA margin between 17.5 and 19 percent and an EBIT margin between 13 and 14.5 percent. In addition, we expect for Roce 25 to 30 percent, and we believe that head count should stay within the range of 29500 to 30500 employees. For the scope of days in regards to networking capital, our plans are 45 to 50 days and CapEx should be in the range between 5 and 6 percent of revenue. Thank you. I will now hand over to Jan.

00:55:50 Dr. Jan Mrosik

Thanks, Frank, and congratulations to you and the whole team for the excellent results last year. Let us move to Slide 27. As I've just started at KB and I'm still in my on-boarding process with the company, I would like to share my first insights with you. Knorr-Bremse is an outstanding company with a proven successful business model and impressive track record. The people at KB that I have met so far are characterized by a high-performance culture. They have a deeply rooted working mentality, and the company is highly entrepreneurial orientated. Rail and truck focused on the mega trains in both market segments. KB stands out for quality and innovation and is a strong partner to its customers. We develop products to increase safety and reduce emissions, by doing so, we support the global movement towards green mobility, and we are proud to be an important partner of this development. I don't think that our business model needs a revolution, but continuous development. We at Knorr-Bremse consider ourselves as part of change. Rail is the only transport mode which has reduced its emissions while increasing passenger and freight volumes. In addition, energy efficiency could be improved at the same time. Overall, rail accounts for 0.5 percent of transport greenhouse gas emissions versus civil aviation, which accounts for 14 percent and road transportation for 72 percent. The EU wants to become climate neutral by 2050 and reduce transport related greenhouse gas emissions by 90 percent. To achieve this goal, the European Commission has launched the green deal, which is to be implemented with an investment volume in higher three digit billion euro range. The rail industry is an important pillar of this initiative. For example, 2021 will be the Year of Rail in Europe. In the coming months, we expect more details regarding this green deal initiative. RVS will benefit from this goal in the coming years by selling systems, components and aftermarket products. Attractive new segments like digitalization are also a big opportunity within the rail market. Just five weeks ago, RVS and Deutsche Bahn signed a cooperation agreement on the intelligent use of train operating data. The agreement aims to facilitate condition based maintenance for rail vehicles with a view to optimizing maintenance and enabling database services. On the other hand, we see risks in China due to the autonomous policy. However, aftermarket business is developing well at 40 to 45 percent, the Chinese aftermarket revenue share is at the same level as in the rest of the world for RVS. Our Chinese customers trust us and rely on quality and innovations from KB, especially when hunting for tenders outside China. We've been successful with this strategy in the past and look to the future with optimism. Overall, we believe that the opportunities arising from the Green Deal in Europe and other stimulus programs are significantly bigger than potential risks in China.

Let me continue with my take on the truck division on chart 29. Overall, we expect content per vehicle to continue to grow, supported by new regulations and standards as well as new technologies. E-mobility and autonomously driving trucks are the big themes which will change the truck markets most in the next couple of years. Our biggest revenue drivers are on braking systems who will also continue to evolve but will not fundamentally change due to both teams. Friction breaking is and will be the most efficient way to break a truck. So the defense stands, and if I draw a parallel with a football team, I will then exactly come to that point. What could be additionally in it for CVS or how could the offense score additional goals? To answer this question, we founded the incubator, as mentioned before. We see great opportunities in the combination of brakes and steering systems and adapting our portfolio to the electrification of trucks. Accordingly, we have strengthened our position by acquiring R.H. Sheppard. The advantages are obvious. First, there are not many competitors who have both technologies combined in-house, and second, steering will make technological leaps forward in the next few years. Key words here are still steer by wire and torque overlay steering. But there are also challenges for CVS. We've already referred in detail to the shortage in the semiconductor sector today. In addition, we are monitoring the competitive situation very closely. Based on these first insights, I've summarized our top priorities we set as a team. Quality and innovation have been the foundation of our success in the past and should be in the future. We will not accept any compromises here. We continue to strengthen the cornerstones of our equity story or why investors should consider KB: growing stronger than both markets, profitable sales growth and strong free cash flow. We also want to further strengthen our corporate governance and make a contribution to a sustainable and green economic development on KVE group level.

I would like to finish my presentation with chart 31. KB is excellently positioned for the future. We have a strong management team, not just at the top level, engineers who are open to the future products and systems that are appreciated by our customers. We are the market leader in rail and truck, and we fight every day to defend these positions. In the Covid 19 crisis, we have proven that we have delivered on our promises of market outperformance and resilient profitability. We already have good corporate governance in place today and will further strengthen this important issue in the coming years. We are stable and focus on continuity, but we will never be boring, I promise you. With this, I would like to thank you very much for your attention. We will end the webcast now and start the Q&A session in a minute or two. Please make sure to register for the conference call to receive the dial-in details.

Q&A

01:05:47 Operator

OK, thank you very much. And we will now begin the question and answer session. If you have a question for our speakers please dial zero and one on your telephone keypad now to enter the queue. Once your name has been announced, you can ask the question. If you find your questions is answered before it is your turn to speak, you can go zero and 2 to cancel your question. If you are using speaker equipment today, please stop the handset before making your selection. One moment, please, for the first question. And we received the first question, it is from Ingo Schachel, Commerzbank, your line is open. Please go ahead.

01:06:31 Ingo Schachel (Commerzbank)

Jan, thanks very much for sharing the first impressions that you got with KB, very interesting points on digitalization products and we're looking forward to seeing the progress in these areas. One aspect which I think you have not yet touched on very intensively is really on culture and processes. I think at Siemens, you've been part of a journey during which Siemens became much cleaner, more agile, more international, more diverse, less bureaucratic and less centralized. At least that's the impression we got. I was just wondering whether KB reminds you of Siemens in any way regarding those cultural aspects and if, yes, of which one of the one at the beginning of your tenure at the end of the era?

01:07:20 Dr. Jan Mrosik

Yes, Ingo, thank you very much for that question. Indeed you're raising some very interesting points here. First of all, talking about digitalization. It is important to see that there are lots of opportunities here on the other side. We see lots of pockets of excellence where digitalization is already running and where lighthouse projects are being undertaken that we can see in factories, in areas where processes are being digitalized already, for example, the PLM process. But a holistic kind of program is something that we still need to put in place here in order to start a holistic digitalization transformation journey. That will take time and has to be defined first in order to move in the right direction. Talking about culture and processes, what I'm very impressed of is the very strong kind of performance oriented culture that KB has embedded in their genes almost. And this is really in each and every of the employees, it is blended with an entrepreneurial spirit and that stems from the way KB run. It's a rather decentralized company with lots of decentralized responsibility and P&L ownership that we find throughout the company in the specific regions. And this is so important because the business is very regional. So we have to pretty much, you know, build the solutions according to the requirements of the respective truck builders as much as the companies in the countries that build the trains and then put them into operation in specific regions. So it's kind of project business on the RVS side that we are undertaking. And this has been very, very successfully developed in a very profitable way. And this doesn't come without a respective culture and respective attitude towards topics. Talking about processes, this is probably something where we could, in some areas catch up and where there's room to maneuver. The point here is that KB has been developing through a lot of acquisitions and additional build ups of companies and is in fact, if you look deeply inside a conglomerate of different companies and I think there’s scope in terms of streamlining and standardizing processes that can then subsequently also be digitalized so that we have potential here, which is twofold for standardization and leanness of processes and then digitalization that helps us in that regard. If I look at the overall structure of KB and I don't want to draw a comparison to any other company here, but what I'm seeing here is a very, very lean approach where, you know, efficiency counts and this kind of attitude of being lean, of driving things with a clear business focus, I would say, is a very, very strong cultural aspect of KB.

01:10:43 Ingo Schachel

Of course, from a communication perspective, we probably also do not expect the step change, not a big holistic digitization program to be announced at one given dates this summer, but probably more gradual. Let they add on a gradual improvement of what you already perceive as quite strong core?

01:10:59 Dr. Jan Mrosik

Yes, which is from my experience, the right way to go in any case. So I'm not a big supporter of kickstarting huge programs that then start becoming very bureaucratic and, you know, at the end of the day, don't touch the bottom line. It is very important that carefully the right areas of digitalization, of improvement, of process streamlining are being defined. And one and then along the areas of best payback and along the areas of quick wins, you work yourself into the improvements and then work on it gradually rather than trying a big bang approach where you just confuse the whole company in terms of, you know, using the resources all of a sudden for digitalization, but then no one is available anymore to run the company. So that would be counterproductive. And that's why the careful and meaningful and sensible approach, I think, is of the essence.

01:11:58 Ingo Schachel

And if I may ask a quick question on KB holding and then it's probably quick because the answer is probably no. And of course, we absolutely share the sadness and sympathy that you've expressed in your opening remarks regarding the very sad passing of Mr. Thiele. But if I may ask, can you share with us what you already know about KB Holdings, or the parent company of KB Holdings' intention to do with the shareholdings? But what changes do you expect from the share register?

01:12:26 Dr. Jan Mrosik

Yes, you know, here you might appreciate, and you alluded to that already, that we don't have any transparency of what's happening in the private considerations of the Thiele family. The point that we just would like to make here is that we don't have any indication, as KB management today that the current stability in the shareholding will be, by any means disrupted. So there's no indication to this at this point.

01:13:09 Sven Weier (UBS)

Yes, good afternoon and thanks for taking my questions. The first one is for Dr. Mrosik, and it is also a strategic question regarding the development of the business areas. So first of all, obviously, in the last few years, KB had done quite a number of acquisitions to strengthen the truck business and what you talked about steering, for example. And so I was wondering strategically on the M&A side, what you think you still have to do, maybe on rail in terms of putting the business forward? Also with regard to digitization and what general M&A firepower do you see? Because it seems that the arbitration court ruling means that you have to buy out the Bosch JV, which could cost up to 380 million. So what's the firepower beyond that? That's the first one. Thank you.

01:14:08 Dr. Jan Mrosik

Let me start with the first part and then I'll hand over to Frank. So we see that, as you as you might appreciate looking into any kind of opportunity that might arise in our environment. But we have to see and look at two things in that regard. Whenever it comes to a consideration of acquisitions, it is very important for us that a potential target really fits KB. We need to make sure that appropriate synergies are being evaluated there in any case in order to justify such an investment. And therefore, you know, also this has to be in the core context of what KB is all about, making sure that it is just an to our existing portfolio and can become an integral part to this. Digitalization there we are certainly investing quite a bit in order to develop a digital business models and digital use, the usage of the data that our systems produce at this point in time. A break, for example, produces data and an A-track system produces data. A door produces data. All these systems are extremely sensitive to the availability of trains, and therefore it is just something that makes absolute sense to make this data available for preventative maintenance purposes in order to optimize, first of all, the maintenance cycles on the one hand, and to secondly do the maintenance cycles at a point in time that they just before a certain devices breaking going to take place. And therefore we would increase overall the availability of equipment. And that's what we're doing and that is what we're working on. And a very good example of this is the recent contract with Deutsche Bahn that I mentioned in my presentation where data is being made available to exactly optimize this topic of the operations of a train, which means the maintenance phase and maintenance cycles. With regard to firepower, Frank, do you want to make a comment?

01:16:40 Frank Weber

So you think I'm the right person to answer that? So thank you very much Sven for the question. I mean, you as well know that we have usually a pipeline of five to ten active M&A projects that we are dealing with. None of those five to ten that we currently have on the table is of this sheer size that it would potentially spoil our M&A firepower going forward that I will now relate to, as this was your question. But just that you know, like we discussed before, it is usually five to ten M&A topics, all in the fields of adjacencies, like Jan just mentioned, the revenue and the service side of the aftermarket of things, high profitability, software driven businesses, all those kinds of businesses are in focus when we think about M&A going forward. So as you know, our firepower and look at our balance sheet and in conjunction with the planning going forward, we do see a significant amount of firepower, which is beyond the 2 billion euro range. And this has basically, if you look at this dimension, has basically nothing to do with the starting point of your question, which is the Bosch 20 percent joint venture topic. And we would think that with our financial liability being booked at 379 million, this in regards to the sheer size that we potentially could continue to borrow in order to still keep industrial grade level at KB. If I take this as the theoretical ceiling kind of, I wouldn't move the needle in that regard. So it would be still be significantly above additional 2 billion euro that we would theoretically have. But as I said and that's why I gave this long answer to your precise question, we don't have currently an M&A target on the table, which would require us to think in that dimension and regard of extension of the balance sheet. But you are right, the Bosch arbitration court ruling reached us at the end of December and we now have to get into good faith discussions with Bosch in regards to negotiate on the price tag of the 20 percent shareholding. That is absolutely right.

01:19:27 Sven Weier

Thank you for that. The next question have is also another technological one, you were already referring that the friction brakes is here to stay. I was just wondering now, with the proliferation of e-trucks likely in the coming years, whether you don't think that the electromechanical braking discussions or the braking by wire is getting more momentum again? And I guess your competitor Haldex is quite aggressive on that, it seems. So I was just wondering if you have any new view on that very topic?

01:20:04 Dr. Jan Mrosik

Thank you very much for that question, which is obviously a very, very interesting one. With eTrucks coming in the next years - and I think this is rather a question whether they come sooner or later, not a question if - we will see changes, of course, in the different aggregates and systems on trucks. However, when it comes to precise braking and emergency braking or braking on the spot, there is no way around a friction brake. And therefore, we believe that on any kind of a truck drive train system will see friction brakes. However, we believe that at KB we have a very strong history already and a strong knowledge and track record to blend the different braking systems on a truck, which is the engine maybe a combustion engine with flaps today or in the future, an electric engine that will have braking functionality as well to blend it with the friction brake and other devices that will add to the braking system overall and optimize it overall, including recuperation. That's where we come from as KB. That's what we know about and that's what we are working on in order to also be prepared for the next generation of trucks. And by the way, in order to be prepared for this new generation of trucks, of eTrucks, we just founded an incubator or eCubator, as we call it at KB in order to generate these ideas of what kind of product needs to be transferred into the future, what has to be adapted, what kind of new devices do we need in order to also take on the role that we have in today's conventional trucks, also in the future of eTrucks. So we are in a good way there and we are very confident that will play a very, very important role in the future of eTrucks as well. And by the way, also electromechanical braking, that's something we are on today.

01:22:21 Sven Weier

Yes, thank you for that. And the final one also relates to Mr. Thiele and of course, we are all mourning regarding this sad incident. But I was just curious I mean you refer to the perceived stability on the family side as far as the shareholding is concerned. But I was also wondering, in terms of the day to day management of the company, the strategic setting of the company, of course, we all know that Mr. Thiele was quite influential on the strategy setting, I think was even active on a weekly basis still in the company and seeing clients sometimes. So how should we expect that to develop from here? I would assume your answer is also stability there. But just curious to hear your comments.

01:23:11 Dr. Jan Mrosik

The answer is, of course, stability, but let me expand a little bit on this. Mr. Thiele built this company almost from scratch some decades ago, and he was one of the most influential and also knowledgeable persons about the industrial segments of truck and rail. And therefore, a very, very important adviser is gone. And so he's someone who in his role as a vice chairman of the supervisory board and someone who was the majority owner, someone who was a close adviser to both the supervisory board as well as the managing board. He will be dearly missed in that regard. But on the other hand, he was a very wise individual by putting the company 15 years ago into the hands of an external management. And he was also together with the whole supervisory board, very instrumental in terms of selecting the people who are on the board today. And he followed the path there very well. Of course, all of this being run under the guidance, of Klaus Mangold, who is driving all of these processes. But he was certainly involved there. So he put together with the whole supervisory board, a team that is running the company now. And by the way, a supervisory board that is run by Klaus Mangold that was also strengthened last year with Mr. Enders and Mr. Weimar, who with their expertise also support the management board in terms of taking the right decisions and continuing the path that Mr. Thiele successfully defined and implemented in the last decades. I think, all in all, we are well prepared and well set up, despite the fact that certainly the passing away of Mr. Thiele is a heavy loss to the company, no doubt about that.

01:25:50 Ben Uglow (Morgan Stanley)

Oh, thank you, good afternoon, Jan, Frank, and Andreas, thank you for taking my questions. And can I just start with a little bit of help around the China business? Maybe this one is for Frank. And you very kindly talked about the EBITDA margin performance in the quarter. What I'm interested in is how things develop in that market over the next, say, one to two years, not necessarily what happens this quarter and in particular, can you talk a little bit about this shift in China from high speed to Metro? If I look at your order intake for last year and I think I think you said this on the call, I may be wrong, but basically we are seeing Metro being increasingly the dominant driver. First of all, does that have implications for your aftermarket margin going forward? And yes. And secondly, if I think about the China aftermarket overall this year, just in terms of the growth, should we still expect growth in China aftermarket rail I'm talking about. Sorry, overall. Thank you.

01:27:08 Dr. Jan Mrosik

Ben, thank you very much. I would like to start and then hand over to Frank. So the China market, what we are currently seeing is that indeed the main line business there, a lot of capacity additions have been done in the last couple of years. So that a lot of the build out, I would say the lion's share, probably, of the build out has already happened. There are still new lines being brought into operation, but this is to some extent tapering down right now. And it's exactly right what you're saying that the Metro business takes its dominant share right now and is the driving force in that market. Looking at the ridership and the question to what extent this influences the aftermarket business in China? You're absolutely spot on with your comment that obviously, at least in the first quarter, Chinese New Year and the prolongation of the shutdown of a couple of factories at this point in time, some of them are going to be closed even until these days on the OEM side and are going then to leave a dent in our business. And that's why Frank already made the remark that probably Q1 will be the one where we'll see some effects of Covid in our books. And we must not forget that even if Chinese New Year obviously took place in China, the big travel that usually happens at that time, and therefore the business in public transport has been dropping quite heavily because the travel was really discouraged this year and therefore the running of the trains did not happen, which obviously reduces wear and tear and will probably have some implications as well on the aftermarket development. Having said that and having made these general market remarks, I would like to hand over to Frank for the specific numbers.

01:29:20 Frank Weber

Thank you. And thanks for your question. I mean, in order to understand a little bit better where we are currently coming from, I think you have to understand the Q4 margin performance of rail. I mean, we have significantly benefited from, of course, the cost pressures that we implemented in the year 2020, which led also to an effect of 16 million that supported our margin significantly. Our aftermarket share was in the fourth quarter at 47 percent compared to a previous year's level of 44 percent only. So it's at a really good aftermarket level and also a good favorable mix we had on the revenue side with a good portion on the APAC and the European side versus the rest of the world. So that is somehow the starting point. I think several years ago, also in discussions with many of your colleagues, there was always the 45 percent of aftermarket share is the target mentioned. You see how strong we are currently or are already in China and in the APAC region with that kind of aftermarket share. So going forward, generally, it's clear that there is much more to lose than to gain, so to speak. And we have heard the market expectations going forward. We all know that. We know the autonomous policy with basically the political will kicking in over time. It's more of a headwind. We discussed that also several times than it is a tailwind that is pretty clear, I think KB is well experienced to deal with such a headwind. You remember the situation in 2015, 2016 when KB had market shares of more than 90 percent on the high speed train side and over a period of five years dramatically lost on that share, but at the same time was able due to a continuously growing market per se, to compensate for that, because in absolute terms, Chinese revenue and profitability figures have not been declining. And also with new contracts that we won, we were somehow able to compensate for that. So what does that mean? I would say going forward, yes. All these issues that you mentioned give us headwinds going forward. But we do see with all the orders on the OE side, we have won in the past, especially also we are strong on the Metro side with having nearly 40 percent of our revenues in the Metro business, there will be automatically coming additional aftermarket revenue potential and only 8 percent on the high speed side. There is still a potential there. And if you look at all the stimulus packages that are also ongoing in China. China still wants to expand its network on the non-high-speed side, increase the network towards 2035 by 25 percent, and want to double the high speed network towards 2035 by 100 percent. So all these things are a little bit arguments why we should still be able to not lose immediately certain aftermarket shares.

01:33:05 Ben Uglow

Understood that's a very helpful explanation, one to follow up for Jan, and I think it's similar to an earlier question. KB, if we look at it in terms of R&D expenditure and visit the facilities, et cetera, obviously it is at the forefront of innovation. The flip side, and I don't know how to put it politely, but it never struck me, maybe wrongly, as being at the forefront of what I would call automation. And when I think about the manufacturing processes within the company and I appreciate that there's a lot of assembly etc in there, can you see obvious things that could be done a little bit differently, dare I say, a little bit better, and that we could even see a sort of optimization benefit on the actual manufacturing side? I'm not thinking of necessarily designing software or anything like that. Just the way you do business can that be improved?

01:34:11 Dr. Jan Mrosik

Yes Ben, certainly any kind of business can be improved. There's always scope to be better than we are at that point in time. But that's a fairly general statement. So going into the details of what's probably behind your question. What is being done currently and where we have pilots and where I found activities in terms of digitalization is in specific lighthouse factories where IOT systems have already been connected to machines, where data is being extracted and where also optimization activities have been started in order to, you know, react on the content of these data. But as already during my presentation outlined, there is scope to start with a full blown and very systematic approach to how manufacturing is being done and apply digital procedures and let's say measures and tools in order to do a kind of a broad based optimization. But, you know, to go into the details is probably a little bit difficult for me after eight weeks, because my experience tells me you need to go into the details of a deep analysis in order to really define the pockets where you best start first with your investments in order to get the best possible outcome and payback for the undertakings. And that's what we're currently doing. It will take a little while still, but we're certainly going to take this as a focal point going forward.

01:35:55 Ben Uglow

That's brilliant, thank you very much, Jan, and best wishes in your role. Thank you. And I'll pass it on.

01:36:11 Gael de Bray (Deutsche Bank)

Good afternoon. Thanks very much for taking my questions. I have two please. The first one is about RVS. I mean, I'm curious to hear about the sort of discussions you're having at the moment with rail operators regarding the potential structural consequences of the pandemic on commuting patterns, as well as on business passenger traffic data in the longer run, you know, due to the development of work from home and of the digital commercial tools. So this is question number one. Question number two is about CVS, for which you mentioned an intensifying competitive environment. So could you perhaps elaborate a bit more on this, in which our products and markets do you really see that happening? Thanks very much.

01:37:17 Dr. Jan Mrosik

Thank you very much for your questions, the first one I would like to answer with the following statements. So first of all, we currently have a short term ridership issue around the world because of the pandemic. But I think we all feel that with vaccinations coming we'll better get this virus under control and then this kind of temporary drawback and bent in the ridership of trains will go away. Question is, is there anything structural remaining? And there the view of the rail operators as much as our view is that on the one hand side, people will work from home. They will commute probably less. On the other side, the economy will grow and there will be the clear trend because of CO2 emissions, let's always keep in mind that once the pandemic will be under control, probably sustainability, greenhouse gas emission reduction will come to the fore and we will continuously and more and more talk about this this instead of the pandemic. And then we'll see a clear trend again, where people will move from probably individual cars that they're using today in order to avoid being affected by the pandemic will move into a public transport again and there the ridership will increase. I think, according to what we heard, and by the way, our numbers show that no big rail projects so far have been canceled. They are being postponed because of the current Covid situation. They are postponed because of the current cashflow issues that the rail companies are in. But there's no intention, at least nothing that we heard so far that any projects would have been canceled and not being built. So infrastructure build out is one of the major topics, and that's something we continuously benefit from because we're exactly in the right segments in order to benefit from this. CVS, intensifying competitive environment, so you might have heard about a couple of or at least one big merger that that happened in our industry, this is of course, a challenge that's that we're facing on the other side we feel that with our market share that we have today in brakes, and secondly, the strategic move toward steering with the acquisition of Hitachi Steering and Sheppard in the United States, we have now a perfect combination of braking and steering. And with that and our partnership with Continental, where we get the sensors from, we will be able to be a very strong company to deliver systems for autonomous driving and the combination of braking and steering in the future going forward. So we feel very comfortable with our situation, even if we know that, as always, you know, competition is something to watch and something to take to care.

01:40:49 Gael de Bray

OK, thanks very much. Can I try perhaps a follow up on the very, very first question that was asked today? You know, given your very special experience at Siemens Digital Industries, where you sit and you had an access to the processes of so many companies in so many different markets, can I ask perhaps, you know, on a scale of one to 10, how would you rate, firstly the flexibility and automation level of your manufacturing processes today? And secondly, how would you rate the group's expertise in monitoring technology connectivity and the likes of fee based models? Thank you.

01:41:37 Dr. Jan Mrosik

Yes, it's always difficult to give school grades, and I will refrain from doing that, also in this case. But, you know, to put things into perspective, if you look in world terms, there are a few companies that are extremely advanced. There's a lot of companies that are on the way and there's even more companies that have done nothing. And that's the majority, unfortunately, in a lot of countries. And we experienced a lot of companies in my previous roles that have not even started embarking on a journey towards digitalization. I would say KB has well understood what needs to be done, what digitalization means, and have a lot of areas already started successfully with first programs that one can really build up on. There's still a way to go. Are we best in class? Certainly not. So there is a way to go. But the good thing is there is potential for us to improve going forward, and that's what we are going to tackle.

01:43:00 Akash Gupta (JP Morgan)

Yes, hi, good afternoon, everybody, it's Akash from JPMorgan. My first question is on CVS, so maybe two small questions and to help us modeling what model the business. That being said, can you tell us the share of the business between medium duty trucks and heavy duty trucks and more specific to the OE equipment part of the business to keeping services aside, what is the latest mix between OEM and between heavy duty and medium duty? And the second question I have on CVS is basically what if you can tell us what was the outperformance or basically contained per week growth in 2020, an indication for 2021 that do you expect it to go up or at the same level or might be coming down? So that's question number one.

01:43:52 Dr. Jan Mrosik

So I would maybe start on the on the content per vehicle, we expect that over time it's hard to say what's going to happen there on an annual basis, but we expect this to grow by 4 percent annually. But that's more kind of a medium term indication that I would like to give you. And for the remainder of the question I would like to refer to Frank.

01:44:17 Frank Weber

Thank you, Jan, Akash, thank you very much for your question. Basically, heavy duty class 8, so to say we have 90 percent of our revenue if you just look at heavy to medium duty trucks, 90 to 10 percent. So I think that's the quick and simple answer to your very first question. And second, you also asked a little bit about the, if I got it right in regards to the revenue aftermarket versus OE business on the truck side, this is roughly 25 to 75 percent on the truck side. This is the usual pattern that we have. It's lower on the CVS side than we have on the RVS side, where we talk about above 40 percent. We talk here 25 to 30, let me put it this way roughly. And as Jan said, on the content per vehicle, we are not giving yearly signals. But as Jan already indicated, what we said at the IPO timing in our equity story and what I also confirmed by the end of last year is that we also continuously see no issues why we shouldn't achieve the 4 percent on a yearly basis and this is, of course, a regional mix behind it. Out of Asia, you have different content per vehicle growth on a yearly basis than you have in North America or in Europe, where you have more developed products in the background, so to say. And that's why usually in Asia, the content per vehicle is higher, the growth of content per vehicle year over year is higher than in other parts of this world. But we have confirmed the 4 percent in 2020 and continuously. Thank you, Akash

01:46:21 Akash Gupta

Thank you. And the second question I have is Bosch arbitration. So if I look at my previous notes, I think one of the points of disagreement was that non-competing steering where, I think previously I understood that Bosch was kind of seeking non-compete on the steering side where you have acquired some of the businesses. So I'm wondering if there is any update on that aspect?

01:46:49 Frank Weber

Yes, Akash, thanks for that question, if not proactively stated that, yes, it was a point of the decision, the court decision, and this was ruled in favor for us.

So the court clearly saw it as a KB's right to enter into the field of steering and that that we are allowed to continue doing business there. On the other hand, we are obliged to get into negotiations with Bosch in order to fix and to negotiate the purchasing price for the 20 percent shareholding.

01:47:39 Akash Gupta

And my final quick one is on margin guidance. And I think since the IPO, you have been a bit conservative in guiding. And I see that at the lower end of the range, you guide for 6 percent growth in topline, but indicating that EBITDA margin could be down 50 bips or down slightly at EBIT level. I just wanted to check, is that simply conservatism or is there anything in terms of high raw material, which I think is possible, a certain delay, like anything that we should be aware of regarding year on year margin decline at the lower end of the margin range?

01:48:16 Frank Weber

Thank you. I mean, once you decide for a range, you have to pick the floor and the ceiling somehow. And I mean, we know that they are not only chances out there in this world, neither on the rail side nor on the truck side. And we have also somehow assimilated for us what potential threats going along in 2021 could be. And we basically came along, most of them potentially continuously low ridership, potentially going hand in hand with a reduced number of trains by the operator in the network on the rail side, postponements of, like handling or handling of travel restrictions, like in Chinese New Year in China, potentially also in other regions. This could endanger our profit situation. On the truck side, we have the capacity issues and supply chain issues like Jan also mentioned in his presentation. So a lot of things can happen. And so it's theoretically also possible that there is a scenario in 2021 where our margin wouldn't be on the level for 2020 and please understand it. And I would say for the time being, it's it isn't too far off. I would say if you rather go for average figures in regards to our guidance range than for, let's say, upper end or lower end of our ranges.

01:49:59 Akash Gupta

Thank you for your time. Thank you for your detailed answers.

01:50:17 Alexander Hauenstein (DZ BANK AG)

Thank you for taking my questions, I have four questions. First of all, with regard to the Metropolitan Metro Order, can you give us an idea how much is booked already in 2021 and might materialize into sales and earnings in this year and maybe also next year in order to get some feeling how much of an impact we could see here? And is this order already taken into consideration for the guidance or does it simply not materialize to a meaningful extent here in 2021? The second question is about your target 2022. I understand you were going for roughly 20 percent in margins, but the question is simply, is it still the right year? Is it potentially delayed somewhere where we get an update? And what kind of sales level should we think about? And third question is on RVS, I'm wondering whether there's any impact from the recently approved infrastructure stimulus packages from Deutsche Bahn or let's say, the German government for Deutsche Bahn, et cetera. So is there any follow through from for your side? And the last question is on the truck cycle. When you look back, what surprised you at CVS during this pandemic and what might surprise post the pandemic? Thank you.

01:51:53 Frank Weber

Yes, hello. Thank you for your question, Alexander. Let me take the first two and then maybe the fourth, but I have not heard whom you expect to answer the fourth question. So, first of all, the deal that you mentioned is booked in order intake in the first quarter of 2021 with an amount of 30 million euro. And in overall, it should be what is bookable, so to say, 60 million overall in our order book. So that is the first question. The second is and maybe a little bit of a wider explanation, it's about the 20.3 percent of EBITDA margin for the whole group outlined in the IPO equity story for 2022. I'm absolutely a believer and I think and I know that Jan shares my view on this, that KB can definitely achieve this level of profitability. We definitely think so, despite the fact that we have in the meantime, made acquisitions like, for example, Sheppard, where you very well are aware that they are not performing up to the level of such an average performance rate. So we have a systematic dilution in our system in the meantime, which was not. But let's forget all that. I just want to explain to you that even despite these structural changes of the revenue and profitability structure, we do think that KB can achieve the 20.3 percent and we are not shying away from implementing this figure in our plans. Do we think that 2022 is the right year to do so? Maybe not. And I will just do simple math here. Also jointly with my colleagues and of course, backed by concrete plans of the divisions and the regions I would say if you take into consideration one lost year due to Covid, then I would say maybe 2023 is potentially the better year to achieve that and we just say one year somehow we lost. We are thinking along that line currently and we are intending to hold for you colleagues a capital market day in the second half of the year. You know that and we are just thinking about the right timing, when to do so. And then we will dig deeper with you in that regard.

01:54:42 Dr. Jan Mrosik

Yes, Alexander, let me take care of your third question. You know, whenever approved infrastructure for Deutsche Bahn is going to be put in place, of course there will be in the long run something that will also fall into all segments and where KB can benefit from. And the cyclicity of these projects is typically very, very long term. So that means if an approved budget is there, it takes a while until all the planning is being done. Then the RFQs go out. And then at the end of the day, really business materializes, from that point of view it's still a little bit early to judge what exactly it is going to be and at what point in time it will materialize. But, you know, we have a strong position in general here in Europe and specifically in Germany, in the rail industry. And whenever something major is going to be built there, it is very likely that KB with their leading technology will also benefit from that. Talking about the truck cycle, you know, this was almost kind of a very, very it was almost like a roller coaster ride. We look at the end of 2019, and then the first quarters in 2020, business really went substantially down. Then all of a sudden in quarter three, quarter four, recovery mainly on the back of increasing demand in China, which was probably something that for the whole industry, this recovery in quarter three and four was somehow unexpected after the deep dip in quarter two. And that's a situation that was probably the first surprise in the pandemic, that even during the pandemic, at a point in time when the second wave was coming, all of a sudden a big increase and rising demand occurred. And what might surprise post pandemics … if I knew the surprise that will come in the future, then I would be probably not working here. That's something that's very hard to say what the next surprise is going to look like.

We think that in the CVS industry, in the truck industry, the surprise that currently hits us most is the unavailability or lacking availability of electronic components that curves the industry, which comes together with very, very high demand. And so that's all in all, you know, we have almost a perfect market situation where the higher ceiling is currently being pretty much defined by the availability of components, which is almost for everyone who's working in this industry, something like a perfect storm. And we know that also from the passenger car industry that is currently in a similar situation. So but we believe that also the CVS segment, as the rail segment is going to be in the future, a growth field and a growth industry where we'll see with cyclicity, which will continue to surprise us, but we don't know when it will occur and when which were the underlying trends and long term market prospects are fully intact and are encouraging.

01:58:27 Frank Weber

One thing, Alexander, to your question, because you asked about impressions and this was Jan's impression I had at the time when I joined KB, one fundamental impression, and this was a surprise for me in regards to CVS, that this management, this organization was able to manage the second quarter without a loss. I have actually not seen too many suppliers at that point in time in the second quarter that did so. So that was for me to see how disciplined, how encouraged, how brutal at times they were able to manage that business and keep it even up to a level of 3 percent ROS at that time.

01:59:34 William Mackie (Kepler Cheuvreux)

Oh, thank you, good afternoon, thanks for the time to you all. The first question, I guess goes straight to Jan. Could you share with us the sort of the basis, at least of the KPIs that drive your remuneration structure just to get an idea of how you will prioritize the actions and projects that you will put into motion across the group. The second question comes back to perhaps your general statement on achievements last year. Would you share where you think you gained the greatest market share, either by region or within the specific divisions? And I guess the last question would be about CVS and the sort of strategic growth. I mean, when I look at ZF Wacko's combination in the combination of steering and braking, they're obviously building up and have a very strong capability. You have a very strong capability. But how is that future development of autonomous driving beginning to evolve in terms of a relationship between the OEMs and yourselves, i.e., how much control in the development of the software and control systems is being handed to you as a key first tier supplier? And how much is actually tends to be retained within the OEM as a core capability for the future?

02:01:17 Dr. Jan Mrosik

So, yes, the KPI's that drive the remuneration structure, so let's start with the structure altogether. So there's a fixed income, as you know, then there is a short term incentive and then a long term incentive. The short term incentive is usually based on the usual KPIs that we know, that's turnover and that's EBIT related. And there's a third part which is dependent on individual targets that are being defined by the supervisory board and then assessed by the end of the year. The long term incentive is based currently on the shareholder value, but in the future on total shareholder return. So that will change this year. And there's another component that adds to the long term incentive that will be introduced next year, which is ESG related. So that's more or less the structure. I hope that that answers your question in that regard?

02:02:35 William Mackie

Yes, I wonder if there's a flavor for how you prioritize, whether it's drive return on capital employed or to allocate the company's balance sheet through effective inorganic acquisitions and those links, they're linked to the TSR calculations. Is that what you're saying?

02:02:54 Dr. Jan Mrosik

Yes, indeed. Indeed. And that's basically what we put in forefront of our considerations. Then the general statements of achievements, if we look at market share gains, we believe that the market last year globally in the truck and rail business went down by roughly 10 percent. We see that the turnover, as you can see, we checked out in order to compare apples with apples or comparable turnover, then went down by 8 percent, which suggests that in total we won roughly 2 percent market share last year. And that obviously has been, you know KB has been over performing the market there to such an extent. The higher part and higher share of that market share gains we see currently on the rail side so that the difference between what the market did and what KB did in terms of going backwards in business volumes, the gap there is higher. But nevertheless, both divisions contributed to market share gains. Then there was a third question then, the combination of steering and braking, yes, I would rather do not want too much talk about competitors. But on the other side, we feel very confident about our strategy that has been started and defined and then implemented a couple of years ago already where we from a very strong braking position in the market have been moving towards steering as well. Therefore, combining these two basic technologies that are required to control the drive dynamics of both the trailers and the trucks and such, and the brake control that comes associated with that is a part where our major knowhow and business relies. So we are together with Continental that provides the sensors and the sensing systems in a very positive situation that we as a combined team can address these markets in a very, very good way. How is the whole thing going to develop? And that's the point behind your question. Is there going to be a systems approach where all individual parts have to will be bought by the OEMs just stuck together as one system? Or will that sooner or later be something where the OEMs are going to divide and source the individual components on their own and just do the integration themselves? That remains to be seen. But we as KB together with all partners are certainly be prepared to follow and lead both directions as and when they arise.

02:06:16 William Mackie

Thank you. One quick follow up, if I may, in relation to the temporary cost savings. You mentioned twice that there was approximately 60 million of savings Covid related in RVS. Do you have a similar figure for CVS just so we can think about as the post pandemic normalization unfolds, what sort of level of costs can be expected to come back in?

02:06:46 Frank Weber

The starting point to the answer to your question goes back to our presentation this morning when we also talked about the 160 million that we have implemented cost measures in the full year 2020 overall across the two divisions and the AGs, so the central question of the group, 160 million out of that 95 million for the full year on the truck side and 55 million roughly on the rail side and another roughly 10 on the headquarter side. Let me put it this way. So if you then divide those 55 of rail into the quoters, you end up with the 16 you just mentioned, the respective figure for CVS is roughly 24 million, all, let's say, for CVS and the headquarter cost is 24 million. So that overall we have roughly achieved 40 million of cost savings in the fourth quarter, of which at least I always said when it came down to the peak of our savings, which was at Q2 because we were really on the brakes, it was 60 million in that quarter for the whole group. I always said I want to keep as a target some 25 percent of those savings that are the whole 60, which are not fully sustainable. I want to keep them and take them somewhat sustainable into the new year. So that would be roughly 15 million. So I hope out of that 40 that we have seen in the fourth quarter, we can keep at least some 15, maybe 20 even and have them sustainable then in the full year. 2021.

02:09:02 Andreas Spitzauer

OK, thank you very much. If you have further questions, please call us and we wish you all the best for this afternoon and stay healthy and safe. Bye.