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TRATON SE – Investor Relations Conference Call for fiscal year 2020

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PRESENTATION

00:00:03 Operator

Dear ladies and gentlemen, welcome to the conference call for fiscal year 2020 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, and after the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press * key followed by 0 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're only connected by phone, please access the online tool to display the disclaimer. May I now hand you Rolf Woller of TRATON, who will start the meeting today?

00:00:40 Rolf Woller

Thank you very much, Miss Mohr. Hello to everyone out there. Thanks for participating in today's conference call. We hope very much that you and your families are safe and well in these continuing tricky times. Together with me on the line today is Matthias, our CEO, Christian, our CFO, and the usual representatives from Legal, Finance, Treasury and IR.

As you all aware, our most important KPIs were already released on January 22. And that was with the ad hoc announcement, because in particular, net cash flow was very strong. And then on March 10, we published our annual report 2020 and today is the analyst and investor call.

Today, we will provide you with some more details on the group's performance and what we expect for the running fiscal year to come. And before I hand over to my Matthias and Christian, I have to get back to some housekeeping items. First of all, the materials for today's call. I hope everyone has seen it. It's the press release on the battery-electric initiative on the TRATON site, as well as the Annual Report and the IR presentation. If you didn't receive them, please go on our website, TRATON IR, and then you can grab all relevant documents from this site. As Miss Moore has already said, there is a disclaimer on page two, which you should carefully read. I will not read it to you. And after the presentation we will, of course, host a Q&A session. I would like to ask every participant in the Q&A to limit his or her questions to only two, maximum three, in order to give everyone a chance to ask a clever question.

With that brief introduction. I'm very happy to hand over to Matthias, who will guide you through the first section of this presentation. Matthias, the floor is yours.

00:02:46 Matthias Gründler

Thanks a lot, Rolf, and a warm welcome from my side. I hope you're all healthy. I think that's the most important issue these days. To start off, let me make some remarks on 2020, which was a year of two faces.

We started into the year with rather low expectations because of the record year 2019. We have seen a dramatic situation because of the COVID-19 pandemic and its impact on our business. The worst situation occurred in April, and almost for the entire month all our production remained closed. With no doubt, the first half was extremely challenging, not only for our industry. In the second half of 2020 however, we saw an accelerated momentum. Market demand picked up, production capacity was ramped up and the recovery, especially in incoming orders, was stronger than we could have expected at the end of the first half. This trend continued also in the fourth quarter and continues to last for the beginning of 2021.

As everybody in our industry, we have focused and are still focusing on managing cost reduction and establishing measures to safeguard our liquidity. But even in a challenging environment, we made further progress on our way to become a global champion of the transportation industry and strengthen our technology partnerships. We reached a binding merger agreement to acquire Navistar. The closing of the deal is expected for mid-2021. TRATON and Hino signed a joint venture agreement for e-mobility, to develop electric vehicles and relevant components. TRATON and TuSimple agreed on a global technology partnership for autonomous trucks.

Our TRATON brands have introduced strong products during this year. With a new MAN truck generation and a new extra heavy truck Meteor in Brazil, we have a state-of-the-art portfolio in place on our core markets, to capture all relevant segments. We are transforming transportation, with our innovations in the electrification of trucks and buses. Scania, for example, introduced their first range of electric trucks in 2020. As you can see, despite the challenges we were facing into 2020, it was a year with a lot of progress for TRATON.

Since our figures for 2020 have already been published and most of you are familiar with them, I will not go into the details here. As you can see on the chart, despite the recovery in the second half, our numbers were negatively impacted by the pandemic situation. However, with strong team efforts, we managed to achieve a positive operating result and generated a net cash flow of EUR 676 million in the Industrial Business for full-year 2020. Please have in mind, last year's investing cash flow was supported by a couple of extraordinary items, amongst others the sale of the power engineering business. Excluding this, the swing year-on-year was positive and amounted to EUR 157 million.

Let me read some quick highlights on the performance in the second half, which you can find on page six. As you can read on the left side, we have witnessed a noticeable market recovery, in combination with increased incoming orders. In the second half 2020, incoming orders were up 47% compared to the first half 2020. Very impressive is Scania, with a book to bill ratio of 1.4 in the second half of 2020. Unit sales recovered strongly as well, up 45% in the second half of 2020 compared to the first half. Thanks to all these developments and other actions, like strict working capital management, we generated a strong net cash flow in the industrial business of EUR 1,023 billion in the second half of 2020, significantly above the first half. We reduced capital expenditure and primary R&D in 2020 significantly. All this resulted in recovering sales and improved EBIT, as you can see from the chart on the right.

On the next slide, we have a detailed view on the brand level for the second half versus the first half of 2020, to outline the two phases of the year. As you can see, these significantly improved our performance in nearly all relevant KPIs in the second half of 2020 compared to the first half. Major highlights are Scania, I already mentioned, and book to bill ratio of 1.4. In the second half incoming orders were up strongly by 70% compared to first half 2020. Unit sales and sales revenues recovered significantly. Operating return on sales was more than 8% in the truck and bus business, and again very good in comparison to competition on a similar basis. MAN was strong on volumes and sales revenues followed. The operating loss declined EUR 166 million in the second half. This was achieved despite the ongoing dual costs for producing, in parallel, the new and the old truck generation. This testifies that we are making already good progress on the cost side. MAN also benefited from an increase in unit sales. VWCO sales revenues were clearly impacted by the exchange rate, but generally speaking VWCO improved compared to first half in all key figures.

Having said that, I would like to hand over to Christian, who will lead you through the outlook session. Christian, please.

00:08:28 Christian Schulz

Thank you very much, Matthias, and also a warm welcome from my side. I'm on slide nine. Here we are providing more details with regard to our outlook for the financial year 2021. After global growth collapsed in 2020, the International Monetary Fund is expecting a noticeable recovery for 2021. However, this action will vary by regions. You all know that China has found its way back to the growth path very early already in the second half 2020. The Euro Zone, which is very important to us, is recovering at a slower pace than initially expected. The IMF has already had to lower the expectations here in the last couple of months. This all shows that, while we can expect growth in 2021, the economic environment remains volatile. If you look at the right side of this slide, the registrations of 16 t trucks in Europe follow the macroeconomic developments. It went up very quickly after the corona slump, but after that the growth slowed down. And while the European market heavy duty trucks has returned to the positive in direct year-on-year comparison at the end of 2020, we have seen in January 2021 again a negative year-one-year development. Moreover, the market has not yet reached pre-pandemic levels. Bear in mind that the exceptional strong year-over-year change in mid-2019 was helped by the pre-buy effect in the light of the introduction of the digital tachograph and pre-buy of some extra volumes and expectation of a hard Brexit by the time. All in all, we will stay vigilant and focused. Yes, the business climate worldwide is brightening. However, increasing infection rates and shutdowns in Europe are reoccurring. There's still a high degree of uncertainty for 2021, even though the lockdowns are limited to social rather than to industrial life.

I'm now on slide 10, where we can see the development of our unit sales and incoming orders on absolute, on the left hand, and relative level on the right-hand of the chart. Overall, the positive development of vehicle utilization in most regions since May 2020, continued also in the fourth quarter, especially in the long-haulage truck business. The market recovery went faster than we expected it to happen. Incoming orders were likewise recovering faster than anticipated. In each of the six months of the second half of the year, the group's incoming orders were above the respective prior year months, resulting in a 21% increase in incoming orders in the second half of 2020, compared with the second half of 2019.

As you can see on the left graph, the decline in unit sales also slowed significantly in the second half of 2020. The gap to the previous year's levels narrowed considerably. With almost 63,000 units sold, we nearly even reached the prior year fourth quarter level. Looking at the year-over-year change on the right graph, we see the unit sales are following the incoming order momentum, which was strong in the second half of 2020. By comparing incoming orders with unit sales, you can see that our book to bill ratio was well above one times for Industrial Business throughout the second half of 2020. Overall, the graphs show a V-shape momentum in the third and fourth quarter. However, as mentioned before, we still have to be careful, as we all see the pandemic development. Having said that, we can confirm that the start of the year saw these trends not abating.

This prudence also is true for the worldwide truck market outlook that you can see now on page 11. Clearly, the economic downtrend triggered commercial vehicles markets globally to contract in 2020, with only the fourth quarter standing out of this trend. From that low basis, all is set for a firm market recovery in 2021. However, this development will be unevenly distributed across markets, and amplitudes could vary for each market in the light of the before-described developments. More forecasts foresee an increase of the truck market in Europe, which should range between plus 10% to plus 25% for the year 2021. For South America the range is even greater, and goes from plus 10% to plus 40%, as you can see in the middle chart. As shown on the lower chart, the truck market in North America is forecast to grow between plus 5% to plus 20%. We are undecided how strong the recovery is taking place, but we do not see the upper end of these ranges being reached in 2021. We are not believing that we will end 2021 close to the peak levels seen in 2019, but would see them being reached not before 2023. This might also partly explain our forecast on the operating margin in 2021 on Group level.

After elaborating on truck market developments for 2021, we are now focusing on the expected development of our Group for 2021, which you can see in the last column on the right. As you've already seen from our press release of the 2020 Annual Report on March 10, after the decline in 2020 we expect a sharp rise in unit sales and a substantial increase in sales revenues for 2021. Given that all our major truck lines are renewed, we firmly believe that we will emerge stronger from this crisis than we have been before. For the return on sales we are forecasting 5% to 6%. This depends very much, as said on the slide before, on the development of the end markets. In line with the improved operating performance, we are assuming a cash conversion rate in the range of 25% to 35%. Just as a reminder, our outlook does not contain any expenses or expenditures for the MAN Truck & Bus restructuring program and any effects from the planned acquisition of Navistar. The forecast is subject to no further increase in the number of cases due to the COVID-19 pandemic, and that no associated countermeasures are taken by the affected countries, as well as subject to any potential impact on our production and supply chains. However, the distinct brand performance, the new truck lines, the introduction of the Common Base Engine and other benefits should all help achieving this goal, which brings me to the next slide.

What are the focus areas for TRATON in 2021? First and foremost, the planned acquisition and integration of Navistar. The deal accelerates our Global Champion strategy by creating a global leader across key truck markets. Nevertheless, that will not be our sole focus for this year. MAN has initiated a comprehensive realignment program, which will allow for structural changes in its cost framework. On top, the introduction of the new truck generation of MAN will be completed in the second half of the year, and will allow MAN to further reposition his brand. First benefits were already realized in the second half of 2020. After five years of development, we will introduce our Common Base Engine into the market in the second half of the year. Scania will start to roll out the brand new 13 liter engine in Europe, which would set the new standards in terms of fuel economy and efficiency. By leveraging powertrain components across all brands, we can realize significant cost savings over the years to come. We are best positioned with our new truck lines and the new engine to explore the key transportation innovations. Very important, with the renewal of all our truck lines and this finishing the development of the CBE, we completed the bulk of the Capex budget dedicated to new products and can concentrate now on new investments for future technologies. That means we will continue to further speed up our electrification activities and expand our positions on alternative drivetrains.

Now I'm on slide 14. I would like to provide you with some more details on the MAN Truck & Bus realignment. The Executive Board and General Works Council agreed on a framework paper to enable the company's rigorous and sustainable reorganization of the production and development network, with a strong focus on future technologies. The agreement on the key points supports a package of measures with the aim of improving earnings up to EUR 1.7 billion. On the left chart, you can see that it specifically aims to achieve an improvement in overhead and personnel expenses of up to EUR 550 million. Material costs are to be cut by around EUR 700 million, as a result improving cooperation with our suppliers starting as early as the concept design phase for products. The company also aims to generate around EUR 450 million through an additional sales efforts among other things. The measures planned also entail cutting around 3,500 jobs across all areas of the company in Germany by the end of 2022. The Steyr plant in Austria, which has around 2,200 people, is still being discussed. We are reviewing all options in this respect, including the possibility of selling or closing the site. In total, the restructuring measures are currently expected to result in costs of high triple-digit million euro amount for the entire restructuring period. This is including the measures in connection with the Steyr site, which are still to be defined. What we can witness: there is a clear momentum now at MAN Truck & Bus, and benefits will occur already in 2021. You will be able to follow that on a quarterly basis during 2021.

On page 15, some details regarding our planned acquisition of Navistar. As you know, we signed a binding merger agreement with Navistar in November 2020. On March 2, a clear majority of Navistar shareholders approved the acquisition at the Navistar Annual Shareholder Meeting. The planned acquisition of Navistar marks another important step in our company's history. It will accelerate our Global Champion Strategy and is a natural next, as we will enter the North American market. Consequently, we the TRATON management team are very much convinced that the combination of TRATON and Navistar will create sustainable value for our business partners, as well as for our shareholders. Unchanged closing is expected from mid-2021 and subject to regulatory approvals and customary closing conditions, with the listing of Navistar envisioned to take place shortly after closing. Going forward on this deal, we will put our focus on the successful integration.

One more topic I would like to highlight on the next page. The trend towards alternative drives is no longer reversible. TRATON positions itself early on. We want to take a leading position here. Climate protection is an elementary goal for us. Since last year, electric buses from Scania and MAN have been on the road with a common electric drive. Our brands have set clear goals for alternative drives. In 2025, electric vehicles will account for around 10% of Scania's volume in Europe. At the same time, half of MAN's new buses will have an alternative drive. By 2030, every second vehicle sold by Scania will have an electric drive. At MAN, at least 60% of trucks for delivery and 40% of trucks for long-distance traffic will be emission-free.

Page number 17 confirms this objective. The future of the trucks will not be shaped by diesel, however, clearly from electrified drive train solutions. This firm conviction leads us to significantly expand our research and development budget for e-mobility. We now plan to spend EUR 1.6 billion in the period up to 2025. So far, we have earmarked an amount of EUR 1 billion. This increase is made possible because all brands are shifting their budget from conventional to electric drive trains. This doubles the share of product development for e-mobility by 2025. In return, less than 20% will still go into the product development of conventional drive trains. TRATON becomes electric, not overnight, but step by step, sustainable and in line with the necessary grid expansion. Because of our charging infrastructure, this would not work. Having said that and making you aware of the back for your modeling purposes, we conclude today's presentation and we are very happy to answer your questions now.

00:21:58 Rolf Woller

Thank you, Christian. That concludes the general presentation of Christian. As mentioned there is extensive back-up available with all the details and data you need in order to feed your models. And I'm very happy that Miss Moore can now start the Q&A session.

Q&A

00:22:18 Operator

Thank you. Ladies and gentlemen, if you have a question for our speakers, because please dial 0 and 1 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 0 and 2 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 Horst Schneider, Bank of America. Your line is now open. Please go ahead.

00:22:53 Horst Schneider (Bank of America)

Good afternoon, and thanks for taking my questions. The first one that I have, you can imagine, relates to the guidance that you have put out, which surprised me a little bit how cautious you are. So when I look at the market guidance range, for example, it's a pretty broad range that you define here, for example, for Europe the plus 10% to 25%. Maybe you can explain what the lower or upper range depends on. What's your view now, since we have started the year already and you've got already the order intake from January and February? What do you think is more likely to reach, upper end, lower end? And then again on leverage and margin as well, why are not more bullish on the margin? What are your key assumptions there that you will remain in this 5% to 6% range? Thank you.

00:23:51 Christian Schulz

Horst, thanks so much for your question. I mean, obviously, there's a point to discuss. On our end, we had a very good second half when it comes to order intake. And as you rightly said, compared to some of our competitors we are less bullish on the market outlook, in particular for Europe. And as I have described on page 11, this is in some regard supported by third-party thinking. But for us, you also need to keep in mind MAN still has to cope with the ramp-up of the new truck generation and still has some ramp-up cost to handle. We guess that it will be fully implemented on the NTG (new truck generation) side in the second half of 2021. And this will be the time when we then introduce the new engine, the production and delivery on the Scania side. And as I said before, given the current situation and COVID-19 and also the situation especially for the second quarter, at least a temporary effect on the semiconductors, leads us to the fact that, since we are prudent people, we are a little bit more cautious when it comes to our expectation on the market.

However, if you see the development in Q1 so far, we do see that there's a strong momentum still that we have seen in Q4. Order intake continues to be strong. And so we cannot rule out that we will be, maybe at the end of the year, on 2019 levels. But, again, I do not want to commit to you. The momentum needs to be seen. The upper end of the guidance seem to be reachable.

00:25:32 Horst Schneider

Sorry, a quick follow-up on that. So the semiconductor impact, can you quantify that for Q2, maybe?

00:25:38 Christian Schulz

No, we can't. I mean, we saw on MAN already one or two smaller stops here. Scania so far hasn't had, any and we are closely aligned within the group. We do foresee, for the second quarter, some disturbances that would stretch the supply chain, or maybe even the production also on the Scania end. And but we think it's just temporary and that we could catch up most probably in the second half of the year.

00:26:02 Horst Schneider

But definitely, the H2 going to be stronger than H1 in terms of margin and then you'll see after H1 where you end up, right? It's a bit less.

00:26:14 Christian Schulz

As I said before, let's see the first and second quarter and the situation around COVID, and then we'll see. Okay?

00:26:22 Horst Schneider

Good luck. Thank you.

00:26:29 Operator

The next question is from class Klas Bergelind, Citi. Your line is now open. Please go ahead.

00:26:35 Klas Bergelind (Citi)

Yes, hi. Matthias, this is Klas from Citi. So, a couple of questions. I will take them one at a time. First on investments, you're increasing the e-mobility investments for good reasons, from EUR 1 billion to 1.6 billion through to 2025. And then you're saying you're scaling back investment on the conventional side. But just to confirm, there is no creep upwards in total R&D nor Capex except by 2025 as you see it now? The reason for asking this is that obviously Scania is now investing to go local in China, as well. So obviously there is incremental Capex on that side. So, just confirm that.

00:27:15 Christian Schulz

Klas, you know we are out with around EUR 1.1 billion on Capex and EUR 1.3 million on R&D. As you have rightly elaborated, we will shift within the 1.3, since the new truck lines are all established on MAN, on Scania. And now we have the Meteor and the updated delivery also in Brazil. CBE is developed. It will hit the market in the second half of the year. That means the majority of our classical R&D investments have been executed. And this is why the Board still commits on the level of around EUR 1.3 million, as you have rightly guessed.

And secondly on Capex, the same thing. The foundry on the Scania end is running now the production of the CBE is established. And we will use within that EUR 1.1 million going forward also the extension of a certain investment. Now it depends on the China strategy going forward. In the current setup, we will continue to be on the EUR 1.1 million. But that's basically in the foreseeable future. We cannot judge what comes in the next couple of years in China.

00:28:22 Klas Bergelind

No, sure. But you can understand why I'm asking. There’s a lot of questions on it. It's my second one is on the battery side. What kind of, if any, margin headwinds can we see once you start to roll out on deliveries here? We know that Capex and R&D, as you say, might not be as aggressive on the way up as on the other] side. But I'm still thinking about production disturbances as we roll out, loss of the market revenue from the eyesight, increased launch costs. Do you see, like in the case for Volvo, that the length of the service contract with increase? Obviously equipment as a service will compensate? I'm interested in your thoughts on potential headwinds as we roll out on the battery side.

00:29:05 Christian Schulz

First, as you have rightly said, aftersales and services significantly contributed to our margins. And since business models are shifting, we invest a lot of, let's say, investigation in expanding our business on that end. When it comes to downstream business, we need to accept future possibility that we do this. We have ideas there, but it's too early to comment on it. There will be certainly some headwind in the beginning. I mean, volumes today are quite small. So if they are ramping up, assuming that battery costs will go down and that we will improve on the product cost side, the impact will not be as much. But we need to see what we can compensate on the holistic services and downstream side.

00:29:57 Operator

The next question is from Hampus Engellau, Handelsbanken. Your line is now open. Please go ahead.

00:30:02 Hampus Engellau (Handelsbanken)

Thank you very much. Two questions from me. More starting off on the market, I think that in the second half of '19, it was pretty clear that both Europe and North America truck markets were peaking, looking at being above 300,000 units for some time, having a very young, active truck fleet, and also some oversupply. I guess none of us expected 2020 to come out the way it did. But my question is, what's your view on the trucking cycle here in terms of aging perspective, supply and demand, or haulage? And how to think about maybe 2021 having an overshooting on the upside, as 2020 has an overshooting on the downside? And what risks do you see, if 2021 comes out stronger than expected, that 2022 could very much be a downturn year in the correction before having this age problem solved? That's my first question.

My second question is regarding to the press release you sent out here. Maybe I'm getting things wrong here, but my perception for reading it and looking at this is it seems that you have a bigger business case on battery-electric, rather than hydrogen trucks. And that puts you more within that Tesla segment we're talking about, also for the long haulage side of battery-electric, as opposed to compared to maybe Daimler and Volvo, who's moving more towards hydrogen when it comes to long haulage. So, if you could maybe discuss your thinking behind that. Those were my two questions. Thank you.

00:31:36 Matthias Gründler

Thank you. Maybe I'll take that, Christian. When it comes to the market, there's a significant difference between the North American market to the European market. In sheer number of miles or kilometers, the US-driven is for truck much more than in Europe. So that's why the replacement side, in my expectation, would be earlier to come back in the US, so rather already partially in 2022. And in Europe, it will take really until 2023 until we're back at better market volumes, as Christian presented in the beginning.

When it comes back to battery or hydrogen, you know that this is, in the end, not what we want. In the end, it's about our customers. With what kind of products will our customers have the best benefits in their business models. And it looks like, when we calculate our models – and the models are getting better and better; we learn on our way – actually, we see that in 2025 will be the turning point that we actually see that the battery vehicles will give the overall total cost of ownership position for our customers that will be better than the diesel engines. This you can also achieve with the hydrogen, but green hydrogen then only should cost you about EUR 3 per kg. Then it's actually on par. And this will come later from our perspective. But if you compare again battery electric vehicles the hydrogen vehicles, we see that, for our customers, the benefit in most of the use cases-- not in all of them. There are some use cases that definitely the hydrogen truck is giving a better result to our customers because, for example, there wouldn't be a lot of charging infrastructure somewhere in Australia. Then, hydrogen makes a lot of sense. But overall for Europe we see the battery vehicle as the mainstream vehicle, also in long haulage.

00:33:30 Operator

The next question is from Rajesh Singla, Société Générale. Your line is now open. Please go ahead.

00:33:37 Rajesh Singla (Société Générale)

Thanks for taking my questions. Maybe a couple of them. So, the first question is on your outlook for 2021. And if I look at the slide number 12, where do you see yourself in 2021, when we are saying that there will be a substantial increase in revenue as compared to 2019? Because in 2019, year revenue was 19% higher than 2020. And probably the unit sales were around 25% higher than 2020 and margin was around 7% in 2019. So, what is the major driver of these lower margins in 2021? How much is the raw material cost responsible for such a lower margin in 2021?

00:34:24 Christian Schulz

Thanks for your question. I tried to answer that before, when I answered Horst’s question on the guidance. I mean, we need to see the uncertainty we are currently in when it comes to the market environment first. Now, I said before, MAN until the end of the second half needs to introduce the new trucks. There's some dual ramp-up costs, with maybe some disturbances if the COVID situation is getting worse. Then you ramp up a new engine in the second half of the year for the group, starting with Scania. That, at the end of the day, means that you basically need to be careful when it comes to the development of the efficiency there. Matthias and the team, on the MAN side, have just recently now aligned on the MAN restructuring program, which also starts now in parallel to the finish of the ramp-up of the truck. And this brings up to the point that we, as I said before, are just prudent people and just take it quarter by quarter here.

00:35:29 Matthias Gründler

Christian, I think you mentioned the right thing. We really do, this time, a really holistic restructuring of MAN. That means we touch every site, and we change the content more or less of every site. And this somehow will also have an effect on the organization. I think this is very natural.

00:35:49 Rajesh Singla

What kind of raw material headwinds are you seeing in 2021 in terms of the margin? Maybe 50 basis points is already built into these margins? If you can share some insight into the raw material pressure already built into these margins.

00:36:07 Christian Schulz

I think it's very difficult for us to give details on how much of the risk part is already there included. I don't know exactly where you're heading to, quite honestly.

00:36:19 Rajesh Singla

Okay. Maybe the last question with respect to the long-term guidance which you had given in the past, of over-the-cycle margins of around 9%. So, where do we stand on that? Do we still think that we would be able to achieve that by maybe 2023 or 2024? Any timeline on that margin guidance?

00:36:40 Christian Schulz

It is exactly like we said, it's an over-the-cycle target now. We had a down-cycle in Europe last year, with the reshape recovery as I've outlined before. Now we'll see how the cycle will develop, but the targets of 9% for the TRATON Group, 12% for Scania over the cycle, 8% for VWCO and 8% for MAN Truck & Bus are still valid. And as Matthias has said, building up now these efforts in the restructuring is an important part of that.

00:37:15 Operator

And the question is from Nicolai Kempf, Deutsche Bank. The line is now open. Please go ahead.

00:37:20 Nicolai Kempf (Deutsche Bank)

Thanks for taking my question. So, the first one would be on the order intake. And Scania did pretty good in the last quarter, but MAN the order intake was basically flat, while the market was up by over 30%. Can you give some color why this was not the case at MAN? And the second one is on the batteries for your electric lineup. Volkswagen has announced some ambitious plans to build up its battery cell capacity. Can you source battery cells from Volkswagen?

00:37:57 Matthias Gründler

To the order intake on the MAN, as you know, you saw on the restructuring program that we actually want to improve on the measures of EUR 450 million on the pricing on that revenue side. We have now the opportunity. For the first time in MAN, we have a complete new setup. And we want to position that new product in the right way from day one. This is why we are not striving for market share. We are striving for product positioning and a clear price point we want to have. This is the first point. And you will see that continuously now on the MAN side. You're going to see a much better price discipline than in the past.

When it comes to batteries, we are actually thinking in two ways. Yes, let's work together with Volkswagen. Let's have that huge volume somehow incorporated in our discussions. But we do it in a split way. We have it, on the one hand, on the Scania side with Northvolt and also other passenger car brands. So overall, we have a good volume there. And then we do it with some other passenger car brands, actually, on the MAN side. So not having, let's say, all eggs in one basket, but use the opportunities of the group here. And we feel very confident with that.

00:39:27 Operator

The next question is from Jose Asumendi, JP Morgan. Your line is now open. Please go ahead.

00:39:32 Jose Asumendi (JP Morgan)

Hello, Matthias and Christian. A couple of questions, please. On the CBE side, by when do you expect the full rollout maybe by region or by brands to be executed? That was the first one. Second, on the fuel cell, I get the point that you are focusing more on electric. And that's very well respected, and I get it. If, for whatever reason, the market will go more towards hydrogen fuel cell trucks, can you speak about your ability to react and what you have in terms of in-house technology, please? Third, Christian, can you talk about restructuring cash outflows in 2021, if there's any guidance for that, please? And I have final one, but I'll leave it for these three for the moment. And I’ve got another follow-up, please. Thank you.

00:40:21 Matthias Gründler

Okay, I'll take it quickly, Christian, and then you can talk about the cash side. The CBE, it really starts now with the second half of 2021 at Scania. And then we will continuously ramp up. Roughly in 2024, second half, we're going to be on a very, very good volume base. And 2025 is a full year of CBE being almost in every second truck of our organization globally.

When it comes to hydrogen, no, it's not like we actually not investing in the hydrogen. You really need to understand, the technology, we're building a prototype, so we're actually quite good in that. And that's why we actually have the joint venture with Hino and with the Toyota fuel cell. And, in the end, if the market would shift – which we don't believe, based on all the information we have – nevertheless, we have all the capabilities. All the surroundings, the e-engine and whatever, all the components, you actually anyhow use for both trucks. You use for the fuel cell trucks, as we use it for the battery vehicle. So most of the components are anyhow the same. Really, it's the storage of the electric energy that you do in a different way. But we are prepared for the market shifts. We are capable. We have the technologies.

00:41:41 Christian Schulz

When it comes to your other question, Jose, obviously now, since the agreement was just recently signed, we will book not on the cash side, but we will book on the return and accrual in Q1 and basically for the 3,500 in Germany. And as soon as we get an agreement, whether on flipping or selling Steyr, we will then do this in the second quarter, I guess. When it comes to cash outflows, pretty much stable, I would say, in the next two years, because those 3,500 people go with different measures. Some take a package. Some stay on with part-time, whatever. So you will see those cash outflows for the first portion in the next 24 months, most probably.

00:42:29 Jose Asumendi

That's great detail. Thank you. Matthias, back to you on a follow-up, please. The Chinese market is a huge opportunity, obviously, for the group and for Scania. And I'm sure it will be a big topic of debate in the coming first months. Can you just elaborate a little bit more, what has changed? Because the Chinese stock market has been there for a long time and very, very important, obviously. What has changed structurally for you in the last 14 months and now, suddenly, you're accelerating? Your competitors are also, by the way, accelerating there with a new dedicated truck for the Chinese market. But what has changed for you specifically and specifically within Scania?

00:43:03 Matthias Gründler

The segmentation in the Chinese market has really changed, not only in the last 14 months. I would say in the last two years, we could really see that. It's not any more the mid on the lower end of vehicles, from a technology perspective. It's more on the upper end, even a little bit into the premium segment, where we see the market shifting. So, the product and the potential of our products, they in fact, are significantly bigger segments. And that's why it's now the time for us to really invest. That shift will continue. As transport is getting more systematic and more qualified in China, there will be a significantly bigger market segment for us. And that's why it's time now for us to actually invest. And most probably you'll see a much bigger story than only the Scania from TRATON in China.

00:44:07 Operator

The next question is from Björn Enerson, Danske Bank. Your line is now open. Please go ahead.

00:44:12 Björn Enerson (Danske Bank)

Thank you. On the same topic, on China, I would like you to talk a little bit more about the expansion in China and in Asia overall, if we can get some more color on how much you invest and if you can give some of your own expectation of shares, etc. in that region. Thank you.

00:44:37 Matthias Gründler

I can do this quickly, Christian. Our focus in the moment, you have to understand, is really the team wants to now get the Navistar deal, then consolidate the company. So, that's quite a big effort for us, and that's the major focus, because the second half of this year TRATON looks very different. Our focus next – we started with the Scania investment and discussions – will be on Asia. And it's not the time now to give you a clear answer, but it will come this year that we will show you very clearly what our strategy for Asia is. Work in progress.

00:45:11 Björn Enerson

Work in progress – looking forward to that. And my second question is on MAN and the major restructuring there that we have been waiting for. Can you give us some details on how your progress timing wise would look towards the 8% EBIT margin? Is a lot tilted towards the end of your forecast or is the gradual improvement?

00:45:39 Christian Schulz

It's actually, this time, really a quite complex restructuring, because we're really taking each of the sites and have newly identified and defined what we are going to do per site. This also, in that moment, means that, for example, we have to move the production on light duty/medium duty truck from Austria to Poland. We have certain cabin manufacturing which we do today in Munich that we're going to move to Poland, and so on. So some of the engineering functions from Austria are to go to Germany, to the Nuremberg site or the Munich size. We will rework completely and our logistic functions, and so on. This will take some time. So this is why it will take us these two years to actually implement all of that, because it's a true restructuring. But you will see, as Christian described before, gradually, quarter on quarter, you will see slight improvements. And we will report back what we have achieved. But for some issues, it really will take the two years, because we first have to do an investment – for example, in Poland – before we can shift the production, and so on. But we are on our way. And we actually know exactly what we're doing here.

00:46:46 Björn Enerson

Great. Thank you. And last question on the MAN pricing, is there anything you have said about the impact on volumes? So, what kind of potential drop in market share you're likely to accept? Or do you expect to keep it unchanged in the medium term?

00:47:10 Christian Schulz

Look, this is market by market. I mean. There's some markets, like in Germany, where MAN has also a very established market position also on the premium side, as Matthias has alluded to before margin, before volumes. So we know that the new truck has an 8% fuel consumption improvement. We see that customers do pay for that, that margins start going up. And, as I said in the last quarterly calls, we are reducing the ramp-up speed of the new truck, in particular in order to safeguard the margin. So we'll see, as Matthias has said, also quarter-by-quarter particular improvement.

00:47:50 Matthias Gründler

And, you know, so far we have tried it before in MAN, with the old trucks, to actually increase share or increase pricing. And it didn't work. But now, this time, we have the chance. So we need to make right. We have to write margins in the product. It works if the product is really great.

00:48:14 Operator

The next question is from Xing Lu, UBS. Your line is now open. Please go ahead.

00:48:20 Xing Lu (UBS)

Hi. Thank you for taking my question. The first question is just on the MAN, just following up on an earlier question on the MAN earnings improvement. The personnel and overheads savings are EUR 550 million. That's probably quite clearly coming in over the next few years. Could you expand a bit on what is required for you to achieve the cost savings on material costs and sales efforts, and what kind of phasing we could expect there? Is two years enough to achieve everything you want to do? Thank you. That's my first question.

00:49:03 Christian Schulz

I think two years are not limited when it comes to material costs. The MAN is a 20-year old truck. You don't get your suppliers buying into huge material costs improvements there. And now this truck is being launched, most probably the launch is concluded now by the first half of the year. So this is an initiative that will go on. And also then, by the time when MAN will also take the engine and transmission and the after-treatment system from the CBE platform, it will continue. So it's an effort that is not limited to those two years.

I was referring to the two years when it comes to the cash flow for the headcount measures for the 3,500 people here in Germany. So this is going to continue. And, as Matthias has alluded to, we will report quarter over quarter how the company will develop, but it's a journey. So, we won't be finished in the next two years. Absolutely.

00:49:57 Xing Lu

Understood. Thank you very much. And my second question is really just on the CBE. Could you maybe share how much of energy efficiency you could expect to achieve for customers, and thereby, any pricing tailwinds that we could expect from this? And generally, I guess, looking at the general market uptrend, do you expect any positive pricing to come through in 2021?

00:50:21 Christian Schulz

Of course, we do. I think, quite honestly, we know how much fuel consumption improvement this new platform will bring. And of course, since our customers are seeking for improvement, we expect to get pricing realize that. But we can't, unfortunately, even if we like you guys, disclose it today. We will do so once the product is launched into the market. Right, Matthias?

00:50:41 Matthias Gründler

Yeah. And we expect happy customers. That's the only thing we can say.

00:50:50 Christian Schulz

Thank you very much, Xing. I hand back to Miss Moore. Miss Moore, are there any further questions?

00:50:56 Operator

There are currently no further questions.

00:50:58 Rolf Woller

Super. Thank you very much, Christian. Thank you very much, Matthias. For the remainder. If there are any open topics – we know 240 pages of an Annual Report are always difficult to digest – whenever you have a question, please bring it to the team in Munich. We are very happy to answer any questions you might have. In the meantime, you know that the closing period for the first quarter will start soon, namely, in early April – April 10, if I'm not mistaken. And then actually on May 10 we will meet each other again, hopefully with even better numbers than we could provide for the second half of 2020. And we look very much forward to the first-quarter conference call. Thank you very much for being with us today. And stay healthy. Speak soon. Bye. Thank you very much.

00:51:53 Matthias Gründler

Thank you very much. Goodbye.

00:51:55 Operator

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