Transcription

TRATON SE

9M 2019 Results

November 04, 2019

EV00095400

Monday, November 04, 2019

00:00:00 Operator

Dear ladies and gentlemen, welcome to the nine-month 2019 conference call of TRATON SE. This conference will be recorded. After the presentation there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press star key followed by zero for assistance. May I now hand you over to Rolf Woller, Head of Investor Relations, who will lead you through this conference. Please go ahead.

00:00:34 Rolf Woller

Many thanks, a warm welcome to everybody from Wolfsburg to our conference call on the occasion of the nine month results 2019. Together with me in the room is Christian Schulz, our CFO, Julia Kroeber-Riel, our Head of Corporate Communications, Annette Danielski, our Head of Group Finance, and Klaus Schartel, the legal counsel. And last but not least, we have Andreas Renschler today with us, our CEO. Before I hand over to the gentlemen, I have to mention a couple of housekeeping items. First of all, you should have received the presentation titled 9M 2019 Results. Then you should have received the press release on the nine months and our nine month interim statement. If not, you can download it from our website under the IR link which ir.traton.com. And furthermore I should draw your attention to page 2 of the presentation, which is the disclaimer. Please read it carefully. With that I hand over to Andreas for the introductory work. After that we will have Christian, who will guide us through the main deck of the presentation. Before Andreas will comment on the outlook for 2020, and afterwards we are very happy to take your questions. We would ask you to limit your questions to one or two, as we have about 50 minutes for this call, and in order to be fair to everyone and to take everyone's questions, one or two questions per analyst would be greatly appreciated. With that I hand over to Andreas, the floor is yours.

00:02:07 Andreas Renschler

Thank you and a warm welcome also from my side, this time out of Wolfsburg. Before we go into the presentation slides, let me briefly wrap up our results for the first nine months of 2019.

As you know, the economic sentiment has further deteriorated in recent months and the third quarter became more challenging for our industry. I think it is fair to say for the whole global economy. In the third quarter 2019 we saw signs of a weakening industry, order intake in Europe declined significantly. How much of this drop is due to the pre-buy effect in connection with the new smart digital tachograph in the first half of the year 2019 and how much is due to market weakness, is hard to quantify. But we have to admit that the negative trend is accelerating.

Against this background, we saw a solid development of our key figures during the first nine months. Looking at our Industrial Business, we were able to perform in line or even outperform some of our core markets during the first nine months of 2019. Our truck unit sales crew without MAN TGE, which you know has much lower revenues and margins than trucks, TGE is based on the Volkswagen Crafter, our truck unit sales grew by nearly 6%, while our topline in the Industrial Business grew by +9% on a like for like basis.

Operating profit of the Industrial Business was up by 41%, adjusted for minor effects in 2019 at MAN Truck & Bus exit of the Indian market, which impacted Industrial Business in the first nine months of 2018, with 115 million EUR, the increase would have amounted to 25%. This increase was related to better volumes and product mix, as well as efficiency gains due to the elimination of bottlenecks in the supply process and the end of parallel production at Scania, together with the new truck generation introduction. On a negative side we had inflationary cost increases, higher depreciation and amortization and expenses in connection with production preparation for the new generations of trucks and buses at MAN Truck & Bus. The latter one weighted on profit at MAN Truck & Bus in the third quarter of 2019. We ended the first nine months in 2019 at 7.1% return on sales in our Industrial Business.

Another positive story in the first nine months is the development of the net cash flow in the Industrial Business, it came in at 345 million EUR in the nine months of 2019, adjusted for the sale of the Power Engineering business. More importantly we improved the net cash flow considerably, quarter by quarter. After -376 million EUR at the end of the first quarter, we improved to +182 million EUR in the second quarter and further improved in the third quarter to +539 million EUR. You can see we are continuing to move in the right direction on this KPI as well.

Our net liquidity position in the Industrial Business, we have no financial indebtedness, after the first nine months of 2019 improved to 1.2 billion EUR in the Industrial Business.

Looking at the Financial Service Business, it saw growth in the first nine months of 2019 in the net portfolio of nearly 18% year over year, and 11% versus end of the year 2018. Penetration rate and return on equity remained at very healthy level.

All in all, the TRATON GROUP came in at 7.5% return on sales and are still at the upper end of our targeted range for this year, which is, as you may know, 6.5 to 7.5% return on sales.

So for 2019 we can confirm our targets, even though we think and feel it will be more challenging to achieve them in particular when we compare it to the situation roughly three months ago when we spoke last time.

And that leads us to our 2020 market outlook. What we can say today is that without any doubt, 2020 will be an even more challenging year for our industry than the second half of 2019. The only truck market which at the moment is still foreseen to grow meaningfully in 2020 is Brazil. Our expectation for the truck market in the European 28+2, i.e. the European Thirty, so to speak, is a decline of 10 to 20%.

This is why flexibility is the name of the game for the rest of the year. For 2020 further measures must be implemented. We explain further on how we prepare ourselves for the potential scenarios in 2020.

All we aim for is to safeguard our competitiveness in a potential market downturn in order to emerge stronger with a renewed truck portfolio and aligned cost basis. That is the short introduction and with that I hand over to Christian for the details.

00:08:53 Christian Schulz

Thank you very much and also a very warm welcome from my side. So let's jump into the presentation and let's go to page 4, which is the group highlights.

Briefly you can see unit sales up 8% for the nine months, this splits into +7% for Q1, +12% for Q2 and +3% in Q3. So there is some deceleration in the overall trend, and this is likely explained by, first of all, the slow down after the pre-buy digital tachograph that we talked about in the second quarter, and secondly we can see an overall cool-off of the economic activity.

If we look into the brand's performance we can see MAN's dynamic decelerated the most in Q3 with unit sales down by 2%. The decline of truck unit sales would have amounted to -10% in Q3 if you would leave out TGE, which has quite increased in number of sales. However, Scania saw still a fairly good development in Q3 19 with unit sales up 6% and VW Caminhões e Ônibus with sales with positive momentum, up 11% in Q3.

TRATON GROUP sales revenue increased by 5% in Q3 and by more than 7% on a like for like basis. Sales revenues in Q3 ahead of unit sales by about 400 basis points, basically based on better product pricing and mix.

The operating profit increased by 34% and amounted to nearly 1.5 billion in the nine months of 19, here we have taken into account that in 19 we had some minor effects and nine months 18 were impacted by the market exit of India, like Andreas said before. So adjusted for this, increase would have amounted to 20.2%.

Nine months 19 operating profit benefit from improved gross margin, 20.2% versus 19.6%, distribution cost grew slower than sales and the admin expenses were stable year over year. The positive effect from R&D, net to the P&L amounted to 45 million EUR after the nine months of 19.

The return on sales improved to 7.5%, please keep in mind that previous year Q3 18 was impacted by market exit of India, which was 150 million EUR, which you can also see in the prospectus that we have given for the IPO.

Profit after tax after the nine months grew by 19%, please bear in mind that the nine months 18 saw 111 million EUR contribution from discontinued operations, basically that is the PE, Power Engineering profit share. And before this effect the net income rose 29% after the nine months in 2019.

Net cash flow in the Industrial Business after nine months totaled 2,323 million EUR. However, we know that this contains the proceeds from the sale of the PE business in the amount of 1,987 million EUR. Adjusted for that net cash flow was +345 after nine months.

Other highlights in the first nine months of the year - Innovation Day in Södertälje where we have given, let's say, some signs of our capabilities on technical going forward. And we established last week now the procurement joint venture with Hino, which is now operational immediately.

If we turn to page 5 we can have a look at Industrial Business. As anticipated the order intake continued to soften and declined -7% in Q3, bringing it down to +6% after the first nine months. Order intake for Truck went down by -8%, an accelerating trend, while order intake for buses declined by -10%, slightly recovering during 2019.

The order intake for truck business, there was a considerable decrease in Europe, in particular, driven in significant declines in Germany and in the UK, which were only partly offset by other markets. Demand grew in Brazil in the wake of economic recovery, resulting in a substantial increase in order intake in Brazil. We also saw substantial declines in our markets in Russia, India and in Turkey. We will come back to that later when we discuss Scania in more detail.

Order intake for buses was slightly lower in Europe than in the previous year, substantial growth in Brazil, overall decline in order intake for buses for reinforced by Mexican and especially the Middle East markets that are basically down at the moment.

As already mentioned, we had at the same time strong unit sales and we have put the book to bill development in this context. So we looked into book to bill, and you can see that after nine months we are still at 0.95, backed by the good development in buses, and the demand of the MAN TGE. Of course we will talk about that in a second. If you take the TGE out on the MAN side, you see some more serious decline on trucks.

Sales revenue after nine months 19 in the Industrial Business were up 9%, slightly above the unit sales. And operating profit was up 41%, as return on sales stood at 7.5%.

Financial Services Business. Looking at the net portfolio during the first nine months of the year, up by 11%. The penetration rate continues to be well above 40%. Sales revenue in line with net portfolio growth, but operating profits, as you can see, growing somewhat lower than sales, return on sales at 16.5%.

With that, let's briefly go to page 6 where you can see the sales revenue development quarter over quarter. We increased from 6 billion to 6.286 billion quarter over quarter. If you then see the return on sales, it is from 4.1% to 6.5%, keep in mind, if you put the adjustments back in there, coming out of the India effect, the increase would have just been from 6% to 6.5%.

Nine months stay at the level of 7.5% return on sales and basically if you would see the group revenues without the VGSG impact you saw in the year before that we adjusted, that was the sales company of VW vans that we have excluded last year, the revenue would have increased not only by 6.5%, but 9%.

With that going to the unit sales on page 7, you basically can see on the left hand side quarter over quarter that our unit sales increased by 3%, in there you could consider trucks being flat, busses being up 8% and the TGE that I mentioned before on the MAN side +68%. For the nine months we see an increase of 8% on unit sales, therein trucks with 6%, buses with -4% and the TGE with 108% compared to prior year.

Let's talk a little bit about markets. How have they developed in 2019, page 8. You can basically see looking at the chart that we have to note that the comparison is not always like for like, because we are mainly heavy duty but not exclusively, however, as an indicator on the right hand side you can take the market, which gives us a good feeling for the trend.

So the European markets, heavy-duty truck, is up 5%. We grew, including our median duty share, by 11%. Germany was up 8%, we grew by 14%. South America where Brazil is about 80% by around 10%, we grew 24%, and it holds true that the markets like Venezuela, Argentina or others are in a very sorry state, but Brazil, as was said before, +42% and with that we have grown in line with the markets.

We now go to order intake, which is certainly of interest. You can see as told by Andreas in the intro that the order is backed by the strong development of the MAN TGE front and the recovering bus business development in the course of 19, but trucks are not really gaining traction at the moment.

You can see in Europe the regulation change for Tachograph led to a pre-buy effect in the first half of the year, according to our own estimates it was around 19.000 trucks. We watched the situation very closely and have prepared ourselves for a softer Q4, book to bill on a brand level for the nine months 19 is on the MAN side 0.99, Scania 0.89 and VWCO0.97. Please keep in mind that if you take out the TGE on the MAN side it would be considerably lower on a level of 0.96. If you ask yourself why Scania has a bit of deterioration in there, it was mainly a UK effect in the UK market, which was amounting at a level of 1.400 units, and that basically brings it down to the level I described here.

Briefly, Page 10. Industrial Business unit sales shows you the corresponding unit sales going up 3% as well in the nine months now currently on a very high level of 179,000 units. It is just analogue to chart 7.

Going forward to sales revenues, in the Industrial Business page 11 grew faster, it grew 9% faster than unit sales (+ 8%) during the first nine months of the year, sales revenue in Q1 was +9%, Q2 with +11% and Q3 with +7%. When we look at the different sources of sales revenue we can state that the new vehicle sales grew by +12%, the average revenue per unit was up by 4% after 9 months of the year and amounted to 71.000 EUR compared to a level of 68.000 EUR in the prior year.
Used vehicle sales grew by only 2% during the first nine months of the year. After sales and service grew by +5%.

As already mentioned, operating profit and RoS benefited from an increase in unit sales and positive earnings, from the end of parallel production of Scania after the successful introduction of the new truck generation.

On the negative side we had inflation related cost increases, higher depreciation and amortization and expenses in connection with production preparations for the new generations of trucks in MAN Truck & Bus. Remember last time we talked in Q2 that we started in Q3 already ramping up the production despite the fact that market launch will be in February next year and MAN is quite busy working on that. Therefore, return on sales of the Industrial Business improved to 6% in Q3 and amounts for the 7.1% for the first nine months of the year.

Maybe a few comments on primary R&D: They amounted in the nine month 19 to a level of 982 million EUR, which corresponds to 5% of the sales revenue, about 40 basis points below our level in the nine months of 18. The P&L effect amount declined from 844 million EUR to 799 million EUR and the capitalization rate was close to 33%, down from 36% in Q1 and 34% in the first half of the year.

Continuing and going now on the brand view on page 12. It just reads as follows on MAN. You saw stable sales revenue more or less in Q3, despite unit sales declining by 2%. However, looking on pure trucks unit sales isolated, it declined by slightly more than 10%. We, as you know, should keep in mind that from an MAN perspective the mix with the TGE is dilutive to both revenue and also return on sales. Having said that, the ARPU for MAN was decreased nine months only slightly by 1% year over year. Excluding the TGE, MAN was even slightly up and that is quite encouraging in light of the new introduction of the truck, because we always discussed that pricing is important for MAN. And I think that is a good sign.

Nevertheless, return no sales in MAN in Q3 was only at 1.3%, basically there are three reasons for that to be named. First it is the sequential step-down in sales revenues, Q2 to Q3, which you know because in Q2 we said that there is the digital tachograph of the pre-buy effect. So MAN was disadvantaged in absorbing fixed costs in Q3. Secondly a less favorable product mix in a difficult market environment for used truck vehicles. And thirdly as I mentioned before, higher expenses including starting depreciation and increase in the launch of the new truck that MAN has started in September and October of this year.

Scania saw sales revenues increasing by 10% in Q3, whereas unit sales were up by 6%, driven by truck and bus business. Return on sales in Q3 at 11.5% and on a like for like basis, again amongst the best in terms of profitability in the industry in Q3 2019. VWCO saw sales revenues increasing by 26% in Q3, whereas unit sales were up 11%. Return on sales Q3 at 2.5%.

If we continue now, go to page 13.Talking a little bit about our liquidity. You can basically see our Industrial Business; our cash and cash equivalents outstripped the net financial indebtedness. It improved to 1.2 billion EUR after the first 9 months of 19. It stood at 689 million EUR on June 30.The improvement in net liquidity was driven by a positive cash flow, as you can see we made progress there in Q3 and the cash flow amounted to 539 million EUR. Basically the cash flow benefited from two things. One is the improved operating profit and secondly a relief in working capital year over year. There are two non-recurring effects included in Q3, net cash flow which amounted in total to 225 million EUR, that is the sale of parts of the military business out of MAN - Rheinmetall, and secondly we have had an effect in Brazil where we got money back on some social payments.

Overall we improved our net cash flow considerably after the first nine months, you can see a positive trend in the upper end in that little blue box in the chart where you see where cash flow developed in Q1 and Q2 and Q3, so we see our measure is taking action.

Page 14, briefly on MAN, I think it is worthwhile noting that the reduction in revenues in order intakes was driven mainly by Germany, Poland, Russia, India and Turkey, giving the situation there - I have described before the two effects that lead to higher costs on the MAN, you can find them here again. It is basically, if you so will, a weak third quarter driven by the pre-buy effect and the general third quarter and by the ramp-up of the new truck generation. A good thing is, MAN presented the good electric city bus, the Lion´s City E at the bus fair in Berlin. So that we have a product ready to be sold here.

If you go into more detail on page 15 you can see key figures per quarter. Order intake, unit sales, book to bill, sales revenue, operating profit and return on sales. I think we concentrate here only on Q3, order intake down 13%, unit sales down only 2%. And by this, resulting obviously in a book to bill of 0.93 for the third quarter. Sales revenues are more or less flat, and operating profit increased. Here I would like to point out that Q3 18 was impacted by the market exit in India with 150 million EUR. Like for like operating profit was down significantly, as I explained before. As told on page 12, return on sales in Q3 only at 1.3%, again three reasons: sequential step down in sales revenues, Q2 over Q3 of this year was 441 million EUR by this less absorbed fixed cost on the MAN side. A less favorable product mix and difficult market environment for used vehicles and also then on the third side the impact of the new truck generation, which you all know is the key to lifting MAN to the next level, and by this we must not fail, in any event with the new truck.

Scania, on page 16. Unit sales of trucks, as I said before, up 11%, order intake declined by -8%, order intake in truck was also down 8%, mainly caused by UK, Russia and Iran. Operating profit, nevertheless very strong third quarter also on the Scania and we have introduced, now fully, as we said, the new Scania truck generation. Double ramp-up costs, as promised before, are faded out. And we have introduced for those of you participating, the innovation day, our axel, which is our fully autonomous concept truck without a cab.

Going into a bit more detail on the key figures, from left to right, order intake, unit sales, book to bill. I think it was noted that the order intake was down 11% and sales up by 6%. By this you see that the book to bill on Scania for the third quarter is only 0.77, sales revenue up 10%, operating profit 41%. So one can really say that Scania has recovered on the margin side towards the 100 basis points that we have described when we were in London at the beginning of the year.

I think it is also important to understand that Scania had a return on sales improved to 11.5%, also continuing to concentrate on margin-rich business as also referring to the brand positioning of margin before volume. Needless to say, also in Q3, Scania was amongst the best in our industry.

Volkswagen Caminhões e Ônibus, page 18.You can see our Brazilian market recovered in tandem with the economic upturn, truck unit sales up 20%.Export sales in Latin America still difficult, given the situation in the countries around Brazil. Operating profit on Caminhões e Ônibus benefited from the increase in sales revenue. It was, to a certain extent, offset by foreign exchange rate effects and basically it also includes a gain of 13 million EUR from a reversal of a restructuring provision. Nevertheless we see Caminhões e Ônibus progressing. Are we satisfied at the moment? Of course not but one also needs to keep in mind that the Brazilian truck market, especially in the extra heavy segment was recovering on the light and medium duty. It is still in an upward trend, so, we are confident that we can manage that in the future better than it is today.

Briefly, page 19. Again the six KPIs in an overview for Q3. Order intake up 15%, sales up 11%, resulting in a book to bill of 0.99. Q3 improved return on sales on 2.5%. But again, work is not over in Brazil, we need to continue.

Financial Services, page number 20. Sales revenue as of the 30th of September, up by nearly 11%. 13% growth in Q1, 8% in Q2, and 11% in Q3. The return on sales is very satisfying on a level of close to 17% for the 9 months of 19 and in the third quarter, 16%.

When we then continue to the next page you see that the net portfolio has grown 11% from year end 2018. The penetration rate remained at very healthy levels, according to our plan.

Now if we go to page 22, let's come to the outlook for the market in trucks in 2019. And one needs to say it's fair that you said the economic sentiment has further deteriorated over the last quarter. As you all know, the political environment is challenging: potential Brexit, trade wars, crisis and conflicts in Iran and Turkey, and the global GDP forecast was revised down again by the IMF, plus 3% for 19 in October. And outlook Germany, Italy, forecasting showing only limited growth. And the outlook for 2020 is hardly any better.

Fed lowered the interest rates, ECB restarted quantitative easing and overall we had to witness a decline in order intake which has been somewhat anticipated in previous months, but showed an accelerating trend in truck business in the last three months. However, our market outlook for 19 is more or less unchanged. We see Europe 28+2 stable in 19, Germany, which would present about one-fifth of Europe, slightly up. For Brazil we expect substantial growth in 19. I think this outlook here on 19 is not very much different from what you see in the overall industry.

When we go to the next page, page 23, leading up to the outlook for TRATON GROUP. We clearly confirm our outlook for 19. We expect a slight increase in unit sale for the overall year. We expect group sales slightly above prior year, whereas we do not adjust for the VGSG business in 18. Sales revenue in 18 amounted to 585 million EUR. Again, this is this used vehicle business company that we sold back last year in the light of the IPO. Group return on sales is 6.5 to 7.5% and we see us around the mid-point in 2019. I alluded to the main reasons of our confidence in the introduction.

With this I would like to hand back to Andreas.

00:32:21 Andreas Renschler

Thank you, Christian. Let me now come to the market outlook for trucks in 2020. Everything that Christian has said is also true for the outlook for 2020. We are operating under a high degree of uncertainty. What we can say with certainty is that 2020 will be much more challenging than the second half of 2019.

We currently think that the European truck market can be down by 10%, but it could also be down by 20%. We need another couple of months to finally assess where we stand in the range.

On the positive side, we can note that Brazil, which is an important market for TRATON, with the brand Scania and Volkswagen, will likely be up and provide us with some buffer. However, after a long period of unparalleled growth, we have to prepare of a decrease of 10 to 20%.

That brings me to the next slide, I think it is the last one. What we have already started, is that we have reduced time accounts, take out shifts and reduced temp workers as the slowdown, seen in Q3 continued into the fourth quarter of 2019. If, however, the situation gets worse, then we have to do more in order to safeguard our competitiveness. This is what this chart is showing you.

One thing is clear, we can and will not compromise the start of the new truck generation at MAN. In addition, we also have to safeguard the profitability of Scania.

Our aim is to emerge stronger from the downturn, from which we do not know how severe it will be. This is why we must and will be flexible and we will tackle the respective cost items. And again, to be clear, nothing is decided yet, as we just simply don't know where we will end up in 2020. But one thing is for sure, we are prepared and have all the flexibility to react to a different market condition.

With that we are happy to take your questions, thank you.

00:36:10 Klas Bergelind (Citi)

Yes, hi, Klas Bergelind of Citi. The first one I have is on the cash flow. It is obviously good to see an improvement, but, Christian, I was wondering if you could help us on how much of this is linked to the lower production and especially at MAN in the old range, versus the improvement we have waited for at Scania following the NTG. So, I am thinking of the cyclical effect versus the underlying improvement. And also if you could comment on the work you are doing with VW to change you payable days. I think you are paying your suppliers sooner than you are collecting the cash from your customers, so I will start there, thanks.

00:36:47 Christian Schulz

So let's put it like this, the Q3 effect was mainly done by the work of working capital reduction that we have run in our demand to cash initiatives, basically majority coming out of Scania in there. The two effects that I have mentioned before obviously helped us, but nevertheless, we saw an improvement of higher than 300 million EUR. But I would consider that mainly the work of demand to cash and not yet the big amount of the deteriorating that overall business on the MAN side.

Secondly, when it comes to the payment terms, we address that actively, currently, with Volkswagen, also on with Christian Levine, our COO currently and we also work in order to improve these payment terms if we still largely adjust it to Volkswagen also in our relationship agreement, we are pursuing that and will hopefully gain some progress there.

00:37:38 Klas Bergelind (Citi)

Okay, that's good. My follow-up is on MAN, please. If I could ask, how much is CAP R&D, there is still a positive swing in the group bridge, seems like if I backed out R&D you are almost loss-making on a cash basis and how much was CAP R&D lost here. I am trying to get the bridge clean year over year in MAN, and sort of, within this, looking at the next year, it seems like 200, 250 million EUR of EBIT is a working assumption, depending on the market outcome. Could you help us with what pricing assumption you've baked into this and how much cost you expect from the truck and bus launch relative to the 2018 base line.

00:38:18 Christian Schulz

So let's put it that way, I mean, we do not go into details on the CAP rate, on the brand level. As I said before, we reduced it already substantially compared to first and second quarter and continue to work here also on the MAN side. When it comes to MAN of course we are not giving forward looking profit statements for the year 2020. The only thing I can tell you is there was extensive exchange between MAN and Scania on the preparation of the new truck in order to avoid the known things that hit Scania. And they are already baked into the plan and as I said before, we must not fade with the new trucks so we need to think of all things that will come in the next year, because for sure the ramp up of the new truck is in focus.

00:38:59 Klas Bergelind (Citi)

But, so, just quickly, are we talking around 200 - 250 million EUR of cost drag for the whole launch from 18 base line, or have you said anything Christian in terms of we can get some help on the bridge in the next year?

00:39:15 Christian Schulz

So, as I said before, we will not comment on that range. You know that on Scania we lost 200, which was 100 base points onto production and another 100 base points on material costs, but then again, we have always packed … it's difficult to say it now.

00:39:30 Klas Bergelind (Citi)

All right, thank you.

00:39:40 Hampus Engellau (Handelsbanken)

Thank you very much. Two questions from me. If I look at the Scania order intake in Latin America, it was down 4.3% while, if I look at the Volkswagen order intake, which, I know it is not fully comparable, it was +15%. If you could talk a little bit about the difference here in development, in Brazil in particular, if it is the lower medium duty heavy segment that is performing or how we should think about the difference. The second question is maybe a little bit nitty-gritty on the cash flow, but I would be interested to hear why the depreciation and amortization during the nine months was minus 626 million EUR, which is 147 million EUR increase year on year. If you could maybe add some flavor on that, thanks.

00:40:26 Christian Schulz

So, okay, let's talk first about the market. When you differentiate the segments, you see that the extra heavy segment, above 16 tons, is on a five-year high at the moment. You see that the market is quite good in Brazil and that there Scania gets some support from the market. When you go back to light and medium duty, the overall economic improvement hasn't reflected fully in that segment. So that is why we are optimistic for the year to come that Caminhões e Ônibus, which is mainly present in light and medium duty, will benefit in the same positive way, that Scania did on the other hand.

00:41:02 Rolf Woller

And on the other question, Hampus, we will get back to you. You were referring to depreciation, amortization on the profit and loss for trade overall?

00:41:12 Hampus Engellau (Handelsbanken)

Yes, exactly, there is 147 million increase year on year in nine months and I guess I was looking for a specific one of write down or something on amortization side, but we can come back to that. Maybe, could I, maybe one question on … I mean you highlighted a bit on the order side, but it would be interesting to hear what, I mean if you look at the European business now, MAN and Scania, where are you in terms of taking down run rate. Are we looking at the 10% in each or where are you?

00:41:44 Christian Schulz

So, let's put it this way. You saw, as you will see this afternoon, it should already be out, that Scania and MAN are both taking actions. On MAN, we see currently that in Munich, Steyr, Nürnberg and Salzgitter, we extended the production take. We also released a second shift in Krakow, in Poland, and we will have selective closure days for the German operations and the same thing basically on Scania. You can see we will extend Christmas vacation there, we will have selective production days that we do closures on.

And we are, as Andreas has already said, quite flexible, with that page that we have in there, so everything that is in the current site, in 10 to 20% around, let's say, ten to the mid-point, we can very well act with our time accounts, with our flexible work force. Of course, if a cool off in the European market would turn into the direction of 2009, measures would have been different, and those haven't been taken yet. But of course we are monitoring the current market developments very closely, also with our union members and with our suppliers in order to adjust quickly, and basically that is what I would like to comment on that.

00:42:58 Hampus Engellau (Handelsbanken)

Thank you very much.

00:42:59 Christian Schulz

And maybe just one point on the depreciation and amortization: don't forget we have IFRS16 effect in there, that might be the point, but Rolf will get back to you on that.

00:43:12 Hampus Engellau (Handelsbanken)

Thank you.

00:43:23 Kai Müller (Bank of America/Merrill Lynch)

Thank you for taking my question. The first one is coming back to the chart you showed with the two-market scenario, so the sliding scale. Can you give us a bit of color? You obviously talked about reducing time accounts and temporary workers. How much, in terms of time accounts and temporary workers, are you already tapping into in the second half of this year? And how much do you basically have left for next year?

And following up from that, we obviously know of your guidance through the cycle margin. If the scenario of a minus ten for next year materializes or maybe even a minus twenty, can you give us a bit of color in terms of where you think a Scania margin or an MAN margin could get to, if you assume the cost measures you have indicated today.

00:44:10 Andreas Renschler

Let me start with the second part of the question: there you will not get an answer, we will give you a guidance at the first quarter, as you are used to, and it depends really on the market conditions. So, as I said before, up to now we do not know how the market will be, it will be between -10 and 20%. That brings us to the chart that we showed you. The first thing we always do is use time accounts, so we are using time accounts, as Christian mentioned. We will have a longer break between Christmas, and so on, this is underlined with time accounts.

The second thing is, we have temporary workers. We have approximately, in our locations so far 10 to 15% temporary workers. And it depends on how this will go, we will see partially this year and then next year the rest of the temporary workers. The major thing is, if you have the orders and the orders are, you know, if I am looking at the overall situation, the orders are still based on the circumstances, not so bad and now we have to produce this and now we have to adjust when the orders are at a different level, as I said, we feel pretty secure through our measurements, just like we have always said. In a downturn, it is expected. And whatever the downturn will be, we have a lot of potential to react.

00:45:53 Kai Müller (Bank of America/Merrill Lynch)

Perfect. Maybe, just, have you seen any changes in pricing because of the slower outlook? Has anyone of your peers tried to fill the books with better price terms?

00:46:04 Andreas Renschler

I don't know what our peers are doing, but we are very price disciplined. I think you mentioned in your remarks, if you look to the brand positioning of Scania, it is a very simple thing, price before volume, like we have mentioned before, and we don't see, or we don't compromise this if markets are getting into a different situation.

00:46:32 Kai Müller (Bank of America/Merrill Lynch)

Perfect. Thank you very much.

00:47:09 Tim Rokossa (Deutsche Bank)

Yes, thank you very much. This is Tim from Deutsche Bank. I would have two questions, please. The first one is: Andreas, you have lived through quite a few truck cycles already, as a truck manager. How does this one feel to you? If you do talk about a high degree of uncertainty when making the forecasts, how do you come up with the 10 to 20% number.

And then secondly: I appreciate the pre-buy effect, I appreciate the ramp-up costs, but for someone who has followed Scania and MAN for many years, it is really not a surprise at all to see how those two brands are now developing at the turning point of the cycle. Scania just always seems to anticipate it earlier, does very well in reacting to it, MAN is always the opposite. Now, okay, you get a little bit of bounce in the Q4 margin development, but it seems to be a very clear direction. I appreciate that you are giving us these measures on slide 24, but when is it, if not now, the right time to really go structurally into the cost base of MAN, beyond short time work, beyond taking out a few shifts. This is a continuously underperforming asset, it has been a big discussion between all of us during the IPO process and afterwards, if we now see minus 10 to 20%, why not really fix this company to finally make it live up to its potential? Thank you.

00:48:22 Andreas Renschler

Let me start with the first one. If the world would be as easy as you describe it, that would have meant we would have done nothing in the last two or three years. The most important thing now for MAN, as we have said, is the new truck generation, because there we are changing not only the full product line, that was necessary, the product is 20 years old and is in certain areas not as competitive as we would like.

And the second thing we changed is our missed introduction of the new truck. We changed a lot of processes. And these processes will bring us to another level. Of course, it is not only the kind of issue we see this time compared to cycles you mentioned before. Of course we went through cycles, forget that the second at 2008 and 2009, that wasn't a cycle, that was an externally initiated crisis. In the normal cycles you will see something like 10 to 20%.

Now what is different to other kind of market conditions maybe 10, 15 years ago? It is really the unstable situation. I have never had such an experience that a tweet can change a lot of different kind of things, and we don't just see this in one country. So, all this kind of unstable situation brought us to the point where we say, okay, there is a trend that we can see 10 to 20% and we will know better then, in the first quarter of next year.

The second thing is, there was this pre-buy effect, I think Christian Schulz mentioned before this new digital Tachograph that was launched and, is there a pre-buy effect? We get this from some customers, yes, they see it like that. So this is the insecurity.

The most important thing in our business is that we are using this downturn, however this downturn will end up, to come out stronger. All the kind of measures we have prepared already will go into some kind of substance if it is necessary and so again, we feel very well prepared. We have to show that we can realize this preparation because so far it is only on paper, but I am pretty sure that we can do it.

00:51:03 Christian Schulz

And to add on to your question on MAN, we discuss this all the time, that the coming six to seven quarters are a kind of challenging situation with the new truck. Now we see that we started in Q3 with the new truck. Of course we have the discussion on how to improve structure measures, buy you know, if you, in parallel, introduce a new truck, that gives you a lot of challenges. It remains unchanged, what we have said, the next six quarters for MAN are a period of transition and then now let's work through that.

00:51:31 Tim Rokossa (Deutsche Bank)

Great. Thank you guys.

00:51:41 Sebastian Ubert, Société Générale

Good afternoon and thanks for taking my questions, it is more housekeeping things regarding the positive tailwinds you had from FX. Can you give us some figures here like we got during the second quarter (00:51:55 unclear), as well what was the real impact on Q3. And then, after nine months, having achieved the upper end of the range that your comments on 2019 outlook to end up above the midpoint of the EBIT margin range is still valid despite a more challenging Q4 2019 and then, also, the sneak preview you gave at the beginning of the year for further growth for revenue and margin improvement for 2020, is that still valid?

00:52:31 Christian Schulz

Okay, let's take it one by one. First of all, the FX effect is pretty much neutral. We saw positive effects on the Scania side with the Swedish Krona. But on the other hand, we have seen a burden on Caminhões e Ônibus in Latin America, and as such you can say it levels out in the group to a minor, two-digit, million-euro number.

Second thing is, your question. I said we are comfortable around the midpoint, not above the midpoint, that is what I said before, so we have a close eye on the development of Q4, as I said before. We are within our range and around the midpoint and lately, I would like to take the question on the outlook for 2020. We only give out margin when we have the annual press conference. By then we will confirm how we see the next year.

00:53:28 Sebastian Ubert, Société Générale

Okay, but just as a follow up, during the Q2 call, Mr. Schulz, you said that you are happy to see an outcome above the midpoint of the margin range, so it is.

00:53:40 Christian Schulz

And today I said I am comfortable around the midpoint.

00:53:44 Rolf Woller

Which does not rule out that it could be slightly above, but it does not rule out that it could be slightly below, Sebastian.

00:53:49 Sebastian Ubert, Société Générale

Okay, thank you.

00:53:55 Operator

We have no further questions, so I hand it back to the speakers.

00:53:58 Rolf Woller

Yes, thanks very much. Thank you for the very vivid discussion and for the very good questions. Thanks for sticking to the two questions per analyst, very much appreciated. And then we look forward to catching up with you over the phone. So, whenever you feel that there was a question unanswered then we will get back to you and you can always reach us under the known numbers in Munich, the whole IR team. We thank you very much and speak latest on March 27, when we will have our annual press conference. Thanks and have a good rest of the week.