Transcription

TRATON SE - Interim Statement 9M 2021

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28 October 2021

PRESENTATION

00:04 Operator

Dear ladies and gentlemen, welcome to the conference call of TRATON SE. As 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 the online tool to display the disclaimer. May I now hand you over to Rolf Woller of TRATON, who will start the meeting today?

00:40 Rolf Woller

Thanks, Aurelia, and welcome everyone to our nine-months conference call from wherever you have dialed in. We are hosting this session today from four different locations. So we hope, actually, that the transmission runs without any flaws. And if not, please give us a shout so that we can adjust. I'm very happy to introduce to you today our new management team, which is Christian Levin, our CEO, and Annette Danielski, CFO. Both will guide you through the presentation. And the other participants on the line from the TRATON side are the usual suspects from the Legal department, from Finance, and from Investor Relations. We have sliced the presentation into different sections, and Annette and Christian will present different parts of the presentation and provide explanations on the development during the first nine months and the third quarter. We know numbers need this time a bit more explanation because of the first-time inclusion of Navistar. And we tried to give you as much transparency in the different chapters as possible, in order to better understand what was going on during quarter three.

After the presentation, we will host a question-and-answer session, which will be moderated by me, because of the distribution of the participants over the place. And I will do my very best, actually, in order to accommodate every question to be raised. Before we go over to the management team, I should make some housekeeping items. And namely, we hope you have received our nine-month interim statement, as well as the presentations. And you should also have received the press release in the course of this morning. If not, you find them on our website. And as Aurelia has already told, please make yourself familiar with the disclaimer, which is to be seen on Page 2. With that, I hand over to Christian, who will start with the presentation. Christian, the floor is yours.

02:42 Christian Levin

Perfect. Thanks a lot, Rolf, and also from my side a very warm welcome. It feels a bit awkward to sit there in the US and not being able to see or meet you, but I hope the sound is good, and that we can have an interesting hour ahead of us. I'm even more happy that I'm accompanied by Annette Danielski, a rock-solid CFO that was actually the architect behind many of the big deals that we were performing in the last years of TRATON.

Right. We're here to talk about Q3. And maybe, to paraphrase Elon Musk, we have been in a supply chain hell, but we have also been in a market paradise. To handle these two situations at the same time, that is complex, to say the least. To top that up in the Scania brand, we also managed to completely sell out the current range of 13 liters, which is the majority of our sales, and are not starting up sales of the new, by the way, common group platform until mid-November. So, bear with us. And I will, of course, come back to that during the presentation later on.

If we move forward and take the next slide, then I would say that that, of course, you are well aware that we have, unfortunately, Matthias Gruendler as CEO and Christian Schulz as CFO leaving us. Both of them were architects behind and pushed the implementation of the Global Champion Strategy, and managed to achieve, I would say, major milestones for the TRATON GROUP in its short startup life. At the same time, I need to say myself, as new CEO and Annette as CFO, we're more than happy to continue this successful journey for TRATON. We have been with this construction in different roles, but from the very beginning. I know it, and I know the commercial part of our operations very well, not only from my time as COO but also from my many, many years in Scania. And Annette, if I may say so, you were really our internal luminary for the number world and active most recently as Head of Finance. So, both of us, we will execute on the next chapter for our group. We will consequently implement the jointly developed new TRATON strategy. What I stand for as CEO of TRATON is that I will transmit confidence in a new leadership and show a way to build stronger profitability. I will give a clear direction for our future success. Clearly, the focus will now be set more on execution and to get the benefits that we deserve from our synergy work. Doing this modularization is going to be key, and our products and services are at the center of attention, with the goal to increase scalability from big to small.

With regards to collaboration in the group, we have the highest respect for each brand, and therefore will give them a lot of freedom to act, but always with the aim to create clear value for the group. This especially of course, holds true for MAN, as it is very crisp on bringing success to them. Last, I also want to succeed with the goal of making the Navistar deal financially fruitful. And, with Mathias Carlbaum, my former colleague from Scania who was appointed CEO of Navistar at the beginning of September and also joined our executive board in TRATON in October, we have an internationally experienced manager from Scania in place. He is the right person to lead Navistar into the new era as an integral part of the TRATON GROUP.

So with that, I would move to the next page and come to what Rolf said in the beginning of this interim report. In order to facilitate for you, we're trying to show two different structures. This is in connection with the first-time consolidation of Navistar, of course, being now the first quarter with us fully. And so they are included as from 1 July of this year. To give you a better comparability with the prior year period, and also on a sequential basis we, beside TRATON, also present the business figures of what we call TRATON Classic. And that is a comparison of TRATON prior to the acquisition of Navistar for the same nine-month period and for the three quarters of 2020-2021, respectively. You will find these figures in the first section of this presentation and in a special section in the interim report. To make it even easier for you to see which structure we currently are in, we've also placed the small box at the top right of all the relevant pages. And with that introduction, I would like to hand you over to Annette, to start off with the financial details. Annette.

08:01 Annette Danielski

Thank you, Christian, and a warm welcome from my side as well. And of course, I hope that I will meet many of you in the coming months, virtually or maybe even in person. As Christian said, we are both really committed to continue and bring TRATON to the next level. Now let's start with the summary and highlights of TRATON so far in 2021. Again, please be aware of the small box at the top right of the slide.

In this section of the presentation we will discuss the performance of TRATON Classic, or rather, I should say, the old TRATON excluding Navistar. Overall, business recovery continues, but as you all know, the environment is still challenging, not only because of the ongoing overall COVID-19 pandemic situation, but also because of the impact of the supply chain constraints we have communicated to you lately. We managed the challenge in the third quarter quite well, but like the whole industry, we are not immune against the semiconductor shortages and other supply chain shortages. Incoming orders and unit sales in the first nine months were strongly up. This, together with our renewed truck lines and strict cost discipline, led us to an adjusted operating result of EUR 1.4 billion and an adjusted return on this of 7.1%.

On the lower box of the page, you can see that we are making good progress over the third quarter on other topics for TRATON. We have successfully completed the Navistar acquisition and boosted investment in e-mobility. A recent example for our ambitions to foster e-mobility and become an active leader: together with Daimler Truck and Volvo Group, we plan to pioneer a European high-performance charging network for heavy-duty trucks. We have taken another step towards a more responsible company. Scania joined the climate pledge and MAN's Science-Based Targets Initiative. We will come back to this in some minutes.

And now on Page 8 we summarize the third-quarter achievements for some of our core KPIs, again without Navistar. All KPIs in the third quarter are pointing in the right direction, despite the supply chain constraints. We have to cope with this. We even managed only a negative net cash flow of EUR 205 million in the third quarter, when we adjust for our cash outflow for the Navistar acquisition, which would amount in total to EUR 2.6 billion, and the restructuring of MAN of around EUR 294 million. Including the MAN Truck & Buses restructuring cash out and net cash flow amounts to – EUR 499 million, as shown on the slide. Most remarkable was our order intake, which was, as expected, below the Q2 levels, but significantly above the prior year and the Q3 2019. More than 70,000 units in Q3 is clear testimony to our strong truck lines and above-average fuel economy offers. Christian pointed out already that we managed the challenges in the third quarter quite well. Unit sales, sales revenue, and operating result increased compared to the prior-year quarter, but the effects of the semiconductor shortage are also reflected in these figures.

And now on Slide 9, but we can see the development of our unit sales and incoming orders on absolute – left hand – and relative level – right-hand chart. Some markets recovered even faster than we expected it would happen, and even accelerated during the first half of this year. As mentioned before, the business recovery is still underway, and transportation activities are gaining momentum. But the overall supply situation for our industry has been more impacted by supply bottlenecks since the last quarter, in addition the third quarter is typically a seasonally weaker quarter, with up to four weeks of plant closures due to the holiday season. The COVID-19 situation in Asia, meanwhile, was intensified by the supply chain constraints we saw in the second quarter. But as you can see on the left chart, incoming orders in the third quarter of 2021 remained well above a typical third quarter in recent years. By relating incoming orders to unit sales, you can see that our book-to-bill ratio is well above 1, with 1.4 for the business in the third quarter, confirming the trend of the previous quarters into 2021. Looking at the year-over-year change on the right-hand graph, you can witness at the third quarter a dynamic of this slowing momentum, which is largely explained by base effects.

The next slide on Page 10 is for your reference. It confirms that we have reached pre-COVID-19 levels on the sales revenue already one year after the COVID-19 pandemic had hit its lowlights, and even in light of the recent supply chain constraints. Availability of our new truck lines allowed us to achieve stable sales revenue of EUR 6.3 billion in the third quarter 2021 compared to third quarter 2019. Adjusted operating profit and adjusted return on sales were impacted by the mentioned challenges, but margin was close to 5%, given the challenges, is still a healthy level.

Coming to the next section, where we give you key figures of the performance for Navistar since they joined our group on 1 July. We are now on Page 12. Under the operating unit Navistar Manufacturing Operations, we demonstrated Navistar’s manufacturing and distribution of products and services, so mainly trucks, buses, engines, spare parts, and services. The activities of Navistar Manufacturing Operations are shown in our reporting in the Industrial Business segment. I will not go into every number, but as you can see, the supply chain constraints also impacted Navistar’s operating results and return on sales. In addition, it was impacted by a one-time cost of about EUR 40 million in connection with the M&A transaction. The underlying return on sales of Navistar without this transaction-related costs would have been close to 5%, as you would have expected it. All in all, Navistar has made a solid start to the new area within the TRATON GROUP. With a strong book to bill of 1.7, we are looking forward to the quarters to come. Net cash flow of Navistar and the manufacturing operation was at - EUR 286 million, impacted by inventory build-up that should be moderated in Q4.

On Slide 13, we show you an overview of the effects driven by the first-time consolidation of Navistar. As of today, a purchase price allocation has been performed and included in the nine-months 2021 financial statement. Accordingly, the amounts recognized as of 30 September 2021 are preliminary values. The goodwill of EUR 2,757 million resulting from the acquisition reflects the synergies arising from the business activity with Navistar, in particular, purchasing, production cost, modularization and the use of common components and research & development. Preliminary deferred tax amounted to EUR 1.3 billion before netting and added to the total assets as well. With the merger, we believe we will be able to utilize the deferred tax assets, so the valuation allowance was largely released. After netting with deferred tax liability, EUR 551 million will remain.

With regards to research & development costs, according to IFRS, development costs that meet specific criteria are to be capitalized as assets on the balance sheet, whereas under US GAAP, these costs are expensed as occurred. More than EUR 400 million have been identified for the opening balance sheet. In Q3 2021 we have primary R&D expenses of EUR 80 million at Navistar, whereof approximately 46% were capitalized. This ratio reflects the nature of a system integrator. The profit and loss effects from the change into IFRS is pretty limited, as capitalization and depreciation are ina similar magnitude. The PPA had an effect of EUR 149 million on operating profit in Q3, mainly related to the amortization of the customer relationships. The total PPA amount is EUR 2.9 billion and will be amortized over about 10 years. The amortization is not a straight linear line. To show that transparent in the coming quarter, we will later in today's presentation talk about the new structure of the group.

Now we are coming to the next point in the agenda, where we summarize the highlights of TRATON for the nine-month period. I'm on page 15. Again, please be aware of the small box at the top right of the slide. This section of the presentation will discuss the performance of TRATON including Navistar since 1 July, and therefore in a new group structure in the future. We discussed the business environment before, which brings us directly to the figures. As you can clearly see, the inclusion of Navistar distorts all our figures. Incoming orders are now reaching nearly 270,000 units in a nine-month period. We are delivering nearly 200,000 trucks and buses to our customers, and sales revenue reached almost EUR 22 billion. Our adjusted operating results stood at EUR 1.3 billion, the adjusted return on sales at 6.1% – really impressive figures. On the MAN Truck & Bus restructuring, we have booked a total of EUR 681 million expense in the first nine months of 2021. We currently had cash-out related to these measures of EUR 300 million for the nine months 2021. Last box mentions our net cash flow and industrial business. I will elaborate on this on Page 19 in more detail.

On the next slide on Page 16 we give the reconciliation from TRATON Classic, thus TRATON without Navistar, to the new TRATON. As you can see on the left graph, Navistar in the nine-month period contributed EUR 1.7 billion to the sales revenue. Bear in mind this is only the contribution for the third quarter. The first-time consolidation of Navistar in the third quarter had an overall negative impact on the adjusted operating profit. The positive operating result of EUR 53 million was more than compensated by the negative effect of the purchase price allocation, which amounted to EUR 149 million. And here, I said before that the operating result was reduced by a one-time costs of EUR 40 million, as a result of changes made in the context of the transaction. The underlying result of Navistar altogether in the third quarter was a bit better than EUR 90 million and resulted in a margin of close to 5.5%, as we would have expected it.

Coming to the next page, where we show a nine-month group development in the sales revenue and operating result. I can only emphasize that, despite all the challenges we have faced the recent months, we are still on a very good track. As you can see on the left graph on Page 17, Scania, MAN Truck & Bus, and Volkswagen Caminhões e Ônibus showed strong double-digit percentage increases on the top line, Scania at a EUR 2.2 billion sales revenue and MAN followed with close to EUR 1.5 billion versus the nine months of 2020. Volkswagen Caminhões e Ônibus had higher sales revenue of almost EUR 700 million – compared to their size, again, a powerful achievement. On top, Navistar contributed EUR 1.7 billion since 1 July. All the financial service, which includes the financial service activity of Navistar with EUR 46 million in sales revenue showed a 12% increase. In total, it brings the group to a total sales revenue of EUR 21.7 billion, 38% up compared to the nine months of 2020.

On the right chart, you see that the increase in adjusted operating result was also fairly well distributed with regard to the size of each brand. MAN improved its adjusted operating result in line with Scania, both with an improvement of around EUR 650 million. But also Volkswagen Caminhões e Ônibus and Financial Services had a strong operating result, on top of the contribution from Navistar. Altogether, we had a swing of more than EUR 1.3 billion versus the nine months of 2020. This is including the purchase price allocation effect of EUR 149 million, within Others. Return on sales at Scania Vehicle & Services is at nearly 11%. Last quarter has been more affected by the semiconductor shortage, but still Scania is confirming its top position within the industry. Including financial services, Scania Group reached return on sales of 12%. Worth mentioning MAN, the MAN team achieved to improve its earnings, which is showing the first successes of the repositioning process. Further levers have been higher sales revenue, the introduction of a new truck generation and strict cost management. Navistar's manufacturing operation reached a 2.5% return on sales but, as noted above, the underlying result was close to 5%. Including their financial services activities, the Navistar group reached return on sales close to 5.5%. Last but not least, Volkswagen Caminhões e Ônibus. Our team in Brazil achieved a strong return on sales of 8.1% and is now on their target level. Third quarter was even stronger than second quarter, with EUR 55 million operating result and 9.2% return on sales. This was driven by higher sales revenue and improved product positioning. Last, the Financial Services business. We reached nearly 25% adjusted return on sales, meaning that the operating result more than doubled to EUR 170 million. Navistar financial services added EUR 16 million.

And now on Slide 18, where we have a detailed view on the brand level for unit sales and incoming orders on a quarterly basis. Overall, we have seen that the broad-based recovery in truck demand in most regions of the world continued. Incoming orders for MAN and Caminhões e Ônibus showed a strong increase year over year in the third quarter. Particular in our core region, EU 27+3 and South America – and here, mainly important for us, in Brazil – after several quarters of outstanding incoming orders, Scania still achieved a very high absolute level in a single quarter. Unit sales, as we discussed now several times, was impacted by the supply chain constraints. Nevertheless, at the end, the absolute level of deliveries for Scania and MAN in this environment, and in a seasonally weaker quarter, was more than solid. Regionally, we have seen strong increase in unit sales, in particular in Brazil, which led us to this impressive figure of a +43%. In the

EU 27+3 region, a slight decrease was visible. On the bus side, we have seen different developments within the brand. Incoming Scania and MAN increased compared to previous year, at a very low level.

Coming to our net cash for development on the next slide, Page 19. Despite the challenges we have to deal with, there was growth in operating activities compared to the previous year, which had been impacted by the COVID-19 pandemic. Together with the continuing supply shortages of semiconductors and other important components in the current year, this led to an increase in working capital tied up in inventories and receivables. The acquisition of Navistar is reflected with EUR -2.6 billion in the net cash flow. All in all, the net cash flow of the Industrial Business segment amounts to EUR -3.4 billion. It includes a net cash flow of the Navistar Manufacturing Operation of EUR -286 million in the third quarter of 2021. The net cash flow, excluding the payment of the Navistar acquisition, stood at EUR -785 million in the third quarter, still including the negative EUR -286 million we mentioned before and EUR 294 million due to the MAN restructuring.

On the next slide you can see the bridge from fiscal year 2020 to our recent debt. Beside the dividend and squeeze-out outflows, we had a EUR 320 million outflow for the MAN Truck & Bus restructuring. All three totaled to a decrease of roughly EUR 1 billion. Further, the Navistar deal added more than EUR 6 billion on the balance sheet, as we had to pay the purchase price and got close to EUR 3 billion net debt added by Navistar, while the net debt was at EUR 6.8 billion. Pensions for TRATON are at EUR 1.5 billion and EUR 1.1 billion for Navistar. Including pension, total debt is amounting to EUR 9.4 billion. After that, I hand over to Christian again.

28:14 Christian Levin

All right. Thanks, Annette. Then, a few words about electrification and the progress there. A crucial part of our ambition to be a forerunner in the electrify business is some holistic offering of electrified both trucks and buses. And here we then showcase the numbers based on the year-to-date figures. You can see that we have a broad portfolio in place, with some photos up there. And you can see that all brands are offering alternative or electrified products in different categories, both trucks, buses, and vans. It will be gradually enlarged, with new products coming out in coming years and months, to provide customers with competitive and efficient vehicles.

So, in the table you see the numbers to date. We have delivered nearly 670 electrified units in the first nine months. Most of them are MAN TGE vans, but also for medium and heavy trucks we delivered so far 24 units. But what is more interesting perhaps is to take a look at the order intake, where you can see that more than 1,150 vehicles have been ordered and also 131 heavy trucks. So we are, of course early, on the S-curve, but that the S-curve is coming is definitely clear to me.

We can shift to the next page and continue to talk about MAN. To create value is a key element, as I said, in our new strategy. And to do this, we don't necessarily have to look at new business areas or new technologies. We have a lot of potential in our core business in the group. Our main cost is, of course, MAN. And to me, that is my number one target. We need to get MAN back to a decent profitability. The MAN management has done a good job. They have already put in place a vast structural change program that, this time, is very well worked out. We will now go into – I would say we have actually started to go into – the execution phase of this program. And we saw some of the results earlier in this presentation. And we will also benefit from a better exchange of technology inside the group, spinning on Scania’s core modularization.

Let's shift to the next slide. Responsibility as a top priority: our alternative drive strategy has a clear scientific basis. Our goal is not to comply with some minimum standards. TRATON’s future is zero emissions. We expect that, in 10 years’ time, 80% of our new sales in distribution trucks for cities will be zero-emission. Following haulage, our target is 50% zero emission by 2030, provided, of course that regulatory mechanism with infrastructures and green energy are following. Our two brands, Scania and MAN, have recently taken important decision on this journey. Scania is now joining Amazon and Global Optimism in the so-called Climate Pledge and is now one of the companies aiming to reach net zero carbon emission by already 2040, hence 10 years ahead of the Paris agreement. And I personally urge other companies in the industry to follow along, with other stakeholders involved in achieving a sustainable transport system. The commitment to the climate pledge means that Scania agrees to three principles. We measure and report greenhouse gases emissions on a regular basis. We implement decarbonization strategies in line with the Paris Agreement, for real business-changing innovation, including efficiency improvements, renewable energy, materials reductions, and other carbon emission elimination strategies. We neutralize any remaining emissions with additional quantifiable, real, permanent, and socially beneficial offsets to achieve the net zero annual carbon emission already by 2040.

But sustainability is also a key component of the new MAN corporate strategy. This will now manifest itself in concrete targets for reduction of greenhouse gases. So accordingly, now also MAN Truck & Bus has joined the Science-Based Targets Initiative and is thus taking responsibility for limiting climate change. By joining, the commercial vehicle manufacturer is committing itself to defining binding science-based targets for reducing greenhouse gas emissions harmful to the climate. MAN will submit clear targets for reducing greenhouse gas emissions from its products on the user side as well as for its corporate sites, for validation by the SBTI organization.

A little bit more on Navistar. Here we give you an update about the multiple opportunities for our new family member, Navistar, with the International brand, and where we highlight examples where we want to benefit from in the future. I am correctly on Page 25, yes. So, as we already mentioned a couple of times, Navistar is the perfect fit to TRATON. It offers opportunity to access the attractive Navistar profit pool directly, with a highly complementary geographic footprint. We can fully capitalize on the successful strategic alliance and use the components and technologies of the enlarged TRATON group, just mentioning here our new Common Base Engine. With that, we can establish a strong and competitive product in Class 8 segments and gain back market share. I will give you more details about each of the highlights in the next few pages. Once we have gained momentum and increased market share, we can fully rely on the access to the excellent dealer service and Navistar's network in North America. And last but not least, we will explore various opportunities within the financial services business of Navistar.

We can change page and, on that slide, I will go a bit deeper into the highlights I just mentioned: how to create value in the future. First, we will lever powertrain components. So, the newly developed Common Base Engine, the so-called CBE. So as a refresher, this is our 13-liter engine, which will have up to 80% component communality and represent more than 65% of the sales in the heavy segment. By leveraging powertrain components across the group, we can generate significant cost savings over the many years to come, as a powertrain stays for a significant amount of the manufacturing costs of the truck. Our Common Base Engine will go and start within Scania in mid-November, as I said in the beginning, for delivery in the spring. But also, as you can see on the chart, it's now scheduled for introductions first at Navistar in 2023, and then later on in 2024 with MAN, and even later on with Caminhões e Ônibus in 2026. Navistar was always strong in buses, and in the medium- and light-duty segment. It has also won a decent market share in the 13-liter segment. Class 8 market share bottomed in 2016. Since then, it has improved until the impact of the pandemic hit. Looking at the status right now, our ambitions are quite simple, but I would say effective: establish a strong and competitive product in the Class 8 segment and start building back market share. How we get there? I gave the answer minutes ago. Navistar can now make use of our extremely competitive components and technology set-up within the group.

Coming to the next page, once we've gained momentum and increased market share, we can fully rely on the access to the excellent, and by the way largest, dealer network in North America. The strong distribution service network is completed by the service partnership with Love's Travel Stops, the industry's largest and leading service network. In addition, Navistar has one of the largest commercial vehicle parts distribution networks in North America. A note from my side at this point. Navistar has a vehicle fleet of 1 million trucks in the US and Canada, and nearly 1/5 of all vehicles in Class 6 to 8 are international trucks. Navistar's network is best positioned to be industry leader in offering uptime to customers and to minimize downtime when anything happens, not only with the new engine – and by the way, the complete completely new driveline – but with an international brand that will undergo repositioning in which we focus on the reliability of the vehicle and stronger connectivity. In combination with a strong product, this can and will clearly give the services and aftersales an uplift and drive profitability and strengthen Navistar's position as one of the leading players in the US.

To make the picture complete, let's now look at slide 29. As you might know, obviously offers its customers in the US Canada and Mexico a range of financial services such as financing or leasing Navistar products. BMO Harris Bank N.A. and Bank of Montreal is, for example, Navistar's preferred retail and lease financial solution for products from Navistar and its dealers in the United States. Looking at this status at the moment, our ambition is to further capitalize the Financial Services activities going forward. By expanding the Financial Services product offering for our customers we target to grow our market and improve profitability in this segment. And by that I, again, hand over for the next section to Annette, please.

39:57 Annette Danielski

We are heading to the third session on of our nine months presentation, the outlook. On Slide 31, similar to last reporting, we have collected market views for 2021. Most forecasts foresee an increase of the truck market in EU 27+3, which should range between +10% to +25% for the year 2021. These views are compared to last time a little bit more cautious, driven by the supply chain constraints the industry is faced with. The same holds true for South America. However, market participation saw a decent performance in the first nine months, and this is why the expectation on the lower end has been lifted. The range goes from 25% to 40%, as you can see in the middle chart. As shown on the lower chart, the truck market in North America is forecasted to grow between 10% to 30%, also slightly adapted by the supply chain constraints in the industry.

On the one hand, we see strong order momentum. On the other hand, there's still uncertainty from COVID-19, but also with regards to supply chain topics, especially semiconductor and other component supplies. In conclusion, it was a good first half year of the year, but momentum decelerated because of the supply chain limitations in the third quarter. This will also be the topic for Q4 and 2022. But we remain confident that the medium- and long-term situation will get better.

This leads me to the next slide, the outlook for the TRATON GROUP in 2021. One sentence at the beginning: short-term supply chain bottlenecks, mainly in semiconductor and other components, will continue to affect our manufacturing operation. We stay alerted, as the situation can always change. The constant rise in raw material costs add up to the overall uncertainties. Our new forecast is for the TRATON GROUP, which has included Navistar since 1 July 2021. Subject to further development, the constrained supply chain in the fourth quarter and the resulting potential production stoppages, or potential new restrictions stemming from the COVID-19 pandemic, we project a very strong year-on-year increase in unit sales and sales revenue in the fiscal year 2021, taking into account Navistar’s contribution in the second half of 2021. We should achieve an operating return on sales in the range of 5% to 6%, excluding purchase price allocation. Including Navistar PPA, the operating return on sales should reach 4% to 5%. We expect our net cash flow for the Industrial Business to amount to between EUR 0 million and EUR 300 million, due to the current supply shortages and the resulting impact on working capital. Please note that this does not include the purchase price for the Navistar acquisition after deduction of cash and cash equivalents at Navistar Manufacturing Operations. Please bear also in mind that entire outlook is before expenses for restructuring measures for the repositioning at MAN Truck & Bus.

Earnings with effects on the purchase price allocation relating to the acquisition of Navistar are not included in the forecast either. For 2021 as a whole, we assumed that the purchase price allocation depressed earnings by around EUR 280 million. Our continued cautiousness simply continues to reflect all the uncertainty we currently see all around us, like the COVID-19 pandemic, supply chain bottlenecks, and raw material volatility. With Navistar being the newest family member, we also will align our group structure. As discussed before, at the moment Navistar Manufacturing Operation is part of the TRATON Industrial Business. Navistar Financial Services is within the financial services arm. From Q4 2021 onwards, all four the vehicle segments will be called TRATON Operations. The reason for that is quite simple. As the PPA would technically burden the Industrial Business performance, we want to show a clear picture for our four brands on the operational performance. Therefore, the PPA will get into the corporate bucket, together with the holding and the participation and consultation effects.

We cannot really change something on the PPA. It means it would be not fair to call it an operational ingredient in the group performance. For each of our four brands, we will show key figures, in order to make the operational progress more visible. To summarize from my view, I will, together with Christian, drive the company to profitable growth. I will take care that we consolidate our balance sheet, although I will have a close eye on our capital structure. And of course, I with further drive the integration of Navistar. Now I'm happy to turn the floor over to Christian for the last remarks of today's presentation.

45:28 Christian Levin

All right, thanks, Annette. And I also summarized them from my side there on Page 33. Despite all the uncertainties, we can just one more time confirm that the market environment overall is still very supportive. And besides that, we have plenty of self-help potential, if I may call it, left to lift up our performance. As I mentioned already in the beginning, productwise, we have a very, if not the most competitive portfolio with a new truck lines on all brands at the very moment, that will help to win also new customers. The introduction of the new truck generation of MAN is now complete and will allow MAN to further reposition its brand. The first benefits were already realized since the second half of last year. This will be complemented by the start of introduction of the Common Base Engine in the fourth quarter sales, starting mid-November this year. With the successful implementation of our Common Base Engine, we can concentrate now on new investments for future technologies. That means we will continue to further speed up on the electrification activities and expand our position on alternative drives. With a plan to pioneer a European high-performance charging network for heavy-duty trucks, together with the Volvo Group and Daimler Truck, we committed ourselves to boost e-mobility.

A few other topics concerning the group structure will further enrich TRATON’s potential: the full integration of Navistar, a transaction that delivers on a global championship strategy by creating a global leader across key truck markets. Other important milestones were related with the MAN repositioning. We completed the merger squeeze-out of the MAN SE’s shareholders, and we sold the Steyr plant at the end of August, both helping to streamline our organizational setup. I think we can truly say we managed well to emerge stronger from the pandemic. Finally, as the group has made a lot of progress in the last quarters, and we have continuously achieved the cornerstones of our Global Champion Strategy, it is the time to give all of you an update on how the management team wants to strive for the next era here at TRATON. And therefore, at the moment we expect a Capital Markets Day in April or May next year. Topics of focus this will be the following: the new strategy, status of the MAN Truck & Bus restructuring, an update on Navistar, and hopefully some more goodies. We will keep you posted once we have finally agreed on the date.

We now start the most important and interesting section of the day: your questions-and-answers session. Thank you from my side for now.

Q&A

48:46 Rolf Woller

Thanks, Annette and Christian, for that comprehensive overview. And this time it took a little bit longer, actually, than usual. But given the changes we had in the group, we thought it was really worth actually giving the focus on the specific developments during quarter three and during the first nine months. So with that, I see the first question coming up from Klaas from Citi. Klaas, once the operator has opened the line, the floor is yours. And please, as a reminder to everyone, if you just limit yourself to two or three questions, we would be very grateful, simply to give everyone the chance to raise a question, a meaningful question and in order, actually, to execute that swiftly. Thank you, Klaas. Please go ahead.

49:33 Klaas Bergelind - Citi

Thank you, Rolf. Hi Christian and Annette. It's Klaas. My first question is on the production levels. How many stop weeks did you have in the third quarter, particularly in Scania, on top of the summer holidays? And do you think, Christian, you can produce more beyond your normal seasonality into year-end, or should we remain at the current levels? I will start here.

50:05 Christian Levin

Thanks, Klaas. It's a most relevant question talking about supply chain health. So we did really well, at Scania specifically, up until summer vacation. I think we were the brand, in hindsight, that managed best these supply chain shortages. But starting up after vacation, where we really thought we had all the buffers, still we could only run one week at full speed and then the problems started. And it's been various semiconductor shortages hitting our Tier 1 suppliers, related to control systems on the vehicles, and some so severe that we couldn't produce. So when I summarize, we actually came to, during the quarter – or up until the third quarter, but it's basically all in Q3 – 24 stop days. Of course, it's not complete stop days, because it's reductions also during days where we run, but we run at a reduced pace, but it would be a level of 24 days. Of course, adding vacation, Q3 is a weak quarter with the seasonality of the vacation. We actually come to, compared to a normal quarter or any other quarter, that we worked less than half of the normal time. And that, of course explains the relatively poor EBIT result coming out of the Scania brand in Q3.

51:20 Klaas Bergelind

And into year-end, what do you think? I mean, I know visibility is quite poor, but…

51:25 Christian Levin

Yeah, visibility is still extremely bad. And I talked to all the chip manufacturers relevant to us directly on a CEO level and no one promised anything, but it's certainly looking better than Q3. So, going into Q4, we expect disturbances to continue, but not at all on the same level. And then into next year, it will continue for sure, during the first half, and then it seems that we could potentially leave those problems behind us.

52:00 Klaas Bergelind

Okay. My second question is on the recent management changes. So what's your mandate now, Christian, from the board in terms of integrating the different brands under the Global Champion Strategy? You mentioned modularization as a key focus. To what extent can you push ahead further with increased decentralization, modularization for all brands, where

Scania has been particularly strong in the past? We get the Common Base Engine, but what will be different under you as CEO in terms of driving that modularization and integration further?

52:35 Christian Levin

Perhaps with a disclaimer that I am working on my first 100 days, and I've been asked to come up to the Supervisory Board in the first quarter with a comprehensive strategy, focusing especially on execution, but of course, some hints I can give you. One is, of course, that I will be heading both Scania and the GROUP at the same time, meaning that that's going to get much bigger responsibility. And that means an opening up of the secret source, so to say, of the Scania success story. And one is the modularization; another is the lean manufacturing system; and third is the extreme customer closeness, what in Scania is called the commercial operation, where we have gained big synergies in the retail network. So much of that will of course be available to the other brands. And I think the big thing is, really, on the product side, where we have spent too much time on infighting and creating friction and losing time, whereas we now can really have faster decisions and grow in common where it makes sense to go common, and still – especially in Europe, where it's more difficult – keep the relevant brand positioning in the market. And there is certainly space both for MAN and for Scania in that marketplace. But there are many other goodies that we should reuse. Scania Financial Services is, of course, a success story from the side that we can do much more on a group level. So I think it's very much about opening up the Scania toolbox for the others, by putting Scania more clearly also in the lead of many of the areas. And then you asked about the mandate. I can only say I feel I have a very good mandate, but I will come back to you in our Capital Markets Day and say what was finally really decided, as well. I hope that was answering your question.

54:42 Rolf Woller

Very good. Then we move over to Hampus from Handelsbanken.

54:47 Hampus Engellau - Handelsbanken

Thank you very much. Three questions from me, starting off with the order intake. With MAN being up 54% and Scania being down 4%, it would be interesting to discuss some strategy behind this. And also, if you could relate that to lead times. Are Scania having longer lead times than MAN? That's my first question.

55:15 Christian Levin

Should I answer immediately, or do you want to do the oversee?

55:17 Hampus Engellau

No, let's do them one by one.

55:23 Christian Levin

Okay. Good, then an old man does not have to remember. Thank you. No, there is no strategy, Hampus, behind Scania, doing -4%, neither there's a strategy behind MAN doing +54%, to be honest. Of course we're victim to a very, very strong market. So I called it the market paradise. And it's really unbelievable. I mean, with the exception of buses, and particularly low-vol buses, we see all segments growing. And we see transport activity increasing. We see really old vehicles being put back into operation. And we see used trucks, they really sell like hotcakes. So with that, well, your success is to some extent depending on what your industrial system can deliver. And that we talked about when it comes to delivery. When it comes to order intake, it's basically how long an order queue do you want. That could be a strategy. But in this case, that is not limiting Scania, because we went up until 100,000 in incoming orders. And that's, of course, a historical absolute record.

And what happens was that we sold out the current 13-liter driveline platform completely. There is no one more to be allocated. Remember, probably that we, in July this year, went live with the fact that this new Common Base Engine will finally be introduced. And we have started sales for customer orders in a couple of weeks, with a big event, of course, press event. We have all our Managing Directors and sales managers, plus the important customers, are going to come and test-drive, and so on. So we just had to stop order intake. That's actually what happened. We didn't count on that, but that is that is the consequence. Because starting to sell now, when we're not completely prepared to tell the customers what they're buying, that also does not make sense. So I hope that answered your question on the order intake for Scania.

57:34 Hampus Engellau

And I had a follow-up question on the risk in doubling orders compared to 2008. I guess there's a big difference in what you define as an order these days.

57:45 Christian Levin

Yeah, exactly. I think we learned the lesson in the whole industry, probably, but we certainly did an algorithm. And the orders we talked about now, we only calculate orders when we have a firm commitment and, actually, with a penalty for canceling allocated to it. And of course, we have financing, and we have the full spec, and we know the customers, and so on. So, I don't feel worried this time for that, to be honest. What worries me more is, of course, our ability to finally deliver all of these and make the customers happy, because waiting up to one year for a new vehicle is, of course, not good for anyone.

58:27 Hampus Engellau

So last question, then. I guess you're going to come back on this on the Capital Markets Day, but it would be nice to see a bit early the rollout on the 13-liter engine in Navistar in 2023. Will that be an offer complimentary to the Cummins and a gradual process? Because I remember back when Navistar was trying to force MAN and Maxx Force to comply with the emission standard when everybody else was using SCR technology, and that was something that many of the clients remember. And how do you think of that?

59:05 Christian Levin

You're right. Now, I think it's a bit early to go into the launch strategy of the Navistar program. We're basically getting to know them here as we speak. But for sure, for these vehicles, these engines families are going to exist in parallel with the Cummins in the beginning. And it will very much depend on different segments in the market having different preferences when it comes to bore and when it comes to what kind of application, and also secondhand value. But the core target is, of course, to replace the 13-liter engine that was based on MAN, that Navistar currently uses, but I promise I will come back with a more detailed explanation on how we think about the market entry in the US. What I could add and what I learned over here is that the tests that are ongoing show really, really good results. And that is, of course, very reassuring also in American circumstances, with much higher speeds and lighter loads, and so on.

1:00:13 Rolf Woller

Then we move over, and the next question comes from Michael from Bank of America. Michael, please go ahead.

1:00:23 Michael Jacks – Bank of America

Thank you. Good evening, everybody. My first question is just with regard to the corporate items line. If you exclude the PPA adjustment of EUR 149 million and the one-off M&A cost of around EUR 40 million, the overall level is still up by around EUR 40 million versus, say, Q3. Does this relate to the Navistar head office cost? Or is there something else there? And what should we expect from that line item going forward? That's my first question. And I've got two more, but perhaps I'll just stop after the first one.

01:01:00 Annette Danielski

So we adjusted, as you mentioned, the PPA effect of EUR 149 million, which was really not driven by brand performance. The EUR 40 million, as we mentioned, and everything else was more seasonal. We have nothing else special in there. I could mention this as a merger squeeze-out that you know that we have a little bit, but it's nothing special. So it’s really performance related to the seasonal pattern.

1:01:30 Michael Jacks

All right, thank you. And then to the guidance, roughly back of the matchbox, to reach a 5% adjusted EBIT margin for the full year would imply that you expect the fourth quarter to be roughly 5% to 6%. So it would imply that you expect the fourth quarter to be roughly as weak as the third quarter. And based on your comments earlier about production being less disturbed in Q4, is there something else that is driving your caution?

01:02:00 Annette Danielski

No, nothing else is driving our caution. Really, it’s the supply chain. We can really not forecast very well. So, as mentioned before, nothing else special that would make us cautious. As I mentioned, it’s really supply bottlenecks, raw materials, and COVID-19 pandemic. And if it gets a little bit better and a little bit lighter at the end of the tunnel, then it would be good, but this is the status today.

01:02:32 Rolf Woller

But Michael, if you run the numbers at the midpoint, I think you wouldn't arrive actually, at the third-quarter levels. You must end up a bit higher, if my model is correct.

1:02:48 Michael Jacks

Okay. And then perhaps one more qualitative question on the departure of Matthias and Christian. I guess it's difficult to see how this would happen in absence of a fundamental disagreement of some kind, like strategy. Can you perhaps provide some insight into what the key point of departure was, as this would impact on the way that we derive our forecasts going forwards? Thank you.

01:03:14 Rolf Woller

Christian, do you want to take this one?

01:03:17 Christian Levin

Yeah, yeah, but I don't I really don't want to - I mean, you would have to talk to Matthias or Christian to learn why they chose to take this drastic step when they did so. So I'm sorry, but I will not comment upon that at this point.

01:03:35 Rolf Woller

Thanks, Michael, for your understanding. And we look forwards and not backwards. Nicolai Kempf from Deutsche, you're next.

1:03:48 Nikolai Kempf – Deutsche Bank

Thanks for taking my questions. Nicolai Kempf from Deutsche Bank. My question would also be on supply chain. I mean, we are all aware of the semi shortage, but after the Volkswagen Group stated another shortage of steel, aluminum, magnesium that could hit the supply chain very severely again next year, and it could have similar impacts. Do you share the view, or do you think that's also going to improve next year?

01:04:19 Christian Levin

Yeah, I can give it a try. That's to some extent, true also for our industry, I think, when it comes to these raw material related shortages. And if we exclude any geopolitical game that we cannot foresee, of course, or predict, it's more of a pricing challenge than a shortage challenge. We are small in relation to the car industry. If you take steel, it's a couple of percent of what they consume, but I think they also said that, also for them, the really big challenges are on the semiconductor. The rest, we often manage to handle. But it's true. I mean, we also have a lot of suppliers flagging, as we call, red or yellow, meaning that they are also in trouble to get hold of material. And again, that's also why Annette earlier said that it's very, very hard to predict exactly what is going to happen and giving guidance at this point in time. I think we never had such a difficult time to forecast the situation, despite record sales, which is of course highly frustrating.

1:05:45 Nikolai Kempf

Just a follow up. Would there be the target to raise prices to compensate for that, for the higher materials price? And by what extent?

01:05:55 Christian Levin

I will give you general answer on that. We have been pushing prices up, both based on the increases from the supplier base, but also based on the very strong market. So in all our brands, there are ladders of increases coming in gradually different in different markets, and different for different products. But I do not feel a worry that we cannot cover for the increases on the cost side. What is of course challenging in all of this is, when we get up in production, then of course the lead times are getting longer. And then of course, the effect of price increases coming into the invoicing are also getting longer. So I think that is one worry that I would have when it comes to price increases, but not that we don't get the price increases as such.

1:07:00 Rolf Woller

Thanks, Nicolai. So, we are coming over to Daniela from Goldman.

Operator, do we have Daniela on the line? If not, we would give her maybe the chance actually to re-dial in and would go over to Jose from J.P. Morgan.

1:07:34 Jose Asumendi – JP Morgan

I just have one question, please. In the last conference call, I found very interesting your projections for Class 8 taking market share in North America. And I want to come back to a bit this concept of what does this mean from a product perspective, from an investment perspective? Or, in other words, can you regain market share with the current product lineup that you have? And if you could share a little bit more the timeline, the ambition to regain that market share, which I think is very important for you as a group?

1:08:15 Christian Levin

Shall I give it a try? So, obviously, up until 2023, when the new driveline is coming into play with substantially higher performance, and especially total cost of ownership, we would have to rely on the current lineup. Now, what has been very clear talking to customers over here is that what they were looking for when it comes to the future of International brands was stability. So a lot of customers with big rolling fleets were actually worried to continue to invest in the brand, because they didn't know about the future, and whether the brand would still be around. So stepping in and offering that long-term security will in itself have a positive impact on the development on the market share, especially with bigger and more professional customers that thin in long term. And then, of course, also for our market share in the US, we will be dependent on finding the semiconductor components needed for the International trucks. And that is, of course, currently also a challenge. But we will see there the support from TRATON. I would also like to point out Volkswagen has been really helpful in helping us finding alternative sources. So that could also help. That's a couple of things that can happen, but the big thing will of course be when we get our new driveline into place because it’s such a superior TCO for the customers. So, that would be the big thing.

1:10:11 Rolf Woller

Well, it looks like, actually, that was it. And Daniela has dropped off with her question. So with that, as promised, we were around. We tried to answer everything as good as we can. Thanks very much for bearing with us. Thanks, Annette. And thanks, Christian, for a very comprehensive session. And we are looking very much forward to catch up with you next time, which will be with the yearly numbers in March 2022. So, goodbye to everyone and speak soon. Thank you.

1:10:50 Operator

Ladies and gentlemen, this call has been concluded. You may disconnect.

