Transcription

TRATON SE - H1 2020 IR Conference Call

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PRESENTATION

00:00:00 Operator

Dear Ladies and Gentlemen, welcome to the Conference Call of TRATON SE. At our customer's request this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participants has difficulties hearing the conference, please press *(star-key) followed by 0 (zero) on your telephone for operator assistance. One final request. Please note the disclaimer that you will find at the beginning of the presentation. If you are only connected by phone please access the online tool to display the disclaimer

May I now hand you over to Rolf Woller, Head of Treasury & Investor Relations of TRATON, who will start the meeting today.

00:00:41 Rolf Woller

Thank you very much, Miss Moore and welcome to all of you to our conference call today in good hope that you and your families are still well, and that you hopefully spotted a cooler place, actually, than we have. Together with me here in Munich today is Matthias Gründler, our CEO and Christian Schulz, our CFO plus the usual suspects from the Legal, the Finance and the Treasury & IR departments. Before we start to give you an update on how TRATON did during the first six months in 2020, I have to come up with some housekeeping items. So first of all, most important, there is no update on the situation with Navistar. Of course, you can ask and I cannot forbid you to ask, but I can reassure you that the two gentlemen will give you the same boring answer, and this is how we can save time for all of us. The second one is that we hope you have seen the material we posted today, which is the press release, the half-year financial report, and the IR presentation. If you haven't received it, you can pull it from our website, which is the TRATON IR website. And as the operator has already told you, I should make you aware of the disclaimer, which you will find on page two of this presentation.

So how will we proceed today? Matthias will guide you through the first nine slides of the presentation, and will give you an update on the current situation at TRATON before he then hands over to Christian, who will guide us through the group highlights and the Industrial Business and Financial Services business section At the end of that, you have the opportunity to ask questions and we will do our very best to answer them. And we ask you upfront to limit your questions to, let's say, maximum two or three, in order to give everyone a chance, a fair chance to raise questions. With that, and without any further ado, I hand over to Matthias.

00:02:46 Matthias Gründler

Thanks a lot, Rolf. A really warm welcome from my side. I am happy to be back on board and guide you through the first section. Let me make some introductory remarks on the current situation we are faced with. The Covid-19 pandemic was fully affecting global economy in the second quarter after first evidence was witnessed already in the first quarter of

2020. We saw a significant decline in demand and supply chain disruptions. A substantial part of production capacities was closed or idle, mainly from end of March to large parts of April. April was awful for us as businesspersons, as we been doomed to wait and see how deeply the situation dented into our operations, profits and cash flows. But we were able to stepwiserestart our production, including supply chains at the very end of April and sawthe positive direction in May continuing into June. Also July confirms the positive trend seen lately. As everyone in our industry, we focused and are still focusing on managing cost reductions and established measures to safeguard our liquidity. However, the economic outlook for 2020 has further been reduced compared to what we saw at our Q1 reporting in early May. The contraction for 2020 is expected to be much worse than it was at the financial crisis 2008 and 2009. This is why we still stay alerted and focused. From a position of strength, it is much better to act than if we had to stay reactive. This is why we established our first RCF with an amount of 3.75 billion and a tenor of up to to five years, which was an important milestone for the company. The economic downtrend triggered the commercial vehicle markets globally to contract significantly. This came on top of already low expectations before the Covid-19 pandemic for the US and Europe. At the moment, most third party research foresees a decline of the truck market in Europe of minus 30 to minus 50% and minus 15 to minus 30% for Brazil. Looking at all regions around the globe and taking into account the unpredictable frameworks with many unknowns, there is still a high level of uncertainty for the weeks and months to come. This is reflected in the huge bandwidth of expectations when it comes to future truck market developments. This time, we should take a closer look on what happened in the timeframe between April and June on a monthly basis. As you can see, April was responsible for most of the decline in Q2 within the business. All key KPIs were largely derailed by the production stoppage and the decline in economic activities. As already said, April was hurting us a lot. More than 50% of the decline in incoming orders was caused by the shutdown situation in April. 42% of sales revenue decline and 39% of declining operating profit are attributable to April. And as you would expect, we burned roughly 500 million of cash in April. But recorded positive net cash for May and July.

The financial services business was comparatively stable over the quarter. Sales revenue declined only 20 million year on year. The decline was evenly distributed over the second quarter. The operating profit declined by 18 million year on year, due to the increased bad debt provisions, reflecting our customers deteriorating payment ability at present. Please remember that Q2 2019 was the overall most successful quarter for TRATON since its establishment, with boost from the pull forward effect in demand because of the legislative change for digital tachographs in Europe and the potential for a no deal Brexit.

That leads me to the next slide, which shows the impact on our unit sales. We witnessed the sharp decline in unit sales in April and a step-wise recovery in May and June. As you know, we already expected a significant decline, in particular in Q2 2020, as Q2 2019 was positively impacted by the before mentioned effects. The expected decline was then further amplified by the Covid-19 situation. All of our production plants were mostly shut during April 2020. The restart is now in full swing, but it will take some time before we get back to old production and efficiency levels. This is mainly due to implemented health regulations, which we have implemented to protect the health of our employees. June and July continued the positive direction which started in May with book to bill ratios above one for TRATON Industrial business throughout Q2. Besides the unit sales and incoming orders, we frequently track the vehicle utilization. With that, we have a good indication how the commercial vehicle industry is developing. As you may know, more than 700,000 trucks for the TRATONGROUP are connected. This gives us a very detailed insight on the activity levels of our fleet. As you can take from the various graphs, the Covid-19 pandemic started to affect long haulage business in China in mid-January 2020. It took, however, only seven weeks, around mid-March, to return to normal levels in the long haulage business. In Europe and Brazil, the lowest point was seen around Easter. It took about eleven weeks, to the end of June 2020, to return to February 2020 levels in the long haulage business. Distribution and construction trucks showed a similar pattern.

The bus business and in particular bus coach business shows only a very slow recovery. The global bus and coach market has been severely affected by the restrictions that the Corona virus outbreak has resulted in. The demand situation is especially difficult to judge for coaches and tourist busses. For TRATON GROUP the bus business represents 9% of sales. After sales and service business remain more resilient, therefore share increased to 24% of group sales in Q2 2020.

As I summarize the recent development and unit developments, of course, people ask what is next? We can clearly reiterate our chosen path. It is more important than ever before, to act here and now, while not losing sight of our strategic long-term goals. In essence, that means for our daily business, as indicated already at Q1 reporting, we have implemented effective countermeasures like the temporary production stops and the subsequent restart thereafter. We use short-time work and comparable measures to reduce personnel costs. We have postponed or canceled projects, reduced overhead and fixed costs, and, of course, focused on safeguarding liquidity. Nonetheless, shoring the core business, pursuing known opportunity spaces, as well as investing focused into the future have high priorities for us. All-important innovation projects are up and running, including the common base engine. Our global champion strategy is the right setup to bring TRATON GROUP to the next level. Last, other group topics we planned or started remain further on track. With having said that, I pass over to Christian, who will guide you through our financials.

00:10:39 Christian Schulz

Thank you, Matthias and also hello and a warm welcome from my side.

I am on slide 10 and I once more can only just reiterate what was said, for TRATON, a sound balance sheet and ample liquidity are highly important as they give us freedom to concentrate on the steps necessary to emerge stronger from this crisis. In general, our balance sheet position is strong, with an equity ratio within the industrial business of 36% and the net debt adjusted EBITDA ratio, which is close to zero. Even after the end of the DPLTA with Volkswagen for the fiscal year 19, 1.4 billion were transferred. Our gearing is currently at only 3%. That also holds true, looking at our liquidity, thanks to strict cash management, unrestricted cash of 2.6 billion and credit lines of 5.6 billion safeguarding liquidity in these uncertain times. Further reducing operating costs by re-prioritizing our Capex and R&D, we took decisive action. Another important step. Solid first-time investment grade ratings for TRATON were assigned by Moody's and Standard and Poor's. Finally, we were able to set up our debut RCF this week, despite a Covid-19 impacted market. The volume was 3.75 billion, with a tenor of up to five years. It provides us with additional flexibility in these uncertain times. The embedded ESG sustainability link underlines our commitment to sustainability matters and further sets financial incentives for sustainable business performance. The credit facility can be drawn in different currencies and serves for general corporate purposes and liquidity backup for the GROUP. The debuts indicated RCF marks a very important step for us and also defines our banking circle and shows the trust that our banking partners have in TRATON.

I go to page 12. Incoming orders declined by 27% to 87,431 units in the first half of the year. All figures were negatively impacted by the pandemic. Unit sales were down by 37% to 77,738 with a sharp decline in April, but gradual improvements, as Matthias has said, over the remaining months in the second quarter. Also, as said before, have in mind the last year comparison was supported by the pre-buy effect of the digital tachograph introduction and the potential of a no deal Brexit. The reduction in the first half of the year was mainly driven by the truck business. With markets down as expected in all relevant markets, all three brands saw double digit percentage declines. TRATONGROUP sales revenue decreased by minus 26%, but aftersales supported, obviously. Operating profit in, the first half of the year was down to minus 220 million, driven by the 382 million loss in the second quarter. That means first half return on sales was negative at 2.2% minus. And it is fair to say that the deterioration in profits, in particular in the second quarter, was caused by the volume decline. On the cost and the price mix front, we were making further progress as our programs gained progress. Partly due to the reduced sales opportunities on the North American market in the wake of the Corona pandemic, Navistar has informed MAN Truck & Bus that they intend to refrain from purchasing the D38 diesel engine volumes that had been homologated for the U.S. market. This resulted in the mid-double-digit billion expenditure on the MAN side. We will still consider our receivable of 45 million to be recoverable. However, this transaction does not change our plans or the cooperation between TRATON GROUP and Navistar and all other projects are going according to schedule. Similar to Q1, further costs in relation with the rollout of the new truck generation at MAN and an increasingly difficult used vehicle business burdened operating profits. Profit after tax declined to minus 289 million as a consequence of the lower operating profits. Last net cash flow and industrial business was at minus 347 million vs. 1.784 billion one year ago. Please have in mind last year’s investing cash flow was supported by the sale of the power engineering business. I think you all remember that, with 1.978 billion euros. Excluding this, the swing year over year was only 153 million, so that shows also the we gained progress on cash flow, in the second quarter especially.

Other topics to mention. No change in status, as Rolf has said, on Navistar, the offer is still on the table. Also, you know, MAN’s new truck generation was introduced and also there is no news on MAN squeeze out, the date for the annual meeting has not yet been set. We will keep you posted as news may emerge. Last, September 23, has been set as a new date for Traton SE’s first annual general meeting. We will hold this as a virtual meeting.

If you please go to page number 13, let us have a little bit closer look on the two segments. Industrial business, as expected, we saw a sharp decline in industrial business, mainly in new trucks, but also we have declines in used, and a little bit less in aftermarket. European as well as South American truck markets were showing severe declines. The incoming orders softened further and decline by minus 41% year over year for the second quarter. Combined for the first half of the year, incoming orders were down minus 27%. Unit sales were down minus 52% in Q2 2020, and minus 37% in the first half of the year. However, the book to bill ratio and industrial business for second quarter was up to 1.05 year over year. Sales revenue in the second quarter and industrial business was down by minus 39% and for entire six months down minus 26%. Operating profits was down to minus 400 million in the second quarter and RoSstood at minus 9.3. The measures taken in connection with the Covid-19 pandemic, in particular the closing of all plants in April, had a strong negative impact. It is fair to say that all of the decline in operating profit was due to a decline in sales volume. Cost and price mix had a positive effect-An increasingly difficult used truck market also contributed to the profit development. Following the significantly negative impact of the consequences of the pandemic on net cash flow in April, positive net cash flow was generated again in May and June. That is a sign that our cash initiatives in both MAN and Scania are gaining ground and the negative cash flow in second quarter was by then only minus 179 million for the industrial business. Let us now focus on financial services. Net portfolio for the first half of the year was down by 2% and the penetration rate at 41%. The financial services operating profit in Q2 was down by 18 million to 19 million, driven by low margins, negative exchange rate effects and higher debt allowances.

On slide 14, as you can see, sales revenue and RoSfor the entire group by quarter, I think here again, the minus 38% on the comparison of the two quarters. Also growth as outlined before, minus 26%.

Page number fifteen. Also, just for your reference, if we continue to go to page number sixteen in this chart, basically you can see how the market has been developing. Obviously, you see all markets have been down, where our brands are in. If you look into Europe, please keep in mind, we have had in Scania, in the first quarter of last year, a little overshoot on market share, given the overhang of the volumes from the dual ramp up. And this has had extraordinary market shares in Scania. On the other hand, on the MAN side, obviously, the ramp up of the new truck generation also paid its shares into having the market share development in the European markets.

Page number 17, you can see incoming orders in the second quarter declined by minus 41% to 33,270 units. We saw significant reduction of orders in April, but then month over month we see improving numbers. Big question for us is how its going forward, as you know, always June is a very strong month. Now, we are heading into vacation period. Question will be, how will the third quarter be and what does that tell us for the remainder of the year? Book to bill was 1.04 times at MAN, thereby 0.18 times better than before. Scania with 1.1 clearly above Quarter two in 19. And basically, it's fair to say that this gives us also some hope going forward. Incoming orders we have discussed already.

Let's go to the next chart, please. Here again, you see just a quarter over quarter development of sales. As said before, 52% on the unit sales and growth diminished as explained before.

Next slide, please. Revenues in the industrial business again, quarter over quarter. You see the already lower first quarter compared to the fourth quarter of 19. Now, the sharp decline in second quarter, with year over year minus 39%, also here reflected, as said before. Next page, please.

What you can see in here is obviously the detailed view on the truck brands within the overall profit situation. Here you see the sales revenue bridge and return on sales by brand. I just focus on Q2 2020 now. Sales revenue was down and all brands in a similar magnitude, ending up to the minus 39% sales revenue decline in the industrial business. Looking at return on sales by brand, Scania was coming in at minus 1.5 and VW Caminhões e Ônibus at minus 9.8. Operating leverage was higher at MAN. In addition to the volume driven decline in sales revenue, operating profit was also negatively impacted by additional costs in connection with the launch of the new truck generation and, as I said before, an increasingly difficult used vehicle business. The operating margin declined to 17.1 minus year over year.

Let's now focus on the financial indebtedness and net liquidity within the industrial business. Net financial indebtedness increased by 1.9 billion versus year end 19, mainly driven by the cash outflow of the 1.4 billion from the end of the DPLTA with Volkswagen. I am sure you all remember that this was all connected with the IPO, with our capital structure. I guess that's the last time that we bore you now in this year with this, but it will come again in Q3 and Q4 and for the entire year. Other than that, we have seen the other changes as part of the bridge, that there are no bigger, unexpected things at the moment. We ended up at 376 million, and again, as I said before, also with the credit lines we have, we are in a solid financial position. Next page, please.

Our leverage ratios. On the left side we see that our gearing ratio, so net debt to book value of equity, increased to 3% as it was negative at year end 19, meaning we had net cash instead of net debt. In general, we show a strong balance sheet position in the first half of the year. On the right hand side, we see the net debt adjusted EBITDA ratio of 0.2 times, only slightly positive. Again, the end of the DPLTA Volkswagen in the financial year 19 is mainly explaining the change in the ratios. As we conclude the industrial business slides, let's have a look on the financial services business. Sales revenue was down by minus 2% in the first half of the year, respectively, minus 9% down if we look at Q2 only. Return on sales was at 9.5% in Q2, as operating profit decreased by minus 50% to 19 million. Some more details about the decline in operating profit. The decline was the result of first lower margins, second negative exchange rate effect and a higher bad debt allowances. Because of the corona virus outbreak, we have been rescheduling approximately 25% of our existing portfolio. We are working very closely together to support our customers in these tough times and by this act, like I first described. Year over year, net portfolio fell by 7% to 9.3 billion, resulting from lower financing activities due to the reduced unit sales and negative currency effects. Penetration rate was 41% for the first half of the year, up versus Q1 20 in those markets where financial services operates. The rate was set largely due to the lower truck unit sales in second quarter. The financial services book value of equity decreased slightly compared vs. year-end to 957 million but increased from Q1 levels.

This leads me to the next slide. Similar shown at the Q1 and it's basically the million dollar question. I mean, you see here all ranges between 30 and 50% down compared to 19 for Europe and for Brazil, minus 15 to 30. As I said before, April seems to be the trough with some slight hope in May and June. Now, the overall question is, is this a sustained development. Do we see it in the second half of the year or do we have a second wave of the pandemic? Then the picture might completely look different. But this is basically where we see our business at the moment. Some slight hope at the horizon. The question is, does it come on? Is it sustainable?

We now continue with the last section of the presentation. And basically, we put in here a couple of future developments. You see our supply chains are still very solid. And we do not have any disturbances at the moment. But it's a watch out. We need to see how supplies will develop now, in the second half of the year, if we have bankruptcies coming at the horizon in these financially distressed times. But we mirror that very closely. We have said before business outlook for the entire year, given the things that I've just explained, is currently not reliably possible. And also, we need to see how the recovery develops in the second half of the year. Next page, please.

Here you basically saw how our markets have been set up in the last recent years. We just discussed, two day ago, the situation in Brazil. You know, Brazil was fairly coping okay, in the second quarter, even with high increased infection numbers, truck business was negatively affected, but still okay in the development downwards. Now we need to see how this goes as infection rates continue to go up. And basically for the EU, I have just made my explanation. So, again, when you see here, the remaining target of the 9% over the cycle remains as a target. When we will get out of the current, obviously, biggest crisis after the Second World War, we will see.

00:26:22 Rolf Woller

With that, we are very happy to take any questions you might have.

Q&A

00:26:35 Operator

Ladies and gentlemen, we will now begin our question and answer session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced you can ask a question. If you find your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment please, for the first question.

And the first question is from Hampus Engelau, Handelsbanken. Your line is now open. Please go ahead.

00:27:12 Hampus Engelau (Handelsbanken)

Thank you very much. Two questions for me. If we could start off on the cost situation, if you could maybe add some more light on what you are doing on the cost side. We saw the Scania announcement of the headcount reduction. So I guess this is similar, what is done on MAN and maybe how we should think of that. Second question is related to that. You highlighted in the report that you are not ruling out losses for the full year. My question is, is this related to the range that you were talking about, the market outlook for you, minus 30 to minus 50%, is that moreminus 50% or how should we think about that comment on losses. That is only two questions. Thank you.

00:28:01 Christian Schulz

Okay. Maybe to your question on the market. You know, it is really the question Hampus, how does the second half evolve? And my comment was referring to that. You know, if we see that things improve like we saw it now in the order situation in June, one could be a little bit more optimistic. If we do see that, maybe it was just a short, let's say, bounce back and we have, again, a little bit more severe situation in third or fourth quarter, that might obviously then harm the entire year. And as you have rightly said, my comment was faced towards this second thing. You have seen that we basically, on the Scania side, have confirmed again that we work on 5,000 people that are being released. We have discussed before, as you know, about the dual ramp up costs that have been phased out in the system and the optimization on the material costs, but we also want to further, let's say, optimize the cost structure of Scania in order to restart after the crises, respectively, with new, fresh power. On the MAN side, as you all know, we have just recently had two new members in truck, one is Matthiasas the CEO of Traton, sitting next to me. The other one is Mr. Tostmann, who is now serving as the CEO of MAN. Currently, there are discussions on a comprehensive program that will be discussed with the union representatives in the beginning of September. And similar topics will be addressed there. Please do understand Hampus, that we can by now, and especially after this change, give not any details on what is on the agenda there. But there is also progress in discussions.

00:29:38 Hampus Engelau (Handelsbanken)

So is there overstaffing that was related to the introduction of the new trucks from MAN is definitely gone now or do you still need to carry more staff?

00:29:50 Christian Schulz

Hampus, I would have loved to say yes, but the problem is, I mean, they introduced the truck in February. It was well perceived by the market. They were in the middle of the ramp up as the Covid pandemic came, so we needed to ramp down all the plans, also those of MAN. So basically what they did now is they need to do a second ramp up. And the problem is that the capacity utilization is not on a level like it was pre-Covid. It is given all the measures you need to have with distances of 1.5 meters and everything is basically not really efficient to do that at the moment. Of course, we are also improving there, but MAN is not yet through the ramp up. The opposite is the case, they do it now for the second time. And it was for them, of course, very unfortunate timing to release a new truck after 20 years in this environment. But they're doing it very well.

00:30:37 Hampus Engelau (Handelsbanken)

All right. Thank you very much, Christian.

00:30:49 Klas Berglind (Citi)

Yes. Thank you. Hi Matthias, it Klasfrom Citi. A couple of questions from me. First of all, thank you so much for the unit sales by month. They are on slide six and obviously, I totally get that the outlook is uncertain. But if I if I heard correctly in the morning, I think Scania had positive sales growth in June, and that's good. But also it also suggests that we are delivering out of the backlog quickly. So how about new orders for deliveries in July? Obviously, book to bill was posted through the quarter. But are we also having a positive book to bill now in the beginning of the third quarter? I will start there.

00:31:31 Christian Schulz

Well, we see positive tendencies. It is too early to say if this, since today is the last day of the month-And also for August and September. But we, as you have said, do see some positive signs, but you know it is too early to say that this is a trend afterjust a couple of days.

00:31:53 Klas Berglind (Citi)

Okay. And then a follow up to that. Obviously, to get new orders going into the second half, we have this stimulus that we got in Germany, and they are all obviously hopes that this can be implemented at the European level and the shift from Euro5 to Euro6 in particular. What are you hearing, Christian? On the stimulus per se? Are you optimistic that this can come through. Obviously, Germany are holding the EU presidency and can you tell us about likely timing and so forth?

00:32:24 Christian Schulz

Well, first of all, it would certainly help. I mean, if you get 10,000 or 15,000, depending on the emission grade of your truck as a support, that would certainly help all of us in the industry to sell new trucks and also help the environment by getting the EURO 6 trucks into the system. I know that there are extensive discussions with ACEA, with VDA, with the German government and that the German government is lobbying also there in Europe. We haven't yet heard any results. Quite honestly, it needs to come sooner than later because, you know, obviously, if such an impulse would come somewhere next year, it would not have as much as things have now. But I mean, I can assure you, Klas, we all and also our fellow colleagues in the industry are speaking up there. And we, of course, we hope that this will happen. And Germany is, of course, there doing its fair share. I think they are doing the right things. Let's see.

00:33:21 Klas Berglind (Citi)

Okay, then my final question for you, Matthias, actually, two in one. So one quick one on Navistar. Sorry, I have to ask you something here and then on the strategy of the group. So, Matthias, you are the architect behind Navistar and the initial stake. So what happens now? Do we start a new due diligence process under yourself, or could you move ahead relatively quickly with the bid, obviously with the caveat that the market is still stabilizing. So that is number one. Number two, on the strategy of the group and on the synergies to 700 million, obviously, Corona is delaying things, but the need to change the CEO signals an internal struggle, if you like. And so what is your view on balancing the need for Scania to operate in a decentralized way at the same time as securing the synergies throughout the group?

00:34:11 Matthias Gründler

So Rolf tried very, very hard on that Navistar thing, but it seems like it didn't work. So I'm very sad but I don't really have new information for you in regard to Navistar. When it comes to synergies, I think Traton in the past year, did big steps in regard to synergies and the overall setup of the business. And I promise you, there will be further steps in the future to come. So I am very positive about that, but I am still in my analyzing phase and I will still work a lot in detail with both brands. And therefore, later I can give you some more details. Not now.

00:34:52 Klas Berglind (Citi)

Okay. Thank you so much.

00:35:05 Demian Flowers (Commerzbank)

Hi, thanks, guys, and thanks for taking my question and welcome Matthias. I am going to try and ask a sort of follow up question to Matthias in a similar way on MAN and Scania. I mean, I know it is early days for you, so I apologize, but as you take over, do you think that more needs to be done to integrate these businesses operationally? I mean, they have been run very much like separate companies, not like separate brands, really, for many years, for half a decade now. Is there something more fundamental that that maybe your arrival may signal in terms of the way the group thinks about the organization of the whole? That is my question to you. And then Christian, on Q3, I know people have tried to draw you on your full year comments regarding the operating profit, but is there any visibility that you can talk about into Q3. And can you also maybe contextualize that? I mean, you have talked a lot about job cuts. There are obviously some restructuring costs coming. Is there anything you can say about the timing or magnitude of those? And presumably they are excluded from any comments that you make about the operating result into the end of the year. Could you just confirm that? Thanks.

00:36:33 Matthias Gründler

Thanks for the question. You know, I was part of the strategy of the global champion strategy, which we have developed, and the global champion strategy is still valid. And we started pushing for the synergies and we will continue to do so. There is always more you can do, which doesn't mean that it was bad what was done in the past. So I will continue further pushing synergies and have intelligent integration of the brands where it is possible. And this will definitely be the case also in the future. So I am quite positive and quite motivated to actually work in that direction.

00:37:08 Christian Schulz

And to add on your other questions on the Q3, I mean, look, now is that vacation period, and if you look into the news, people go onto the beaches and they have parties, they come back to Europe and hell knows if there a second or third wave or whatever. So we are very, very careful on the Q3 just for that reason. I said before how I see June and July and the rest, please understand that we are just prudent people for Q3 and for the remainder of the year. When it comes to the second half of the year, obviously, Matthias has said before, and I also refer to that, there are discussions ongoing between Mr. Tostman and his team, which will then discuss with the unions at the beginning of September if there is an agreement and if there then is a reduction of headcount involved. Of course, then there will be also discussions. But, you know, this is all if and when. They need to discuss now. We cannot comment on it, and we will find out in Q3, when we talk again.

00:38:12 Damien Flowers (Commerzbank)

Okay. Thank you.

00:38:22 Nicolai Kempf (Deutsche Bank)

Yes, good afternoon. This is Nicolai Kempf from Deutsche Bank and welcome back Mr. Gründler, happy to have you on board. So my question would also be on strategy andalternative powertrains. So I've had a lot of news from Nikola on fuel cells also on the co-operation of Daimler and Volvo on that. Would you also consider fuel cells a key item in your powertrain going forward? And would you also cooperate with one of them as a partner? Thanks.

00:38:50 Matthias Gründler

Actually, we believe that alternative drive trains are of the utmost importance for our future. We still believe that the major or the majority of volume will be in battery electric vehicles. But the fuel cell also will have a certain play in the overall setup of the business. Therefore, we have actually intensive discussions with Hino, which is our partner on that side when it comes to fuel cell. And this is actually a very positive development on that side. Okay?

00:39:26 Nicolai Kempf (Deutsche Bank)

Thanks.

00:39:28 Operator

And there are no further questions at this point, so I hand back to the speakers for closing remarks.

00:39:36 Rolf Woller

Well, thank you very much. That was quick and crisp. I should make one final remark on behalf of our colleagues from Audi, because their virtual conference is running a little bit longer than planned, and I should send best regards, but the conference call for Audi will start at six o'clock, and everybody who was has already obtained any dial in numbers will get and receive new ones so that you can follow up the Volkswagen day today after the Volkswagen passenger car call. And now, Traton, you can basically finish your evening then with the Audi call at six o'clock. With that, I conclude today's call. I wish you a very good summer break. I hope you can find a cool spot anywhere in order to enjoy it, really. And we are very much looking forward to speaking to you again then on November 10th, when we are going to present our nine month results. And if there are any questions left, please don't hesitate and reach out to our team, which is happy to receive all the remaining questions. Thank you very much and goodbye.

00:40:48 Operator

Ladies and gentlemen, thank you for your attendance. This call has been completed. You may disconnect.