Transcription

TRATON SE - 9M 2020 Conference Call

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PRESENTATION

00:02 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 participant has difficulties hearing the conference, please press * 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 are only connected by phone, please access on line 2 to display the disclaimer. May I now hand you over Rolf Woller, Head of Investor Relations of TRATON, who will start the meeting today?

00:49 Rolf Woller

Thank you very much. A very warm welcome here from our side in Munich office. We hope that you and your families are all well. Together with me in the office are Matthias Gründler, our CEO, as well as our CFO, Christian Schulz, and the usual suspects from the legal, finance, communications, treasury and IR department.

As you are all aware, we signed on November 7th a definitive merger agreement with Navistar and, therefore, we will use today's call also to give some insight into the transaction. Afterwards, we will provide you with a brief update on how TRATON did during the first nine months of 2020, as most important KPIs were already pre-released on October 21st, and we also notified you about our market outlook for fiscal year 2020 on October 28th.

Matthias will kick off the conference call with all around the Navistar transaction, continued by Christian, who will guide us through the results section. In the interest of time, today's quarterly section is a little bit shortened, and shorter than normal in the main deck, but you have all the information which we regularly provide in the back-up of this presentation. After this presentation, we will host a Q&A session on both topics, on the Navistar merger agreement signing, as well as on the nine months results.

Before I hand over to Matthias, just a couple of housekeeping items. First of all, we hope you have seen all the material for today's call, which is the press release, as well as the interim statement in the IR presentation. If not, you will find them all on our TRATON IR website. And I also should make you aware of the disclaimer, which you will find on Page 2 of the presentation. We are not going to read this disclaimer. With that, I hand over to Matthias for the first couple of slides.

02:44 Matthias Gründler

Thanks a lot, Rolf. A warm welcome from my side. We are happy that last Saturday, we reached a definitive merger agreement with Navistar. The deal accelerates our Global Champion Strategy by creating a global leader across key truck markets. Consequently, we, the TRATON management team, are very much convinced that a combination of TRATON and Navistar will create sustainable value for our clients, as well as for our shareholders.

I´m on Slide 4, where we provide the transaction overview with the respective key facts. Navistar ranks currently as the number four truck manufacturer in the US, with a revenue of USD 11.25 billion in the respective fiscal year 2019, and a wide-range distribution network, with more than 1,200 dealers in the NAFTA region. The acquisition rationale will be elaborated in the next section, but the key points are: access to the NAFTA profit pool; deliver on our Global Champion Strategy; leverage powertrain components, in particular, the common base engine across brands to generate significant cost savings over the years to come; and achieve a well-balanced and global footprint with complementary regions.

We will acquire all outstanding common shares for USD 44.50 in cash as a one-step merger, with full support of Navistar's two largest shareholders. This reflects an equity purchase price of about USD 3.7 billion. Financing of the transaction will be provided by Volkswagen. The loan for the purchase price totals EUR 3.3 billion and has a tenor of 30 months. TRATON intends to refinance the bridge via the capital market, and we are not ruling out any refinancing instrument. We think there is significant more value in TRATON, and it will materialize with the execution of the MAN restructuring plan, the opportunities arising from the Navistar transaction and the strength of the Scania brand. Our current share price is not reflecting this yet. TRATON is committed to maintain a solid investment-grade rating post transaction. Last, closing is expected mid of 2021 and subject to regulatory approvals and customary closing conditions, including Navistar's shareholder approval.

I'm now on Slide 5. TRATON has been in a strategic alliance with Navistar for almost four years already, when we acquired a 16.6% stake in Navistar. The key objectives of the collaboration were access to the North American market, establishing a procurement joint venture, and a technology cooperation for joint powertrain and future technologies. With the full acquisition, we are now in the position to fully capitalize on the incremental synergy potential.

This brings me to Page 6. If TRATON could wish for a perfect fit to close the gap in North America, it would be active only in North America with focus on trucks and buses above 16 tons, it would be able to deploy technology that TRATON can provide, it would be a company which we can work with easily. As we can see on this slide, all four acquisition rationales perfectly underline the wish and it will come true.

Navistar is the perfect fit for TRATON. It offers the opportunity to access the attractive NAFTA profit pool directly with a highly complementary geographic footprint, with no product cannibalization. As mentioned in the beginning, TRATON will be able to capture more than 75% of global profit pools, as NAFTA accounts for 35%. Further, we deliver on our Global Champion Strategy with this transaction, and we'll use our strong market position to further create value and sustainably establish TRATON in the first row of global truck makers.

Page 9. By leveraging powertrain components across our brands, we can generate significant cost savings over the years to come, as the powertrain stays for a significant amount of the manufacturing cost of a truck. Our common base engine, which will go and start in 2021, will help to amortize costs over a significant higher volume. Just as a refresher, the powertrain stays for almost 65% of the total manufacturing cost of a truck. As we target for CBE to achieve an 80%

commonality level and avoid that each brand develop its own engine, the consequence is clear: leverage cost synergies throughout the group. From 2025 onwards, over 50% of our heavy-duty trucks will be propelled by this engine.

This brings me to Page 10. Last, with the acquisition of Navistar, we, as TRATON, will achieve a well-balanced and global footprint. That means we will generate a significant share of our future revenues in the NAFTA region and balance our total revenue, which, so far, was largely sourced from Europe and South America. Further, TRATON can then serve three key truck market regions, which all have distinct cycles. During the 2017 U.S. downturn, South America continued to grow. Likewise, during the 2016 U.S. downturn, Western Europe continued to grow. Serving all three regions will permit to smooth out the amplitude of the regional cycles.

Page 11. We, as TRATON, remain committed to achieve a 9% through the cycle margin. The distinct brand performance, the new truck lines, the key powertrain packages and future technologies should all help achieving these goals.

Page 12. Looking back, there have been a few milestones along the way since TRATON was established. The acquisition of Navistar will accelerate our Global Champion Strategy, and it's a natural next. Going forward on this deal, we'll put our focus on the successful integration.

This brings me to Page 13, and this leads me to my last slide of this section, the status and next steps. The Navistar AGM is expected to vote on the deal in Q1 2021. The transaction is expected to close mid-2021, subject to regulatory approvals. The geographic footprints of TRATON and Navistar are almost entirely complementary. And therefore, we do not expect delays from competition agencies' reviews. The delisting of Navistar is envisaged to take place shortly after closing.

Overall, the deal is a great opportunity for our company and for our stakeholders. I'm very happy and proud to run this further with the management team. But Navistar will not be our sole focus until the rest of the year. Three other topics are of utmost importance. With a new family member, we will focus to retain and even further develop our TRATON holding, with dedicated value-adding services for the brands. We want to reach an agreement with our unions on the necessary restructuring at MAN Truck & Bus. We need to further stabilize and even improve the brand performance during COVID-19 times. With that, I hand over to Christian. Christian, please.

10:14 Christian Schulz

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

In the beginning, let me make some remarks on the current situation we are facing. We are still in an unprecedented situation because of the COVID-19 pandemic. We saw a significant decline in demand, and supply chain disruptions in the second quarter. A substantial part of production capacities was closed or idled mainly from end of March to large parts of April, but we were able to stepwise restart our production, including supply chains, at the very end of April and saw the positive direction in May starting, continuing into the third quarter. Also, October confirms the positive trend seen lately, but we remain cautious given the current rise of infection rates, as everyone in our industry once more focused and are still focusing on managing cost reduction and established measures to safeguard our liquidity.

The economic outlook for 2020 in October has been adapted slightly positive as the signs for economic activities within the third quarter have been released. Still, the contraction for 2020 is expected to be much worse than it was in the financial crisis in 2008 and 2009. This is why we still stay alert and focused. For 2021, the IMF is forecasting a noticeable increase for all major regions.

Clearly, the economic downtrend triggered commercial vehicles markets globally to contract significantly. With only the fourth quarter outstanding, most third-party research foresees a decline of the truck market in Europe of minus 30% to minus 35%, and minus 10% to minus 20% for Brazil, all much better than what was seen last quarter. Looking at all regions around the globe and having several shutdowns in mind, there is still a high level of uncertainty for the weeks and months to come.

On Page 15. Incoming orders declined by 14% to 145,933 units in nine months. All figures were negatively impacted by the COVID-19 pandemic, but the positive trend seen at the end of second quarter continued in the third quarter. Unit sales were down by minus 29% to 127,660 units in the first nine months. Same here on the order front, we saw the positive trend set in May continuing into Q3. TRATON Group's sales revenues decreased by minus 21% and fell less than unit sales, thanks to our aftersales business. Operating profit in the first nine months, still negative at minus EUR 58 million driven by the EUR 382 million loss in the second quarter, but with a catch-up in Q3 with EUR 162 million positive. Adjusted operating profit is down to minus EUR 9 million close to break-even. That means nine months adjusted return on sales was slightly negative at minus 0.1%. Last, net cash flow in the Industrial Business was at minus EUR 148 million versus EUR 2.323 billion 1 year ago. Please have in mind, last year's investing cash flow was supported by the sale of Power Engineering, with EUR 1.978 billion. Excluding this, the swing year-over-year was EUR 493 million, thanks to a solid net cash flow generation of plus EUR 199 million in third quarter. The net cash flow in the light of COVID-19 looks acceptable. I will run through some topics in a minute. For your reference, we listed them all down here.

Page number 16. That leads me to the next slide, which is showing the development of our unit sales and incoming orders. Overall, vehicle utilization in most regions, especially in the long-haulage truck business, saw a continuation of the positive development since May. The market recovery went faster than expected, with close to 50,000 units sold. We are still not on the pattern we saw in the years '18, '19, but the gap to the previous year's level narrowed significantly. Looking at the year-over-year change on the right, we see that unit sales are following the incoming order momentum, which was strong in Q3. Book-to-bill ratios were well above 1 for Industrial Business throughout the third quarter. All in all, the graph suggests a V-shaped momentum in the third quarter, but we still have to be careful as we all see the pandemic development increased strongly in the last couple of weeks.

Page number 17. Before we go into some specific topics, let me raise some quick highlights on the performance in the third quarter. As seen in slide before, we see a noticeable market recovery in combination with increasing incoming orders. These were up 19% year-over-year in the third quarter. Very impressive is Scania, with a book-to-bill ratio of 1.5 in the third quarter. The adjusted return on sales was 3.7% and, therefore, above the first-quarter 2020 level, which stood at 2.8%. We were able to clearly reduce Capex and primary R&D, as well as capitalization ratio for R&D, which stood at 19%

in third quarter. Thanks to all the developments and other actions, we were able to write a net cash flow of positive EUR 199 million.

Page number 18. Here, you see a detailed view on brand level for the third quarter alone. Highlights are Scania had a book-to-bill of 1.5 in the third quarter, sales revenue declined by only 15%, but unit sales were down 25%, mirroring a strong product mix. Adjusted operating return on sales, close to 9%, and compared across competition on like-for-like basis, again, a benchmark for the industry. MAN on strong volume year-over-year and sales revenue followed. The operative loss declined to EUR 27 million and was better than Q1, mirroring the production stop relief since in late March and the fact that we made good progress on the cost side. VW Caminhões e Ônibus' sales revenue was clearly impacted by exchange rate, but again, was positive on return on sales.

On Page 19, similar to our first half-year reporting, I once more can just reiterate what was said in the last weeks and months. TRATON looks at a sound balance sheet and ample liquidity. Both are highly important elements, as they give us the 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 a net debt-to-adjusted EBITDA ratio of minus 0.5%, even after the end of the domination in profit and loss transfer agreement with Volkswagen AG for the fiscal year '19. EUR 1.4 billion have been transferred. Our gearing is currently at only minus 6%. That also holds true looking at our liquidity. Thanks to strict cash management, unrestricted cash of EUR 2.1 billion, and credit lines of EUR 7.7 billion, we are able to safeguard liquidity in these uncertain times. As announced, TRATON SE took out its first syndicated revolving credit facility, with a volume of EUR 3.75 billion in the third quarter. Further reducing operating costs by reprioritizing our capital expenditure and R&D expenditures, we once more took decisive action.

If you please go to Page 20, here, we put altogether relevant information on the MAN realignment. Negotiations have been formally begun and shall be successfully closed, hopefully, by the end of the year. What we can witness is there's a clear momentum at MAN Truck & Bus. And of course, we will keep you posted when we have an update here.

Next page. One highlight worth mentioning is the signing of a joint venture agreement for e-mobility with our partner, Hino, with the scope to develop electric vehicles and relevant components. The extensive know-how of the MAN Scania and VW Caminhões e Ônibus brands will be concentrated at the TRATON office and combined with Hino's expertise in alternative drive systems. We believe this will shorten lead times for future e-mobility products, be it battery or be it fuel cell technology. Further, we have introduced strong products during this year, which underline our strong efforts to further develop our portfolio. Here, I would like to emphasize, in particular, the innovations in electrification of our trucks and buses.

If we go to the next page, after highlighting some latest news within our group, I would like to conclude the presentation with our outlook, which we already made public in an ad hoc release on October 28th. Provided there is no further increase in the number of COVID cases and no associated countermeasures are adopted by the relevant countries, and subject to the potential impact on our production and supply chains, we are assuming that our business activity will continue to recover by the end of 2020. However, we're anticipating a sharp decline in total unit sales worldwide for the entire fiscal year 2020 due to the market downturn.

In line with unit sales, we are assuming that the sales revenue of the TRATON and Industrial Business segment will also decline substantially year-on-year. We are expecting an operating return on sales for the TRATON GROUP of between minus 1% and plus 1%. The projected operating return on sales does not contain any expenses for the realignment of MAN Truck & Bus announced on September 11th. Due to the ongoing nature of the negotiations with the employee representatives, it's not possible to predict the timing as well as the amount of these expenses at this point in time.

For the cash conversion rate, we are anticipating a negative net cash flow in the Industrial Business segment. As mentioned already in the beginning, truck markets for a third-party perspective can end up at minus 30% to minus 35% in Europe, and in the bandwidth of minus 10% to minus 20% in Brazil. With that information given, Matthias and I are happy to answer your questions in the due course of this meeting.

Q&A

20:40 Operator

Thank you, ladies and gentlemen. We will now being our Q&A session.

We've received the first question. It is from Klas Bergelind of Citi. Your line is now open. Please go ahead.

20:55 Klas Bergelind (Citi)

Hi, Matthias and Christian. It's Klas at Citi. First on Navistar, I obviously appreciate that there is no hard numbers on synergies right now, but if we think of the likely trajectory, at least, you're introducing the CBE in Scania in Europe next year; the year after, in LatAm; and then you have MAN and VW Caminhões e Ônibus 2024 and 2026. How much technology transfer can you really push through with Navistar in the short term? Obviously, when we look at the trajectory of the current brands, the synergy potential on the powertrain feels a little bit back-end loaded. So, just to understand the shape of the powertrain synergies at least.

22:03 Matthias Gründler

Thanks very much for the question. I think you shouldn't forget that we are already in four years where we actually work together in our alliance. So, we know each other well. Our projects are running well. And I can tell you, you will not wait until the end of the century that we're going to see efficiencies. They're going to come significantly earlier.

22:33 Christian Schulz

And Klas, what Matthias has said, look, I mean, so far, with all the components that might come to Navistar, we would had only been possible to participate with our, let's say, 17% shareholding. Now if there's a full takeover, obviously, if the success of the product is in the market, then we can also benefit on the full scale.

22:50 Klas Bergelind (Citi)

So, the reason for asking is, obviously, Navistar is sourcing from Cummins currently, and you have the 13-liter coming out now with Scania. So how quickly can we see that shift over? I guess that is the question.

23:07 Christian Schulz

Look, we're going to give more colour after the closing.. I think you understand this.

23:12 Klas Bergelind (Citi)

Yes. Yes. Yes. Sure. Then my second one is on the guidance for the year. I appreciate it's sensible to be prudent. But obviously, looking at the numbers here, particularly on the Scania side, you have a very strong order book. Into year-end, your book-to-bill is 1.6 on the truck side in Scania. And that would suggest that the margin could increase sequentially as you deliver out of the backlog around production. I get that orders can be weaker from November onwards in Europe, but not really sure why the margin would go backwards. I totally get the message in the press release, but just wondered, Christian, if you agreed with my reasoning, at least, that you have a lot of deliveries coming in into the fourth quarter.

23:55 Christian Schulz

I mean I emphasized on orders, obviously. And for us, it's a very simple, Klas. We've seen how quickly the world turned in March, April. And I mean if you see infection rates in Europe, which is, for sure, one of the core markets, nobody can rule out how the next six to eight weeks will come. Obviously, there might be things. As you have said, we are prudent people. Yes, I said it before, we have positive feedback so far from the market. But we'd rather be prudent when it comes to the entire year. And I think this is not a mistake, quite honestly.

24:28 Klas Bergelind (Citi)

No. No. No. I understand. It’s just that the backlog looks so strong in Scania. Then my final one is on the cooperation with Hino, now focusing also more on the fuel cell side, similar to what Volvo and Daimler are doing. So, what is the scope here of the JV? Is it on the truck and the powertrain only? Or are you also thinking of including infrastructure, fueling stations, similar to what we see at Nikola? Or are you relying on subsidies and partnerships here going forward?

25:00 Matthias Gründler

No. At the moment, we're really focusing on the technical side of the product at this point in time, when it comes to electrification, when it comes to fuel cell. And we are especially exploring all the opportunities we have on the fuel cell side when it comes to Nuremberg to evaluate what we can really do here.

25:18 Christian Schulz

Keep in mind, Klas, the joint venture was just announced recently. So, there's plenty of things to discuss.

25:25 Klas Bergelind (Citi)

Yes. The key question we get from investors is obviously whether there could be sort of first-mover advantage from start-ups in that they're also providing the infrastructure. So, that's the reason why.

25:37 Christian Schulz

Look, again, it's too early, but Hino and Toyota have a good track record on fuel cells. So, let's see where the joint venture leads us to.

25:57 Hampus Engellau (Handelsbanken)

Thank you very much. Two questions from me. I'm sorry for coming back on this Navistar situation here, but they signed a two emission cycle agreement with Cummings, and they were targeting to implement your 13-liter engines. Does this mean that Cummins will continue to supply engines on the 15-liter side? Or what's the thinking here? That's my first question.

26:27 Matthias Gründler

I'm just really sorry. But at this point in time, we are not really commenting on this. You have to wait until closing.

26:35 Hampus Engellau (Handelsbanken)

Okay. Maybe then on Navistar, everybody has the history with Navistarand the MaxxForce bore engine, and pushing an AGR when everybody else went for SCR solutions. That eventually resulted in a 5%, 6% market share loss. Given where you're heading now, are you aiming to regain that structural lost market share? Or how should we think about that going forward? Is that a reasonable target given that you have a quite competitive engine?

27:12 Rolf Woller

Hi, Hampus. It's all well understood that you obviously want to get more information and gain more information on how Navistar will continue with the supply chain, and so on and so forth. But we have to ask at this point in time for your patience. You know that's quite complicated until closing for us to comment on. Navistar is an independent company, and we refrain from speculating. So, therefore, please be patient. After closing, we will answer all these questions.

27:44 Hampus Engellau (Handelsbanken)

Okay. Fair enough. I'll hold my horses.

27:58 Demian Flowers (Commerzbank)

Hello. Thank you, Matthias, Christian. My first question is about demand. So in Q3, the sales volume growth was clearly better at MAN than it was at Scania. But when we look forward, when we look at the order book, that seems to be reversed. The Scania book-to-bill, as already mentioned, is better than that of MAN. But I'd sort of assume that, given all the new product you've got at MAN, you would be seeing continued strong momentum there. So is the orders that you're seeing a bit disappointing? Can you make a comment on the demand dynamics that we're seeing there between those 2 divisions, first of all?

28:38 Christian Schulz

I think if you compare to our previous year, as you know, in comparison to back then, Scania market share in Europe has been down because of the spillover effect of the new truck generation in Q1. That's still from the history. If you see order book in Scania is quite strong, as you have said. On the MAN side, well, look, we're going to introduce a new generation of the heavy-duty truck in the due course of next year, right? And as we have said before, we also need to watch out that margins are safeguard these.

So, this is basically an introduction strategy to a certain extent. I wouldn't say that we are disappointed on the MAN side, I think it's going according to track. And if you remember, Demian, the discussion we had in the IPO, how important it is that the launch of the new MAN truck.

Obviously, it would have been a better timing without the COVID crisis in Europe. We need just to be, let's say, senseful, and this is what you see there.

29:29 Demian Flowers (Commerzbank)

So in terms of the timing of when we'll start to see that, in which quarter of next year meaningfully hitting the MAN volumes, is it in the first half?

29:39 Christian Schulz

I think I would rather say, second to third quarter, you will see the share of those new heavy-duty trucks arising, obviously, depending on the overall market dynamics.

29:52 Demian Flowers (Commerzbank)

Yes. And then just a follow-up on MAN's profitability. When I look at your guidance and also the MAN guidance of EUR 450 million to EUR 650 million loss, clearly, you're pointing to a weaker Q4 versus Q3. Is that dynamic all about volumes getting softer, or is it also about other cost headwinds that are playing a role as well at MAN?

30:20 Christian Schulz

Yes. If you look into the past, you see Q4 always is one of the weaker ones, every year. The second thing is, again, all the discussions we currently see, and the ramp-up we still have there. Don't forget we ramped down our production in the first half of the year. We needed to restart it. We have all this distancing things. You need to be careful what you do in MAN now in the fourth quarter. I think it's rightly said. And yes, hopefully, we are improving.

31:05 Horst Schneider (Bank of America)

Good afternoon, and thanks for taking my questions too. Before I try it again on Navistar, maybe first of all, another question related to the business you own already. When I look at the Scania charges in Q3, was that not all the charges that we should expect? Or is the bulk of the charges only to come in the fourth quarter? That's my first question.

31:31 Christian Schulz

I think you might see minor ones continuing, but not in the same magnitude. And I think by second quarter next year, everything should be baked in.

31:44 Horst Schneider (Bank of America)

So, then, the larger part is coming just in next year?

31:46 Christian Schulz

No. No. The other way around, Horst. I just said, the EUR 50 million you saw, you might see one or the other smaller thing. And this might continue until second quarter 2021, but not in the magnitude you've seen in the Q3 2020.

32:05 Horst Schneider (Bank of America)

It sounds like a quite cheap restructuring, given the fact that you reduced 5,000 employees. Or you reduced now less than you wanted originally?

32:13 Christian Schulz

No. I mean, there are other things. First of all, Scania has reduced significantly costs last year already in the fade away of the dual/ramp-up costs, right? Then they decided to take out the 5,000 people. And obviously, now via order book on the direct side, you have a small counter-effect, depending on how the volume comes. But what you saw here in the third quarter is structural things like the bus plant in Finland or other things where we really now take actions there. So, I wouldn't say that we didn't meet our expectations. No, that's not the case.

32:43 Horst Schneider (Bank of America)

Okay. The other question, I'll try it again on Navistar, especially related to potential fees from the acquisition. You booked any of these fees already in the fourth quarter? And if yes, in which segment?

32:55 Matthias Gründler

No.

32:57 Christian Schulz

No. No disclosing.

33:01 Horst Schneider (Bank of America)

Okay. And I guess you cannot yet comment on any purchase price allocation effects, right? That, you can only do post-acquisition.

33:07 Christian Schulz

Horst, this is a nice try, okay? Thank you.

33:12 Horst Schneider (Bank of America)

All right. Then, on the refinancing again, because you said you leave all options open, you decide on these options before the acquisition or do you decide on that when the deal is fully closed and all is fully consolidated? What I'm pointing to is the possibility of a capital increase, when you would decide on that.

33:35 Christian Schulz

First of all, I would say both. We will think through what we do in the refinancing of the debt in the course of the next couple of months. And there's nothing more to say than what Matthias has said. We keep open which instruments we use from the capital market. And I understand the background of your question, but I will not comment on this. We will cross that bridge when we get there.

34:38 Nicolai Kempf (Deutsche Bank)

Thanks for taking my questions. Nicolai Kempf here, Deutsche Bank. My first question would also be on MAN. And can you give us more updates here on how MAN should improve and how the margin of 8% should be achieved? I understand that the biggest lever should be labour costs, but what else can be done? And my second question would be on your alternative powertrains. One of your key competitors announced last week at its Capital Markets Day an electric vehicle sales target. When will you provide something similar like that?

34:49 Matthias Gründler

MAN is quite a holistic work we need to do. When it comes to material costs, we're going to attack there. When it comes to the overall headcount, we're going to attack there. When it comes to our overall plant structure, we actually have to improve it significantly, to actually get the inbound and outbound logistics costs down. So it's really in every area, we're actually going to have to improve the company.

35:15 Christian Schulz

Yes. And keep in mind, we just introduced the new heavy-duty truck. That means, like Matthias has said, not only on headcount and whatever is going to be agreed with the unions, but also on the material costs, you have way more potential.

Because if you have a new truck, it's something different when you discuss with your suppliers than if you have a 20-year-old truck, obviously. So there's lots of potential, yes. And as for the...

35:44 Matthias Gründler

What was it, electrification?

35:45 Christian Schulz

Yes. Sales targets for electric vehicles.

35:48 Matthias Gründler

No. We're not going to announce them now.

35:50 Christian Schulz

Not now. We're debating them, but we are not ready for announcement.

36:02 Xingzhou Lu (UBS)

Hi, Matthias. Hi, Christian. Thanks for taking my questions. Just a couple on my side, I'll take one at a time. Firstly, just going back to MAN, could you maybe help us with any launch-related costs that you're still incurring? And for how long we should expect that to continue?

36:29 Christian Schulz

Until Q2 next year, we will have some costs there, especially when it comes to manufacturing because in the ramp-up, as I said before, we have all the COVID measures. It's surely different than what we have planned for. So, by second quarter next year, hopefully, those might be gone.

36:46 Xingzhou Lu (UBS)

Right. And do you have a rough magnitude on how much are the costs currently that you're incurring related to this?

36:53 Christian Schulz

We don't communicate this, sorry.

36:57 Xingzhou Lu (UBS)

Okay. And secondly, in terms of pricing, given the overall strength of the truck market, particularly in Scania, are you actually getting any pricing benefits for Scania? And also with the new truck launch in MAN, are you getting any price increase from that?

37:18 Christian Schulz

Well, one can only comment that we are still able to hold the price point we wanted to with the new truck generation on Scania, as you can also see reflected on their margins. I said before, when we talked about the orders and the question in the beginning of the call, that we are very prudent when it comes to the ramp-up of the volumes of the new heavy-duty truck on the MAN side, exactly because we're going to follow the policy, which is margin before volume on that end. So, I can only say we are satisfied with the targets we've set ourselves.

37:52 Xingzhou Lu (UBS)

Understood. And my last question is on working capital. I think it's been very strong in the past two quarters but, I guess, with ramp-up in production expecting in Q4 and potentially into 2021, how should we think about this working capital going forward?

38:09 Christian Schulz

As you rightly said, we had a very good trajectory, I would say, in the second and third quarter when it comes to optimization of working capital. And, also, the cash flow of the plus EUR 199 million in the third quarter is a showcase for that. Obviously, now if you see the order book, if you would eat up that order book, of course, you'd have increased working capital in there. So, I think that the spirit of cash flow optimization remains, but without doubt, there will be an effect in the fourth quarter when it comes to eating up the order book.

38:50 Himanshu Agarwal (Jefferies)

Thanks for taking my questions. The first one actually follows from the previous question on your industrial net cash flow guidance. You're guiding for negative net industrial cash flow for full year 2020, versus negative EUR 150 million year-to-date. I see Q3 was quite strong. And normally, Q4 is a strong cash quarter. Are you guiding negative cash flow for full year because of the working capital ramp-up, or is there something else?

39:22 Christian Schulz

Thanks, Himanshu. Two effects. As I just said before, if you ramp up production and your working capital is suffering from that, that's one aspect. Other than that, you saw that we have a prudent forecast when it comes to the EBIT guidance, and those two factors relate to the cash flow guidance.

39:38 – Himanshu Agarwal (Jefferies)

So is your cash flow guidance based on the EBIT midpoint?

39:45 Christian Schulz

Yes.

39:47 Himanshu Agarwal (Jefferies)

Okay. Got it. And secondly, on the Hino JV. Recently, Hino also signed a joint venture with XOS Trucks in electric trucks in the North American market. And you also have a JV with them on electric and fuel cell trucks. How is that equation going to work? Or is there a JV limited to North America with XOS and with you in Europe? If you could just shed some color on that.

40:14 Christian Schulz

Our joint venture with Hino is not limited to Europe. It's a global joint venture. And we need to see after closing what opportunities we have with Navistar in that joint venture.

40:29 Himanshu Agarwal (Jefferies)

Okay. But their joint venture with XOS Trucks in North America, is that something that affected your positioning in North American market with them?

40:41 Christian Schulz

No, but we cannot comment on Hino's joint ventures and how this would relate to a deal with Navistar that not yet has closed. So let's debate this if time has come, okay?

41:01 Brian Lombardi (Seaport Global)

This is Brian Lombardi with Seaport. A question on the transaction process. What is it that you think will be the last to occur of the necessary items before closing?

41:20 Christian Schulz

There's two things. One is obviously the shareholder meeting of Navistar. As Matthias has outlined, it's supposed to take place in Q1. And then obviously, after this, the normal regulatory approvals like CFIUS and antitrust. And then, there's basically closing them. That's it.

41:36 Brian Lombardi (Seaport Global)

Okay. The reason I ask is because, in a departure from what would be customarily true, there's no obligation to close before July 1st. Both the items you mentioned would be conditioned, so it would be impossible to close, or the obligation to close wouldn't exist before the conditions are satisfied. But that July 1st closing definition is completely separate from the conditions. Is there something with financing or some other procedural?

42:05 Christian Schulz

No. No. No. It's just, we are in the middle of COVID times, right? Now, Navistar plans for a shareholder meeting. If they do it in Q1, let's give ourselves a couple of weeks to get the antitrust thing and then the CFIUS thing. There's nothing that you suspect on other topics. It's really the shareholder meeting, then all the governmental procedures, and then that's it. It is a prudent timeline.

42:34 – Brian Lombardi

Sure. No, I appreciate that it's prudent. That's why I'm focused on it a bit. I mean, if you get everything you need prior to July 1, do you intend to close prior to this artificial deadline?

42:47 Matthias Gründler

It depends. It's hard to give a correct answer to these questions. I can only say Persio Lisboa and the team are now heavily focusing on getting to shareholder meeting, then we see that the votes come there and then we go into the regulatory process. And then we see how it ends. And then we give you an update on every quarterly call, okay?

43:16 Daniela Costa (Goldman Sachs)

Good afternoon. Thanks for taking my question. I only have one. I wanted to ask you conceptually about the thoughts regarding the revenue opportunity when you look at electric vehicles. One of your peers recently have said they think it could be 40% to 50% higher than current. And I was wondering, how do you think about that? And related to that, when we think about the aftermarket profitability, do you think there will be any meaningful changes compared to IC trucks for the new powertrain trucks aftermarket?

43:56 Christian Schulz

I actually think the corridor you mentioned of 40% to 50% is very reasonable. And we see it in a similar way. Yes, there will be a significant long-term difference when it comes to aftersales, as a lot of revenues are generated by the powertrain on the aftersales side. Nevertheless, we also see the opportunities when it comes to battery cell exchange, and so on. There will be a new field of aftersales business, which we don't have today. So, we need to work on that, but there are opportunities for us.

44:27 Daniela Costa (Goldman Sachs)

And regarding the profitability of the aftersales, is it similar in your view to current?

44:34 Christian Schulz

Yes. It's going to be similar. That's what we are targeting for.

44:50 José Asumendi (JP Morgan)

José, JPMorgan. Hi, Matthias, Christian, and Rolf. A few questions, please. Maybe the first block, Christian, can you give us some guidance on restructuring cash outflow for the year 2020 and 2021? And if you don't want to give us 2021, just

2020, please. Also some color on production Q4 versus Q3 for MAN and Scania. If you could quantify sequentially Q4 versus Q3. Otherwise, a simple guidance of flat, lower or higher versus Q3, please?

And then for Matthias, a couple of questions, please, a bit more strategic. As you think about the Group and capturing that aftermarket business as you transition into electrification, obviously, you're part of a much bigger group. That has a huge bench in terms of technology. How deep or how vertically integrated do you want to go in terms of the key components? I'm thinking about electric motors, transmissions, etc. Can you go in a different direction and change the vertical integration of the truck in that sense? And second, can you comment a little bit about your thoughts around the free float of the company? Whether this is a topic that is still being considered or not, I think [it is] an important topic when we speak to investors. Obviously, improving the free float of TRATON would be very welcome.

46:21 Christian Schulz

Christian here. José, thank you. First of all, on the cash flow in MAN, while we are speaking here, we are negotiating with the union. So, there is not yet an arrangement to say that you can predict how much do you need to accrue or when do you pay it out. You just need to be, please, a little bit more patient on this one. I can only tell you we are making good progress, but more is not to be said today. The second question, quite honestly, I didn't understand because the connection was really terrible. Can you try to repeat it?

46:57 Matthias Gründler

Is it correct that you were asking for the vehicle integration or the vertical integration in the vehicles between the..

47:02 Christian Schulz

That was the third one. It was the second one that I didn't get. What was your second one?

47:07 José Asumendi (JP Morgan)

Very, very simple. Production Q4 versus Q3, MAN and Scania. If you can give us some quantitative guidance, how do you see it sequentially? Or simply, do you think it's higher, Q4 versus Q3, flat or lower?

47:25 Christian Schulz

Okay. So MAN, similar levels; Scania, slightly up.

47:33 José Asumendi (JP Morgan)

Thank you. Matthias, please, on the other topics, free float of the entity of the group in terms of the market cap free float. And the second question, the key components.

47:47 Matthias Gründler

I'm sure we're striving for the key components to actually integrate over the brands. We need to see when is the optimal timing for doing that investment and really exchanging the components, but we have a strategic plan for that, yes. And we are striving for the big, really effective components to be integrated across all our brands, for sure. And that includes, surely, Navistar. With the free float, we said before that we leave all options open and we see when the time comes, when it's appropriate timing.

48:22 José Asumendi (JP Morgan)

Okay. And on the key components, you were referring to the electric truck, right? I mean that's what I'm trying to get to. At the end of the day, you have an opportunity to increase the vertical integration of the business and capture additional aftermarket going forward.

48:36 Matthias Gründler

Absolutely. We need to. If we don't get the aftermarket and the combustion engine, we need to do it on the electrified truck, for sure. Most probably, they will need different sales instruments, but we are working on that.

48:55 Operator

As there are no further questions, I would like to hand back to you.

49:00 Rolf Woller

Thank you very much for your numerous participation in that call. And that concludes today's call. Please keep the IR team busy with any unanswered questions. They are here in Munich, and they will your calls – Marvin, Thomas, Helga and myself. And then, we look forward actually speaking to you again once we have the fiscal year numbers ready. So, that should be in March 2021. We look forward to catching up then. Thank you very much for participating.

49:32 Matthias Gründler

Thank you. Bye.

49:33 Christian Schulz

Thank you. Bye.