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Knorr-Bremse AG - Preliminary financial report FY/19

EV00102182 – 69 Min

11 March 2020

PRESENTATION

0:00:00 Operator

Ladies and gentlemen, welcome to the call for the preliminary financial results full year 2019 of Knorr Bremse AG. At our customer's request this conference will be recorded. As a reminder all participants will be in listen only mode. If any participant has difficulties hearing the conference, please press star followed by zero on your telephone keypad for operator assistance. May I now hand over to Andreas Spitzauer, Head of Investor Relations. Please go ahead.

0:00:33 Andreas Spitzauer (Head of Investor Relations, Knorr-Bremse)

Thank you, operator. Good afternoon, as well as good morning, ladies and gentlemen. My name is Andreas Spitzauer, Head of Investor Relations of Knorr Bremse AG. I want to welcome you to the Knorr Bremse conference call for the preliminary results of fiscal year 2019. As a reminder, the conference call will be recorded and is available on our homepage at 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 the call to Bernd Eulitz, our CEO, and Ralph Heuwing, our CFO. Please go ahead, Bernd.

0:01:16 Bernd Eulitz (CEO, Knorr-Bremse)

So thank you, Andreas. very warm welcome to our q4 Capital Markets call today. Over the next 45 minutes my colleague Ralph Heuwing CFO at Knorr Bremse, and I would like to give you a brief overview of the highlights over the past year, present our financial results, and then go on to discuss our strategy parties for the current and coming years. I would like to draw your particular attention to our new climate strategy, which Knorr Bremse initiated back in 2015, but has now substantially expanded.

But let's start first with 2019, which was a very successful year for the group. 2019, we proved ourselves in a challenging market environment and delivered what he promised. Our two divisions, rail and truck, continued to outgrow their respective markets last year, increase their market shares and set themselves even further apart from the competition. Both rail and truck met their sales and profitability guidance for 2019 and thus delivered further proof of Knorr Bremse's reliability. Truck in particular, in an environment where the global truck production rates had fallen by four and a half percent, could further increase its revenues by 3.8%. In addition, we have initiated - and in some cases already implemented - a comprehensive cost program. We're convinced that we have taken the right precautions, and are well equipped for the current year.

2019 was another year marked by the strong operational execution of our strategy. We consistently divested, unprofitable units. We increased the aftermarket contribution to 35% across the group. We continued to sharpen the focus of our M&A activities on growth and innovation. And with regard to the last bullet point on the slides, please allow me to thank my colleagues Ralph Heuwing, Peter Laier, and Jürgen Wilder for their very strong support during my start in my onboarding at Knorr Bremse. As you learned last week, we have found an excellent successor to Ralph Heuwing in Frank Markus Weber from Daimler AG. Ralph will leave us at the end of April. And with the arrival of Mr. Weber on August 1st, our executive board will be completed again. In the interim periods, I will additionally take on the tasks of the CFO.

Allow me to sum up some of the highlights of the past year. We won major international projects both large and small, including several systems for Alstom´s new high speed train, and a multi-year contract to supply 3 million actuators in the truck sector in Europe. With our investments in Railnova and Railvision, we've made important steps in the ongoing to get digitalisation of our system solutions.

And the celebration of Mr. Heinz Hermann Thiele's 50th anniversary with the company actually has shown us - it has shown me - again, the passion, the commitment and determination that enabled him to make this company what it is today, the global market leader for braking systems in the rail and the truck industry. An important dimension time and time again, we are not operating in the automotive industry. And today more than ever, the fundamental difference between the development of the passenger car and the truck industry is particularly striking.

So when we look at our results across the company, our dynamic results for 2019 actually confirm our solid business model. Order intake was up by almost 1% to 7.1 billion euros. And we benefitted from a very strong quarter 4, here. The order book grew again by 2.8% to almost 4.7 billion euros. A strong and good starting point for a challenging year 2020. 2019, Knorr Bremse increased revenues by 4.8%, to 6.9 billion euros. The rail and truck division boosted their revenues by 5.6% and 3.8% respectively. Once more, we improved our EBITDA margin. Reported earnings grew to 19.8% and operating earnings grew to 18.8%. Respectively, we achieved our guidance well for 2019. Despite a challenging market environment in the truck business. In the rail division we even exceeded our target margin. Naturally, the division is benefitting from the high demand for sustainable transport, and can gain further market share with its systems solutions. In an increasingly complicated market environment, the truck division demonstrated the resilience of its business model. Contributing to this was a good idea. Aftermarket business and increasing content per vehicle and early efficiency measures. The aftermarket business has also recovered after several weak quarters. With this, I would like to hand over to Ralph to take us through the details of quarter four, over to you, Ralph.

0:07:19 Ralph Heuwing (CFO, Knorr-Bremse)

Yeah, thank you very much, Bernd, and also a warm welcome from my side as well. Let me continue with the financial results of the fourth quarter starting with page nine. Despite a challenging environment, order intake in the fourth quarter improved substantially year over year, and even more strongly when compared to the third quarter of '19. On group level, it was up 10.2% compared to the same period last year, and reached 1.9 billion euros. The organic increase in the quarter was 8.6%. A great finish at the end of the year, providing a strong base for 2020. Our book to bill rate of 1.18 in the fourth quarter was very strong compared with 0.92 in the third quarter 2019, or 1.07 in the fourth quarter of 2018. In the rail division, as discussed in previous quarters, order intake fluctuates with the influence from large orders. For the 12-month period however, order intake in rail grew at 5.8%, in line with our midterm expectations. In the CVS division, after the pronounced drop in the order intake in the third quarter last year, the rebound of October continued, and led to moderate full year decrease of 4.9%. We remain confident about our positive midterm outlook for both divisions. This assessment is based on our solid backlog and the industry dynamic driven by mega trends, urbanisation, mobility, and the global goal to reduce our carbon footprints. The order book of 4.7 billion euros at the end of the year was 2.8%. higher compared to last year's levels. This provides a visibility of more than eight months.

Let me continue on page 10 with our revenue on chart 10. During the fourth quarter, revenues on group level were stable year over year, supported by favourable FX development. Top line on group level came in at 1.6 billion euros. With this development, we reached our full year 2019 guidance in absolute terms. As anticipated CVS revenue development was affected by the lower number of trucks produced both in Europe and in North America. Our rail division, however, fully compensated for this in the fourth quarter. The Asia Pacific region has continued to grow strongly in both divisions, reaching an overall increase of 25%. The other regions have been impacted mostly by the truck cycle.

I will continue with the development of our profitability on chart 11. On a reported level, we finished the year with a very strong EBITDA margin of 21.3%, driven by book gain from sale and leaseback transaction of 45 million euros in the past quarter. We had already announced this during November. Operational EBITDA in the last quarter of 2019 reached 304 million euros compared with 320 million in the previous year. The year over year decrease was primarily driven by the continued slowdown in the truck market, but also by adverse effects in FX and some one off charges at group level. We have additional restructuring costs of 3.1 million euros for the closure of the Wülfrath plant in q4 2019, on top of the 16.4 million we had recognized by the third quarter of 2019. This final charge was necessary in concluding negotiations with the workers council. Accordingly, operational EBITDA margin which 18.7% in q4, compared with 19.8% in the q4 of 2018. On a full year base, we delivered an operational EBITDA margin of 18.8%, which is fully within the guidance range of 18.5 to 19.5%. You find more details on this in the backup section of our presentation.

I may now continue with the divisional view on slide 12 with the rail division. In the fourth quarter of 2019, order intake of RVS was significantly up by 21%, fully driven organically. Unlike the second or third quarter of 2019, in a year on year comparison, this time, the order lumpiness was in our favour. In the fourth quarter of 2019, we were awarded some big contracts for passenger coaches. Like in Northern Africa, where we won a double digit million-euro order, or in Eastern Europe for more than 20 million euros. We also received the first orders of the contracts for the TGV from Alstom, which we had announced in September 2019. Demand in Asia Pacific was strong and not only driven by China, but by India and Australia too. Our rail business in North America reflects a weaker situation in the freight markets. Within our OE mix, in this region, freight represents more than 46% of revenue, but on a group level, it is only 4% of revenue. Our book to bill ratio strongly improved to 1.32 compared with 1.04 in the previous quarter, and 1.14 for the same period last year. At the end of December 2019, the order book reached 3.6 billion euros, which provides a visibility of almost a full year of revenue.

Moving on to revenue and profitability for rail the division on chart 13. In the past quarter, revenue increased by 4.3% to 865 million euros, the sale of Powertech reflected for the first time in this number. Hence, organic revenue was actually up by 5.4%. Revenue in the aftermarket and service business was nicely up across all regions. So in total, it grew approximately 10% in the fourth quarter year over year. Our strong growth in the aftermarket overcompensated the OE development, which was predominantly impacted by the project-related timing of revenue recognition. In Europe top line decreased in the OE part of the business. On a sub segment level, the main drivers were high speed and metro. Locomotives contributed positively. In Asia Pacific, OE revenues were up even stronger than the aftermarket, especially the passenger segment is again worth mentioning, but metro and regional commuter too. On the other hand, we experienced weaker developments in the field of locomotives. In China, in particular, the higher utilisation of trains and increasing number of highspeed trains entering the first phase of overhauls, were important drivers for the continuous growth in our aftermarket business. As regards, our aftermarket and service revenue grew by more than 10% year over year.

The second biggest revenue driver was the OE metro segment in China, which is already double in the size, compared with the highspeed segment. In the region North America revenues benefitted from good demand for our aftermarket and services business, mitigating again lower revenues from OE. Within OE, our freight segment effectively contributed to lower revenues year over year. Given a favourable project mix, and the higher share of aftermarket revenues, but also thanks to the discontinuation of the Powertech losses, fourth quarter of '19 operating EBITDA margins bounced back strongly compared with the previous quarter, and even surpassed the previous q4 2018 margins.

Let's now move on to the truck division with chart 14. As we all know from recent months and quarters, our customers, the truck OEMs, recorded significant declines in their own order intake beginning last summer. The US truck market was particularly affected by the development. Or own order intake reflected this, with a strong correction in the third quarter of 2019. However, as already explained in November, the situation started to improve. From today's perspective, q3 looks as if an order decline was exaggerated, subjects to the effects of COVID19. We expect the underlying demand situation to normalise in the coming months. We also expect the European truck market to remain tight in the coming months and quarters ahead. Order intake for the division was 771 million euros in the fourth quarter of 2019. Only 3% down compared with the fourth quarter of 2018, on nominal figures, and 7.1% down organically. This decrease in order intake was driven by Europe and the U.S., while China possibly showed a rather positive momentum. At the end of the year, the order book of our truck division, stood at 1.13 expectedly down 17% compared to the year end of 2018, but almost unchanged compared to the previous quarter. This provides visibility for 4.1 months of revenue.

Let's move on to page 15. CVS posted revenue of 756 million euros for the fourth quarter. Compared with last year's figure this is a decrease of 5.2%. Organically, revenue declined by 9.7% versus the same period last year. We outperformed North America’s the European truck production rates declines, thanks to the constant increase in market share gains. In China, our fourth quarter revenue grew by more than 50% compared to a TPR growth of 26%. In the context of declining OE revenues, our aftermarket ratio as a percent of total revenue picked up quite strongly. We believe that the destocking in the aftermarket workshops, and amongst the OEMs that we experienced for a few quarters might have come to an end, and revenue has started growing again. Q4 2019 revenue development in Europe was burdened by pre buy effects in the first half due to the introduction of intelligent tachometers. Additionally, the market reached a more normalised level after strong demand in the last couple of years. In the last quarter, CVS achieved an operational EBITDA of 113 million euros, and an operating margin of 14.9%, compared with 16.3% a year ago. The main driver of the declining profitability was, of course, the negative operating leverage resulting from the decline in revenues. However, at less than 20% for the like for like business, i.e. outside of Hitachi and the Wülfrath plant closure, it was an expected level. To successfully implement cost efficiency program and the release of temporary workers across

European and North American plants had a positive effect on the bottom line and helped to contain the impacts of a market situation.

Overall, the fourth quarter of 2019 was in line with our expectations with regard to the decline in sales and efficiency measures. From today's perspective, the measures introduced are efficient for CVS to achieve or 2020 targets, provided as costs that COVID19 does not leave major traces. Summing up our quarterly and folio performance, I'm very pleased we delivered what we promised for the first full year since our IPO in October 2018. With this, I'd like to return back to Bernd.

0:20:01 Bernd Eulitz (CEO, Knorr-Bremse)

So thank you, Ralph. Before I move on to our guidance on page 17, I'd like to address the coronavirus and what it means for our business. Our top priority has been our employees. In January, we took the first steps to protect them. A Central Task Force was set up. Our employees in China were supplied with respiratory masks, and first rules for conduct as well as travel regulations were implemented. We are in permanent contact with all of our employees and partners in China and other countries to ensure that we are up to date with the latest developments, and we react quickly and decisively when necessary. Currently, only one employee, a field service engineer in Germany, has tested positive and has been catered to by medical services. Luckily, there has been no connection to office. So it remains an isolated case up to now. Our plants in China have all resumed production, and more than 80% of our employees are back to the sites. On average, production has returned to 80, up to 90% of target capacity by today. Of course, it is still too early to comment on the overall impact of the virus on our business. However, what we can say is that in February itself, the first full month, affected by the outbreak of the virus, sales in China was around 60 million euros below our budget, which is actually very reasonable. From today's perspective, we are confident that we can make up this shortfall by the end of the year, also thanks to the economic stimulus provided by Chinese authorities. You might have read that the Chinese authorities have issued early orders for additional locomotives and investments into high speed trains. With respect to our supply chain, our consistent efforts to localise and our approach to dual sourcing has proven worthwhile. Up to now, our supply chain has not been affected, and we have not had to let down any customer. We continue to take a very positive view on our business in China, and obviously will further expand our commitment in China. Naturally, we are closely monitoring developments worldwide and obviously currently with a greater focus on Europe and the US.

If I move to chart 18, let's look into what we expect in 2020. As usual, the outlook for 2020 is under the disclaimer of the political and macroeconomic environment. And this time obviously extended by the effect of the COVID19 virus on the world economy. For rail, we were expecting good growth mainly in the passenger segment and the aftermarket sales as our installed base continues to grow. For truck, we anticipate slightly lower truck production rates. With regional variation between North America, Europe and Asia, which just in North America was potentially down to 20 to 30%, relatively to 2019. With the help of our cost efficiency programs, and the aftermarket business, we will counteract. Despite the weaker environment, we increase investment in research and development to drive tomorrow's technologies in e-mobility and autonomous driving.

We move to slide 19. We therefore expect a stable fiscal year in 2020, despite the lower truck production rate. In figures, we are forecasting revenues between 6.5 and 6.9 billion euros and an operating EBITDA margin in the range of 18 to 19%. In case the recovery from the virus and China continues the way we see it right now and the economy does not spiral into recession, we feel we should be able to manage the year well. Now after presenting all these figures, I would like to now give you an outline of our strategic initiatives. Knorr Bremse's vision is strongly shaped by the people who work for and with Knorr Bremse, who are shaping the mobility of tomorrow and driving innovations for sustainable system solutions in mobility. With our products and our corporate responsibility, we are helping to solve the great challenges of our society. This motivation has driven our employees for many years, and it's actually the great legacy of Mr. Thiele, and it shows no sign of fading. On the contrary, the role that a company can and must play in our society is growing in importance. And we addressed this with enthusiasm. On slide 22, the corporate strategy was formulated and communicated roughly a year and a half ago for the IPO, in 2018. Since taking over as a CEO in November last year, I've engaged in many discussions and have come to the conclusion that Knorr Bremse's positioned exactly as it should be and works on the right topics. So, respectively, there will be no revolution in strategy, but rather a continuous process of evolution along the development of our markets. Our corporate strategy is geared to the major mega trends of urbanisation, sustainability, digitalisation and mobility. We will continue to extend our innovation leadership by further developing and leveraging our global presence. Expanding our profitable aftermarket business and continuing to improve our efficiency will play a decisive role here. And of course, we will continue to work on our efficiency and control our costs closely. We aim to achieve organic growth of between four and a half and 5.5%, with an EBITDA margin expansion of 150 basis points relative to 2017 by 2022, as we have promised in our IPO.

We'll move on to chart 23. In order to prepare for future growth through research and development, we once more increased our effort, our expenditure for research and development for 2020. 12,000 patents and more than three 3,600 employees in R&D, speak for themselves. That's more than 10% of our workforce focused on innovation. Let me talk about two examples to illustrate this. The first one comes from the truck area. And you're well aware we bought into steering business and there is a very strong logic for that. For autonomous driving in the truck segment, it is essential to have full and redundant control of the driving dynamics. With integration of steering systems in Germany 2016, Hitachi in Japan in 2018, joint venture with Dongfeng in 2019, and Sheppard in 2020 (somewhere the next three months), we have expanded our portfolio by steering expertise for trucks and are now a strong number two in the global markets. By combining braking, steering and intelligent control, we now master the entire driving dynamics of a truck. It's all about safety. Thanks to our system competence and the sophisticated modular system of the new global scalable electronic brake control, we are able to meet the high requirements for redundancy and safety in road traffic. We thus need the mandatory requirements for autonomous driving. Accordingly, we are working with various partners on automated driving functions up to fully automatic driving. Alongside e-mobility, this is the major future topic in the truck industry.

We move on to rail. In the rail segment I would like to address a whole portfolio of developments in the aftermarket sales. We call this field "Rail Services". As the global market leader for braking systems, we have an exceptionally broad installed base in rail vehicles on all continents. We supply them with reworked components, and even completely new technologies. Our modernisation and digitalisation solutions thus lead our customers into the future. With a train service life of up to 40 years, our service ranges from the replacement of obsolete components to the replacement of third party components to the complete overhaul of e.g. trams. With new technology, these then enter the next 20 years of operation. The division is also benefiting greatly from growing demands to make existing solutions viable for the future, e.g. through e-mobility retrofit solutions for diesel locomotives, and digital solutions.

Let's move to chart 26. I would like to highlight a part of our corporate strategy that was previously maybe placed a bit more in the soft category, but is now coming sharply into focus. We recognise climate change as one of the most pressing challenges of our time. As an industrial company, operating worldwide, we as Knorr Bremse, attach great importance to climate protection, and aim to make a significant contribution to achieving climate neutrality. After 10 years of our corporate responsibility initiatives, and five years of our first climate strategy, we have renewed our commitment with a new ambitious climate strategy that forms part of an ESG Excellence Initiative. We commit to half our CO2 emissions by 2030. In addition, we will become climate neutral as early as next year, 2021, as one of the first major industrial companies. These targets are in line with the requirements derived from climate science to limit global warming to a maximum of 1.5 degrees Celsius, in accordance with the Paris Climate Convention. To reach these targets, Knorr Bremse intends to half the CO2 emissions caused by the energy consumption of its plants and offices worldwide and its vehicle fleet by 2030. This equates to an average reduction of 4.2% per year, compared to the baseline of 143,000 metric tons of CO2 emissions in 2018. Furthermore, starting next year, we will minimise CO2 emissions by purchasing green electricity and offsetting the remaining amount with high quality certificates. Also, our products are making a vital contribution to climate protection. By definition our rail division operates in a sector that benefits from the expansion of public transport and efforts to shift freight traffic from road to rail. And also, our truck division makes a considerable contribution to reducing CO2 in production and fleet consumption. Even today, 9% of our revenues are achieved largely thanks to our ability to return products to the production cycle via remanufacturing and overhauling. International rating agencies such as EcoVadis, MSCI and ISS-oekom. And last week, actually the new DAX 50 ESG have assessed this and confirmed it by awarding high ratings to Knorr Bremse.

Let me give you a few examples on the next page, chart 27. This actually shows how we have managed to reduce the CO2 emissions of the whole lifecycle of our products, from production, through operations, through recycling, and then disposal where necessary. You see that we were able to significantly reduce the CO2 emissions up to 50% of some of our products. But let me also point at a very interesting innovation, and that shows how engineers look at things. On the right hand side is the active caliper release. It's a small but very sophisticated device that ensures that the brakes open completely and there's no friction. And this mechanism helps the operator to save 1% of its fuel consumption, obviously, again, contributing to reducing CO2 emissions around the world.

On the last slide, chart 28. Let me conclude by returning to the promise of our IPO. Provided that the political and macroeconomic environment remains stable, we had announced average organic growth of four and a half, to five and a half percent, over the period, on average. And we had committed to an EBITDA margin improvement of 150 basis points from 2017 onwards till 2022. And despite the current truck production rate downturn, we consider this forecast to be tenable and confirm our medium term forecast. With this, I would like to end my presentation and hand back to you, Andreas.

0:35:15 Andreas Spitzauer (Head of Investor Relations, Knorr-Bremse)

Yeah, thank you Bernd, happy to now start the Q&A session.

Q&A

0:35:21 Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypad now to enter the queue. Once your name is announced, you can ask your question. If you find it's answered before it is your turn to speak, you dial 02 to cancel. So once again, that's 01 to ask a question, or 02 if you need to cancel.

0:35:50 Ingo Schachel (Commerzbank)

Okay. Yeah, thanks very much. My first question would be on your strategy in steering which seems to play an important role in your strategy update. The way you illustrate it, in your slide 24 was the fourth missing [36:07 unclear] coming into play, looks like you're trying to suggest that Sheppard is the last effort you needed to complete your portfolio on the steering side. What should we expect as next steps? I mean, do you need more bolt-on acquisitions? Do you have everything you need? And now go for more greenfield CAPEX to tap the geographic markets where you're not yet strong, or just really about smaller steps, incremental R&D and so on all about what's happening from here?

0:36:34 Bernd Eulitz (CEO, Knorr-Bremse)

So Sheppard is...Well, first of all, thank you, Ingo. Sheppard is an important acquisition because it opens the U.S. markets. You need to keep in mind that in the US, the trucks have a different design with the long snout that basically caters to a different geometric design of the steering competence. With buying Sheppard, we open into this market and we get a significant market share. Now we are present in all key markets around the world. Now, we are in the process of integrating the steering with the braking system. And I can share with you that at our test sites, for example in Sweden, where we test trucks on ice, these systems are already in operation and we can show to our customers how the redundancy works and how the integration works. So that was an important step. Now what we are doing with the acquisitions, clearly, we're upgrading quality, we're upgrading production to the level of Knorr Bremse's requirements, which is well perceived and highly appreciated by our customers. And I think that was a very important major step to complete the steering acquisition strategy. And I believe that our company announced this approach roughly two years ago as a string of pearls approach.

0:38:02 Ingo Schachel (Commerzbank)

Okay, thanks. And the second question would be on the margin target and the 150 basis point margin expansion in the midterm. Now, if we compare your margins today as to where they were at the time of the IPO, the rail vehicle system segment has already made a lot of progress or effectively already achieved 150 basis points improvements, and commercial vehicle has not, so from here and when...do you see margin upside in both segments, or would you say

RVS is already where it should be and can lean back and now it's up to commercial vehicles to deliver? Where do you see the margin upside from here?

0:38:37 Ralph Heuwing (CFO, Knorr-Bremse)

Yeah, Ingo. I think leaning back is not our philosophy. We see upside potential across rail, trucks and also the other line, and our P&L. On rail we have continued growth and the continued increase in aftermarket share as we announced, we believe that over time there will be further upside. On truck, coming out of the trough of this year, we believe that this will also strengthen our profitability - also benefitting from the cost measures. And then, we of course also have some extraordinary items in the other categories, so at group level, which we expect not to repeat in the future. So, all these will contribute to strengthening of margin towards 2022.

0:39:29 Ingo Schachel (Commerzbank)

Okay, this is very clear, thanks, and maybe just as a quick housekeeping question to finish. On the last quarter you spoke about the conversion of your ERP systems from German GAAP to IFRS to be finished before Easter or before you leave the company. Is that still the timeline or will that happened a bit later?

0:39:46 Ralph Heuwing (CFO, Knorr-Bremse)

This is a project which stands on several different legs. We have already made significant progress, we are confirming the reporting dates for the year 2020 as we had put them on our website, but this will not be finished for Easter. We will continue to work on this, also over the course of this entire year into next year, with, for example, already improved our POC calculation and automated that, we have accelerated the report processing, and because we have found that we can still further align our chart of accounts across the different companies, 150 companies, we'll need a bit more time during the course of 2020 to complete this effort. So, you can expect that the reporting date of 2021 will be a further acceleration from those dates, which we published for 2020 this year.

0:40:52 Ingo Schachel (Commerzbank)

Okay, that's okay. Thanks very much.

0:41:03 Iris Zheng (Credit Suisse)

Hi, good afternoon, Bernd, Ralph and Andreas. Thank you for taking the questions. I've got a few. Shall we go one by one? I guess my first one is on trucks. The order intake was very much stronger than consensus, at least, than what we had. And could you maybe comment a bit more on this? And how this turned out, say against your original internal expectations in Q4? And it was ahead of your expectations as well? And could you maybe point us to areas which have outperformed in Q4 versus your expectation? And secondly, just on the most recent conversations you've had with your OEM customers, what are they saying? I mean, more like in January and February, after situations have changed a bit?

0:41:54 Ralph Heuwing (CFO, Knorr-Bremse)

On the order intake, Iris, you will remember that in the Q3 presentation, we had exceptionally also showed October, because we needed to put the Q3 order intake reduction into context. It was a very weak third quarter. And we believe this was more a one time correction, cleaning up orders between ourselves and our customers. You know, you will also remember that the same happened in a pretty pronounced manner at the OEM level one or two quarters before. So we showed already that October was a lot stronger than the average of the three months before. And that actually continued throughout the rest of the of the year. And as I said, I think in hindsight, one can say the swing, the downswing, was a bit too pronounced in the third quarter, for this to be sort of an indicator for the times to come. Our guidance which we had already indicated in November, we keep and confirm based on our customer conversations. The year had started solidly. But of course, what is unknown is whether there will be a demand slump, following a reduction in transportation activity, going back to the virus spread. This I think nobody can answer precisely at this point in time.

0:43:33 Iris Zheng (Credit Suisse)

This is very helpful, thank you. And the second one is on rail, firstly just on China. So, is it possible that you could share maybe how much your rail business in China grew in the quarter, because the full report, the full report is not out yet? And because you mentioned aftermarket is up 10% and it will be good to know how much...how OE has performed as well. And secondly, can you maybe, maybe comments if it's on what you're seeing in the market on both high-speed rail and metro side, and how you think you have performed against the market?

0:44:10 Ralph Heuwing (CFO, Knorr-Bremse)

Yeah, our Asia Pacific rail business grew double digit in the fourth quarter. And it also was a strong region for the full year. Within Asia, China performed very nicely but as I said earlier, India, and also Australia also performed very solidly. So we are basically continuing the story that has happened for the last three quarters, and I don't see any particular change. And as far as aftermarket is concerned, that was also a good development in the fourth quarter. But I think I mentioned that some of the OE segments grew even faster than aftermarkets.

0:45:05 Iris Zheng (Credit Suisse)

Okay, very helpful. And secondly on margin, because it looks like for 2020 - and we'll just take the midpoint of the margin guidance - then it's slightly lower than what we had in 2019. And that's after the disposal of Powertech and also, like, gradual phase-out of the general contracting business, which should be a tailwind for the margins. So on the underlying business, what I mean, is there any product mix and original mix we should think about?

0:45:42 Ralph Heuwing (CFO, Knorr-Bremse)

Well, let me first start by saying that the full year of 2019, and in particular, also the fourth quarter was above our expectation in rail. You saw this as a fact. And therefore, of course, it doesn't mean that things will continue from this level onwards. As we had highlighted already in the commentary on the third quarter, we said, margins also move up and down with project mix, and this is a fact. So if you consider the fourth quarter end raise to be a bit out of the ordinary, then the base from which we see 2020, I think, gets more normal. That's the first point. The second point is we also will increase our efforts on both R&D and on IT in order to push all innovation agenda and to become more efficient. We don't want to save on this at the expense of future. So, there will be in some way a load on the margin coming from this part. Then, we tend to be cautious. I think this is important to highlight, we tend to be cautious just knowing that project mix changes over time. And then, I think there's one final point - I don't want to stress it too much, but I think it should be understood. Our strong revenue development in those boom years of 2014, 15. As those come into overhauls, and so on, that is positive for the aftermarket. But it also means that some provisions which had been built during that time, have been released step by step. And this has been supported for the margin. And of course, you know, at some point because of lower revenue in 16,17, we don't see the same effect ever, in the future. So this is also one aspect to be understood.

0:47:55 Iris Zheng (Credit Suisse)

This is super helpful. Can I just follow up on that, just you mentioned, on the increasing IT and R&D spend, is there a way to quantify what...if the magnitude of the impacts, like in basis points terms, if possible? And secondly, I mean, if it is possible...is it possible to quantify also the margin impact from the provisional releases from the previous years?

0:48:22 Ralph Heuwing (CFO, Knorr-Bremse)

So, on the first question, I think that we can speak more clearly, I think, in the in the range of 10 million euros of additional spend that we are planning. On the second, that's actually hard to say, because it depends on whether we are able or not to release that provision. Yeah? And that is the question of whether there are any warranty cases or not. It may or may not have an impact, I just wanted to explain the phenomenon. Yeah?

0:49:04 Akash Gupta (JP Morgan)

Yeah. Hi, good morning, everybody. Thanks for your time. My first question is a follow-up on medium term margin guidance. And I'm wondering if you can help us with phasing of this approximately 180 basis points margin improvement that you will need from midpoint of 2020 guidance to...in the next couple of years...to reach to your 150 basis points midterm margin guidance, so that is question number one.

0:49:32 Ralph Heuwing (CFO, Knorr-Bremse)

Yeah, I think I have provided already an answer to this towards Ingo Schachel. So if we assume that in the year '21, and '22 Knorr Bremse is able to show the requisite growth in order to fulfil the four and a half to five and a half percent, top line ambition, and we do assume that, we don't have any reason not. Then of course, there will be operating leverage, it will be aftermarket increase, as I said earlier, there will be the benefits of the cost containment or cost efficiency programs on the truck side. After every downturn, we tend to see a nice margin increase, because we come out of it in a leaner way, and we are sparing also some costs on the AG level in the other line. So those are the main aspects. And, you know, we are here to explain our expectations for 2020 and we'll be more articulate on '21 at same time next year.

0:50:48 Akash Gupta (JP Morgan)

My question was more about, like, if you get similar level of growth in '21 and '22 is there any reason why margin improvement in one year should be higher or lower than the other? Given all the actions that you're taking,

0:51:07 Ralph Heuwing (CFO, Knorr-Bremse)

I think the best assumption is actually to take the midpoint for '21 towards '22. I think there's no particular front or back loading in this assumption. As I said, when you get more volume on a leaner structure, you really benefit pretty quickly with a nice positive operating leverage. And that should - depending on the time of recovery on truck - that should be already visible next year. But I don't think there's any particular aspect that would push either the effects forwards or backwards.

0:51:57 Akash Gupta (JP Morgan)

Okay, my second question is coronavirus and the Q1 expectations. So you talked about 60 million revenue impact in February. And I would assume there would be some impact in March as well given you do not have full production rate available. And at the same time, if you look at your outlook for global truck production and comparables in 2019, it seems that the decline in truck production in the first half could be much higher than the second half. So my question overall is that, like, A if you can tell us the impact of coronavirus in China, how much of the 60 million would be split into truck and rail? And, B, outside of China, is it fair to assume that Q1 would be...Q1 or maybe first half would see higher decline compared to the second half, particularly in truck business?

0:52:53 Bernd Eulitz (CEO, Knorr-Bremse)

So in China, the business I would say, two thirds would be rail, roughly one third would be truck, rough assumption, because the rail business is significantly larger in China than the truck business, although the truck business is growing strongly, there. That's why the stimulus that the Chinese government is triggering, obviously pays into the growth of our business directly. Obviously, we will see a weaker quarter one, that's clear. But we do see, at least, the Chinese business returning to what we had planned for in quarter three. And then it depends on the development and the way China is addressing things right now. It actually looks very positive, whether we can recover what we've lost in quarter one in this year. What is still very uncertain is the development in Europe and the US. Obviously, there is a lot of news flow right now. Difficult reactions at the stock markets. The question is how severe that's going to be. The truck production rates we've put into our guidance already show a wider interval than we would normally guide. And they reflect the uncertainty of our key customers or the large OEM producers. And I think that, on the other hand gives us a bit more room in the guidance to be on the safe side. So for now, obviously subject to no huge recession or anything, we feel our guidance is very reasonable. We do want to be careful, we don't want to be bullish, but on the other hand, we're not in desperation. Does that help?

0:54:46 Akash Gupta (JP Morgan)

Thank you. And my final one is net debt. I know you will provide full details with annual report. But for modelling purposes, can you indicate whether the company finished the year with net debt position or net cash position?

0:54:59 Ralph Heuwing (CFO, Knorr-Bremse)

Yeah, I'm pleased to say net cash.

0:55:03 Bernd Eulitz (CEO, Knorr-Bremse)

I think our problem of the negative leverage is potentially going to continue.

0:55:10 Ralph Heuwing (CFO, Knorr-Bremse)

But, we'll pay dividends, so that is correct.

0:55:26 Akash Gupta (JP Morgan)

Thank you.

0:55:27 William Mackie (Kepler Cheuvreux)

Yeah. Good afternoon. Thanks for the questions. A couple please. Firstly, on the CVS or on commercial vehicles. The assumptions that you're providing for the market development are very...are identical, actually, to the initial guidance you provided at the time of the Q3 figures. But with the incremental insights that you've gained from the development of market demand in each of the regions, can you perhaps throw some additional colour on where your expectations for the year are...you know, where they're developing relative to the guidance you've given in each of the regions from...respect to volume at CVS. The second question comes back again to the rail outlook. I mean, you've given an aggregated rail outlook. But actually, when we look at the rate of growth in the OE, and the aftermarket business in 2019, the OE growth, as you highlighted, was lower than expected due to project timing. It seems that we should expect a significant acceleration in 2020, as most projects come back on stream across Europe, and also, as you discussed the stimulus effects in China. So maybe you could talk to the respective growth expectations around aftermarket in OE in rail. And then lastly, a great performance with respect to cost management to minimise the negative operational leverage in CVS. Perhaps you could just discuss, again, some of the contingency planning that is underway across the business, to further mitigate costs in light of a challenging first half, with volumes in across the CVS business. Thank you.

0:57:30 Ralph Heuwing (CFO, Knorr-Bremse)

Yeah, I think I should take those. Well, so the CVS guidance...yes, you're right. We are basically confirming, I wouldn't call it repeating - it's confirming the ranges that we have given in November, now in the first couple of months talk to our customers. Some have given us stronger indication, some have given us weaker indications. On aggregate, we feel we are pretty well positioned with those assumptions. Of course, what that doesn't factor in is a serious reduction in transportation activity. So this assumes that those plans which our customers have are going to be executed. And those plans are basically on aggregate confirming our views, and also by region. Maybe one aspect, we had really quite strong quarter in China in 2019, last quarter, and it will be interesting to see how quickly the demand side is going to recover there as well. But there are good reasons for China to continue its positive development. Your question around OE and aftermarket mix on rail. So first of all, the rail aftermarket share, altogether for the full year was about 42%, 41% in the year before. On the OE business, the comments on project delays was mostly focusing on Europe. Yeah? So, there are projects which are going to show more revenue development in the year 2020. So it is, I think, not unreasonable to assume higher growth rates in 2020 compared to 2019. In Europe in particular. I think the range of the guidance on a like for like basis is somewhere between two and 8% growth. So let's say on average 5%, which also fit very well with our medium term expectation.

And I would say the progress on the aftermarket shares towards 42%, is actually maybe, a little bit ahead of where we thought we would end yeah? Thanks to - if I want to call it that way - thanks to the OE development. But that also means that maybe the share of aftermarket won't grow that much in the year '20, more than maybe in the year '21, '22, on our way to 45% which we had announced already last fall. And then on the contingency plans on truck in particular. So, I think generally speaking truck is of course more exposed to demand fluctuations than rail. And therefore, we are always prepared to take action if there is a lower occupancy at our factory. We haven't fully utilized our opportunity to reduce temporary workers. We have, of course, started to reduce but we haven't fully utilised it, because it wasn't necessary. We have not even started to utilise the short work weeks, but we have prepared for it. So there are several levers which we are fully, fully prepared to take, but which we haven't had to take, yet. And even in the worst of scenarios, yeah, if demand crashes strongly, we know what to do. We have, I think we've explained it. Also in our capital markets event in London. Peter Laier explained, we have contingency plans for minus 20, minus 30, minus 40%. And we know what to do. And this may also include temporary plant closures, things like that. This is all thought though and I think Knorr Bremse is known, as I said earlier, not for hesitating, but for taking action quickly.

1:01:51 William Mackie (Kepler Cheuvreux)

Great, thank you very much for that. One final follow up relates just to Italy. I understand you have around 500 people and three sites in Italy. Maybe, if you can, could you just throw light on how you see developments in that country? Perhaps it's a canary in the coal mine for what is to come?

1:02:09 Bernd Eulitz (CEO, Knorr-Bremse)

Well, Italy right now, our plants are in operation. So no downturn, no shortages of supply chain or anything. Obviously, we're tracking that very well. We've applied the same stringent regulations about business travel of the like as we have for the whole company, to protect our employees and to protect the production. Up to now, all stable, and I think it depends on how long the virus spread continues in Italy, and beyond what we see today, to be honest, anything else is a guess. But I feel we are well-prepared for the situation and right now are fairly well with it.

1:02:49 William Mackie (Kepler Cheuvreux)

Perfect, thank you.

1:03:02 Vivek Midha (Deutsche Bank)

Hi, thanks very much for taking my questions. I have a couple just following up on the coronavirus situation. So firstly, thanks very much for the 60 million figure you gave. Within the hit, and particularly within rail, is that primarily OE or is there some aftermarket hits as well in that number? And secondly, you talked about reaching maybe 80 to 90% capacity again, within China, and the potential normalisation of supply chain in the near future. Could you maybe comment on where your suppliers stand right now? Are they also at similar kinds of capacity again? Thank you.

1:03:44 Bernd Eulitz (CEO, Knorr-Bremse)

So I mean, first of all, with respect to the question, whether it's OE or aftermarket I mean, the Chinese government managed the situation the same for basically all businesses in the same province. So, it's across the board it covers the OEM, the aftermarket. The first step the government did was to extend the New Year's break by one week of that applied to all suppliers and all customers. So basically everybody was within the same boat. That basically answers the question, I think we see it across the board and we will see a catch up especially in rail, I would assume latest in the second half of the year, as Chinese government will put a lot of focus on fulfilling the five-year plan and just making sure they don't fall behind too much. The same systematic applies to our customers and to our suppliers inside China. So you can assume that they all are on a similar ramp-up and especially with respect to our supply chain, obviously, we're in very close contact with our suppliers. So we have good visibility on what is happening. So far, everybody's in a very similar process as we are. After the plants were allowed to restart somewhere around 11, 12 of February, we had our workforce come back into the plants - by the way, we kept our office workforce working from home just to limit any risks. And then those who had travelled inside China to visit family were asked to stay at home for two weeks for quarantine time. So a lot of the plants voted up with let's say, 40% of their workforce, and ramped up basically day by day as the employees fulfilled the quarantine requirements. And today, we're significantly above 80% of our workforce backup plants, quite a few plants already significantly above 90%. So the recovery is happening and with the workforce coming back, production was ramped up very fast. My assumption is that by end of April, we should be back to what we would have planned for us as a normal production rate. And then we need to see what happens in the months beyond that, but hopefully we'll see a bit of a pickup and recovery effort from our customers and that should help us fill the gaps.

1:06:16 Vivek Midha (Deutsche Bank)

Okay, thanks very much.

1:06:30 Iris Zheng (Credit Suisse)

Thank you. Thank you so much for squeezing me in. I just want one quick follow up on just on the truck side to understand...so let's say, because some OEMs, truck OEMs, they do say that there have been some supply chain bottlenecks. And so, if that happens and if, say, your customers are not able to deliver their trucks to their customers, then would this have any impact on your sales or as long as you are able to deliver, then are you covered by your agreements?

1:07:05 Bernd Eulitz (CEO, Knorr-Bremse)

I mean, obviously, if they were to hold the production, that would reduce our supply to that supplier. But it depends on how long that happens. And again, I'd like to point out the fact that for our guidance, we put a quite wide interval for the truck production rates, that within the normal effort should actually capture most of the effect. At the moment, we would get a bit more cautious was if there was a significant recession in Europe or the US, as a result of other effects hitting this, but think the wide interval we have, for now, should cover any effects we see as of now. The rest depends on what the economy is. And I think it's far too early to speculate on that.

1:07:56 Iris Zheng (Credit Suisse)

Yes, and that's very clear and sensible thinking.

1:08:01 Operator

Thank you. And as there are no further questions, I'll hand back to our speakers for the closing comments.

1:08:06 Andreas Spitzauer (Head of Investor Relations, Knorr-Bremse)

Yeah, thank you very much for your questions. I wish you a great morning, afternoon, and stay healthy.

1:08:13 Bernd Eulitz (CEO, Knorr-Bremse)

Thank you. Bye bye.

1:08:16 Operator

This concludes the conference. Thank you all very much for attending. You may now disconnect your lines.