Transcription

TRATON SE - Half-Year Financial Report 2021

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28 July 2021

PRESENTATION

00:00:00 Operator

Dear ladies and gentlemen, welcome to the conference call of TRATON SE. At our customers 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. One final request, please note the disclaimer that you will find at the beginning of the presentation. If you are only connected by phone access the online tool to display the disclaimer. I will now hand you over to Rolf Woller of TRATON SE who will start the meeting today.

00:00:44 Rolf Woller

Thanks, Kai, and welcome to everyone or good afternoon or good morning from wherever you have dialed in. I would like to welcome you to our first half year conference call today in very good hope that you and your families are well. Together with me today on the line, as always, our CEO Matthias and our CFO, Christian, together with the usual representatives from the legal department, from Finance and from Treasury and IR.

As you all aware, some of our KPIs have already been pre-released on July 13th, and this is why there is limited additional news, which is particularly belonging to the brand level. Matthias and Christian will provide more insights into these data and will elaborate on why we think we have solidly continued to perform in the second quarter of this year and that some of the very good trends we have seen in the first quarter have even accelerated. After these elaborations, Matthias will continue to highlight some of the potential we see already for our newest TRATON family member, which is Navistar. And this is then followed by a short wrap up of our latest e-mobility efforts. In the last section, both will guide you through the outlook and after the presentation, as always, we host a question and answer session, where we already ask you to limit yourself to maybe two or three questions, per session, so that everyone has the opportunity to ask a meaningful question.

Before Matthias and Christian start, I have to come up with some housekeeping items. You should have all received the materials for today's call, which is the half year financial report together with the Investor Relations presentation. If you have not received it, please grab it from our website, which is www.traton.com, and there, under the Investor Relations section. And I should also make you aware of the disclaimer which you will find on page two.

To take already one question up front, if you have looked into the material and didn't find the Navistar figures included, that was on purpose because the deal closed on July 1st and therefore, we will include the Navistar figures for the first time with the third quarter, nine months reporting, which will be in late October. In the meantime, we have to convert from US GAAP to IFRS, purchase price allocation has to be prepared and we ask for your patience, this takes some time. It is not that we do not want to, but we still have to be a bit patient in order to have these data ready. So with that, I would hand over to Matthias and ask him to start with the first section.

00:03:41 Matthias Gründler

Thanks a lot Rolf, and a warm welcome from my side. Let us start with a summary and highlights of our business performance in the first half year of 2021. Let me make some remarks on our very robust development. You can find them in the upper box on Page 4.

Overall business recovery continued and even accelerated in the second quarter compared to the first quarter, despite a still challenging environment. We managed the challenge in second quarter well, especially in the light of semiconductor shortages we saw in the industry. What are the challenges for the remainder of the year? There are still supply chain bottlenecks like semiconductor, and we still see setbacks because of the overall covid-19 pandemic situation, which we have to watch carefully. Our underlying market trends, especially in Europe and South America, remain solid, also in the second quarter. Thanks to these trends, incoming orders for our trucks above six tons were up substantially in all regions. Incoming orders during the first half of 2021 came in at more than 147,000 units with nearly 77,000 incoming orders in the second quarter 2021. With nearly 171,000 units, including buses and vans, we reached the highest level of incoming orders in a half year for the TRATON GROUP ever.

Also second quarter on a standalone basis was outstanding and another record after the first quarter's record, with incoming orders of more than 89,000 units for trucks, buses and vans. Truck unit sales were also up significantly in total, nearly 109,000 units. When we have a look onto the profit line, our adjusted operating result was significantly up to €1.13 billion. This was achieved thanks to continued good sales momentum from our renewed truck lines in combination with strict cost discipline. Also in comparison to 2019, the adjusted operating result was slightly up. Consequently adjusted operating return on sales improved substantially to 8.3%.

Both parts of the business, the industrial part, and the financial services arm, contributed to the improvement. MAN Truck and Bus booked €672 million of restructuring expenses for the repositioning in the first half of 2021, of which €362 million were already booked in the first quarter.

Last highlight to mention is our net cash flow in the industrial business. For the first half, it increased to €527 million, an increase of 130 million in the second quarter after we showed a net cash flow of €397 million in the first quarter. Still a solid result for the second quarter, as we have to keep in mind the seasonal pattern for net cash, where the second quarter is one of the weaker quarters. And during this quarter we had to deal with the management of the semiconductor shortages and our strong order intake.

On the lower box of the page, you can see that we are also making good progress on other topics important to TRATON. We executed important steps in our MAN realignment process to improve the operating results. We have successfully completed the Navistar merger and boosted investment in e-mobility. A recent example of our ambitions to foster e-mobility and become an electric leader, together with Daimler Trucks and the Volvo Group, we plan to pioneer a European high performance charging network for heavy duty trucks and coaches. We will come back to this in some minutes. Last but not least, TRATON will increasingly focus on China in its future strategy. We will provide you with some more details in due course after the summer break.

And with that, I hand over to Christian with the detailed financials. Christian, please.

00:07:35 Christian Schulz

Thank you, Matthias, and also a very warm welcome from my side. I am now on Page 5, which summarizes the second quarter achievements for some of our core KPIs as pre-released on July 13th.

Looking at our key figures, all have been clearly up versus prior years. Second quarter, as you know, the second quarter 2020 was severely affected by the corona pandemic. But besides the cash flow key figures are even above the robust first quarter and therefore clearly showing into the right direction.

Incoming orders reached new highs and almost tripled compared to the second quarter 2020. Unit sales jumped back to pre covid-19 levels with more than 66,000 units and please bear in mind the second quarter 2019 saw some pre-buy effects related to the introduction of the digital tachograph and Brexit pull forward effects in UK. For both incoming order as well as unit sales, this was a sequential improvement of around 10% versus an already strong first quarter. Sales revenue reached €7.1 billion, noticeably up. That development is a clear testament that our new truck generations and our services offers are gaining strong traction. The adjusted operating result increased to €612 million, an increase of almost a billion compared to one year ago. Adjusted operating return on sales was at 8.6% for the second quarter of this year. Net cash flow very solid, and I will elaborate on this a little bit more on slide ten.

I am now on Slide 6, where we can see the development of our unit sales and incoming orders on absolute in the left hand and relative level on the right hand of the chart.

The market recovery went faster than we expected and even accelerated during the first half of this year. Incoming orders of trucks were likewise recovering faster than anticipated in combination with good perception of our new truck lines, which help the order momentum. The order momentum is broadly based across all our main truck markets, most of our core markets showing double digit percentages in growth. As you can see on the left-hand graph, unit sales in first and second quarter are on the same level of 2019, orders are already on a higher level. By relating incoming orders to unit sales, you can see to our book to bill ratio was well above one, with 1.3 times for industrial business in second quarter, confirming the trend of the first quarter in 2021. Looking at the year over year change, on the right-hand graph, we see that unit sales are following the incoming order momentum, which means there is a good opportunity for us for the remainder of the year and even beyond. If all runs well, in light of the before mentioned challenges, which have been highlighted, it is time for Matthias.

00:10:17 Matthias Gründler

The next slide on Page 7 is for your reference, as it confirms we have reached pre-covid levels already one year after the covid-19 pandemic had its low lights. Availability of our new truck lines allowed us to achieve stable sales revenue of 7.1 billion in the second quarter 2021and helped us to improve our margins by around 60 base points for TRATON GROUP compared to second quarter 2019. And as already highlighted, second quarter 2019 contains the pre-buy effects related to the introduction of the Digital Tachograph and Brexit pull-forward effects in the UK.

Adjusted operating profit in the first half of 2021 totalled, as Mathias has already said, to 1 billion 128 million euros, and the adjusted operating return on sales was 8.3%. Different to practice in the industry, our operating result does not contain the add-equity accounted results, which amounted to €126 million in the first half of the year 2021. If these were added to make them comparable with the result of our competitors, our adjusted operating result, including add equity results, would have amounted to 1 billion €254 million, and accordingly, the return on sales would be on 9.2% by the first half of 2021. All we managed to show a stronger first half in the year 2021 then we had in 2019.

On the next slide we show the first half group development in a bridge for sale and operating result. I can just emphasize that we are on a very good way. As you can see on the left graph on that page, all three brands showed strong double-digit percentage increases in their top line. Scania added €1.9 billion sales revenue and MAN followed with €1.3 billion versus first half of 2020. Caminhões e Ônibus had higher sales of €400 million, compared to their size, a powerful achievement. Also, financial services showed a small 2% increase, bringing the total group sales revenue to 13.6 billion, 35% up compared to the first half of 2020.

On the right chart, we see that the increase in adjusted operating results was also fairly well distributed with regard to the size of each brand. MAN improved its adjusted operating results by €567 million, while Scania was a notch better, with an improvement of €639 million year over year. But also Caminhoes e Onibus and financial services saw a decent rise in operating results. All together, we had a swing of more than 1.3 billion versus the first half of 2020.

Adjusted return on sales at Scania Vehicles and Services is at 12%, for the first half of 2021, confirming its top position within the industry, as we already saw in the first quarter, 2021. Including financial services, Scania reached a return on sales of 13%. Worth mentioning, MAN. The MAN achieved to improve its earnings once more, which is showing that first successes of the repositioning process take place. Further levers have been higher sales revenue, the introduction of the new truck generation and the continued strict cost management. Last not least, Caminhoes e Onibus. Our team in Brazil achieved a strong return on sales of 7.6%. Second quarter was even stronger than the first quarter with 45 million operating result and 8% return on sales. This was driven by higher sales revenue and an improved product positioning. Last, the financial services business. We saw an increase in revenues. We reached nearly 24% adjusted return on sales, meaning that operating results more than doubled to €100 million.

I am now on Slide 9, where we have detailed the view on brand level for unit sales and incoming orders on a quarterly basis. Starting with Scania, both incoming orders and unit sales showed a strong increase year over year in the second quarter 2021 and followed the positive trend from fourth quarter 2020 and the first quarter of 2021. Truck incoming orders were more than 2.5 times higher, to be fair, from a lower basis, whereas unit sales more than doubled. But also on an absolute level, the second quarter is outstanding on both metrics. Regionally, we saw strong incoming orders of trucks in all regions, especially in our core region, Europe, and South America. This was also confirmed on a unit sales level.

Looking at MAN, a strong increase on unit sales and incoming orders was visible as well. Truck orders likewise were than 2.5 times higher and unit sales increased by 84%. We once more followed the margin before volume approach with our new truck generation at MAN. The incoming order increase on a regional basis was both driven Europe and other regions like Russia, of course, with EU on an absolute level, on the forefront and according to MAN regional mix. Same was true for the unit sales. On the bus unit sales, both brands still showed only minor improvements, whereas the incoming orders for Scania increased strongly compared to the previous year's very low levels. MAN incoming orders for buses showed a declining path but compared to Scania for a higher level.

Last, let us spend some seconds on Caminhoes e Onibus. Our colleagues also had a good momentum on incoming orders and unit sales in the second quarter of this year and posted increases in trucks and bus orders and unit sales. What is nice from a mix perspective, as the new product positioning with our heavy duty truck line pays off.

On Slide 10, we show you the development of our net cash flow within the Industrial Business. After the strong cash flow in the first quarter, we have been able to once more show a solid net cash flow of €130 million, year over year. The net cash flow improved by €309 million in the second quarter. When we have a look into the line items, we see clear positive from adjusted operating results which increased by close to billion euro. On the other side, working capital step up, driven by management of semi shortages throughout the second quarter and inventory step ups caused by a strong order intake had the reverse effect on our net cash flow. Investing activities were almost stable compared to the first quarter 2020 at about €298 million.

As you know from our very short history, the second quarter is normally seasonally one of the weaker quarters when it comes to net cash flow. That gives us some comfort with regard to our net cash flow guidance for fiscal year 2021. Overall, the good net cash flow generation was helping us to increase our net liquidity position. Once again, we show no net financial indebtedness in our industrial business, but close €578 million net cash in the first half of the year. This that having said, I hand back to Matthias, who will provide you with more details on the potential we see in our new company, Navistar.

00:17:43 Matthias Gründler

Thanks a lot, Christian. We are now heading towards a few slides on the newest member of our family, Navistar.

To start off, I want to recap an important milestone in the history of our young company. On July 1st, we have successfully completed the Navistar merger, and are extremely proud to welcome a new member in the family. The addition of Navistar as the newest member of the TRATON GROUP marks the beginning of a new era. I am now on Slide 12. Let me make a small remark on Navistar's financial reporting before I outline our new set up in the TRATON GROUP. Navistar, besides the add equity income is not in our numbers for the first half of 2021 as the closing was done on July 1st.

We plan first consolidation of Navistar with the third quarter report this year. TRATON is now a family of four leading brands around the globe. All of them have a decent market share in their core markets and will benefit from organizational set up within the TRATON GROUP. This will also be supported by our associates and strategic partners.

Beat on the procurement side, like with HINO, on the technology side with our stake in TuSimple. Altogether we have the right ingredients to offer sustainable mobility solutions for the transportation sector and for our customers. Most of you already saw our sneak peek on Navistar back in November 2020, when we announced the merger agreement. On Slide 13, we provide a comprehensive overview of Navistar's business. Like all other players in the industry, Navistar was heavily impacted by the covid-19 pandemic in 2020 and all major KPIs reflect that. Before the pandemic, deliveries have been at more than 106 thousand units and revenues reached 11.3 billion US dollars. EBIT margin stood already at 6% in pre-pandemic times. Navistar is a clear position in the US, being number four in the market and the vast majority of their production plants are located in the US and in Mexico. It shows that from now on we have a strong footprint in the NAFTA region.

This brings me to the next slide, which summaries the rationales we want to benefit from in the future. Navistar is the perfect fit for TRATON. It offers the opportunity to access the attractive NAFTA profit pool directly with a high complementary geographic footprint. With this we now are able to capture more than 75% of global profit pool as NAFTA accounts for around 35%. We can also now fully capitalize on a successful strategic alliance to leverage powertrain components. Just a refresher, our new 13-litre come base engine will have 80% commonality. We intend to level this new engine all across the group. Lastly, the merger with Navistar will provide TRATON with 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 now serve three key truck market regions, which all have distinct cycles. Serving all three regents will permit to smooth out the amplitude of the regional cycles.

Coming to slide 15. This slide summarizes one of the big potentials we see for Navistar. Navistar is strong in the bus, medium and light duty segment. It also wants a decent market share in the 13-litre segment. The Maxx Force engine issue was eating up a significant portion of this market share with its low point in 2016. Since then, it improved constantly until the pandemic took place. Looking at the status at the moment, our ambitions are quite simple but effective: establish a strong and competitive product in this segment and gain back market share. How we get there? I gave the answer a minute ago. Navistar can make use of our powerful components and technologies set up within the group.

To make the picture complete, let's now have a look at Slide 16. Once we have 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 and service network is completed by the service partnership with Love's Travel Stops, an industry largest leading service network. Navistar's network is positioned to be industry leader in uptime and minimize customer downtime. In combination with a strong product, this can and will clearly drive profitability and strengthen Navistar's position as one of the leading players in the US.

On the next slide, we provide a short overview of our recent refinancing activities in the light of the Navistar merger. In November 2020, TRATON as it took out a loan of €3.3 billion with Volkswagen, with a term of up to 13 months, to finance the US dollar purchase price of the outstanding common shares of Navistar. The total loan amount was reduced to €2.75 billion in May 2021 because of the solid net liquidity position of the group. In March of this year, we for the first time have been active in the euro debt capital market. Based on our recently established €12 billion TRATON EMTN program, we have issued a total of €3 billion senior bonds. The bonds have majorities of four, eight and 12 years in fixed rate format. The average coupon stood at 0.67%. Prior to the bond market debut, TRATON SE had issued several Schuldschein-Darlehen in a total amount of €700 million with maturities of three, five and seven years in fixed and floating formats respectively. The senior bonds, as well as the Schuldschein-Darlehen, have been placed at very attractive terms, allowing for an average interest rate for about €6 billion raised, of below 1%. This will lead to savings of up to €120 million annually in interest expenses already.

The next three slides on our e-mobility efforts, before we end up today's presentation with the Outlook section. The trend towards alternative drives is no longer reversible. TRATON positioned itself early on. We want to take a leading position here. Climate protection is an elementary goal for us. Since last year, electric buses from Scania and MAN have been on the road with a common electric drive. Our brands have set clear goals for alternative drives. In 2025, electric vehicles will account for around 10% of Scania's volume in Europe. At the same time, half of MAN's new bus will have an alternative drive. By 2030, every second vehicle sold by Scania will have an electric drive. At MAN at least 60% of trucks for delivery and 40% of trucks for long distance traffic will be emission free.

To underpin our ambitions and to ensure our customers can benefit from the shift towards e-mobility, together with Daimler truck and the Volvo Group, we have signed a non-binding agreement to install and operate high performance public charging network for battery, electric, heavy duty, long haul trucks and coaches across Europe. Within five years, at least 1,700 high capacity charging points powered by green electricity are to be created. In this way, Europe's three leading commercial vehicle manufacturers are supporting the EU in its sustainability goals, especially in heavy duty, long distance trucking. Charging points will be compatible with vehicles of all brands. The non-binding agreement lays the foundation of a future joint venture. It will be equally owned by the three parties, and it is planning to stop operating in 2022. Together, we plan a joint investment of €500 million. Every OEM should get equal rights and responsibilities.

I am now on Slide 20. Another crucial part of our ambition to act as forerunner is a holistic offering of electrified trucks and buses. As I mentioned before, we have a good portfolio in place, which you can see on the right side of the Page 19. It will be enlarged in the months and years to come to provide our customers with highly competitive and efficient vehicles. The table on the left already shows that we do so already, nowadays. We have delivered close to 500 electrified units in the first half of 2021. Most of them are MAN TGEs, but also for medium and heavy duty trucks we deliver 13 units. If you look on the left column, we see incoming orders of 76 units. This shows that we see more and more customers asking for electrified trucks. We will continue with this reporting to show all of you the progress here. With that, I hand back to you, Christian, please.

00:26:44 Christian Schulz

Thank you very much, Matthias. We are heading to the second session of our first half presentations, the outlook. On Slide 22, similar to the last reporting, we have collected market views for 2021. Most forecasts foresee an increase of the truck market in Europe, which should range between plus 10 to plus 25% for the year 2021. These views remain more or less unchanged to what we observed back in May when we reported our first quarter numbers for the year. Same holds true for South America. The range goes from plus 10 to 40% as you can see in the middle chart. As shown on the lower chart, the truck market in North America is forecast to grow between 10 and 30%. In conclusion, still market participants, including ourselves, are undecided, how strong the recovery is taking place, which is also reflected in the big bandwidth we monitor for each market. On the one hand, we see strong truck auto momentum. On the other hand, there is still high uncertainty arising from covid-19, but also with regards to the supply chain topics, especially semiconductor and other component supplies.

This leads me to the next slide, the outlook for the TRATON GROUP in 2021. Our outlook still assumes a sharp increase in volumes and substantial increase in group sales revenue, as witnessed in the first half 2021. With the ad hoc release of our core KPIs on July 13, we have indicated that we should achieve the upper area of our guidance on the operating return on sales to 5 to 7%. Same holds true for the net cash flow. We expect our net cash flow for industrial business at the upper area of the €500 to €700 million. Please have in mind that the entire outlook is before expenses for restructuring measures for the repositioning at MAN and before effects from the merger with Navistar International Corporation. Business trends into the third quarter remains solid, but will show the typical seasonal pattern, which is clearly lower sales and profits then achieved in the first half of the year, which is mainly due to the holiday season. So far, we see similar to the first half, currently no bigger impact from the supply chain bottlenecks, mainly semiconductor and other components, to affect our manufacturing operations, but we stay alerted as the situation can always change. The constant rise on raw material cost adds to the overall uncertainties. Our continued cautiousness simply continues to reflect these uncertainties we currently see all around us, like covid-19 supply chain bottlenecks and raw material volatility. Now Matthias, will have some closing remarks.

00:29:29 Matthias Gründler

Thanks again, Christian. This leads me to the last slide of today's first half year sessions. Beside the very supportive market environment, which we see on both bubbles and the top, we have plenty of potential to lift our performance. As I mentioned already in the beginning, product wise, we have a very, if not the most competitive portfolio with our new truck lines on all brands at the very moment that will help to win new customers. The introduction of the new truck generation at MAN is now largely completed and will allow MAN to further reposition its brand. First benefits were already realized since the second half of 2020. This will be complemented by the start of the introduction of the common base engine in the fourth quarter of 2021. With successful implementation of our common base engine, we can concentrate now on new investment for future technology. That means we will continue to further speed up our electrification activities and expand our position on alternative drive trains. With a plan to pioneer a European high performance charging network for heavy duty trucks with Daimler Truck and the Volvo Group, we committed ourselves to boost e-mobility. To other topics concerning the group structure will further enriched TRATON's potential. Integration of Navistar, the transaction delivers on our global champion strategy by creating a global leader across key truck markets. Other important milestone were related with the MAN repositioning. As most of you know, we are planning to sell the Steyr plant and end of June initiated the merger squeeze out of the MAN SE shareholders, which is also helping to streamline organizational set up. I think we can truly say we managed well to emerge much stronger from the pandemic. Rolf, we are now happy to answer your questions. Thank you.

Q&A

00:31:31 Operator

Thank you. Ladies and gentlemen. We will now begin our question and answer session.

One moment, please for the first question.

And the first question is from Klas Bergelind, Citi. Your line is now open, please go ahead, sir.

00:32:10 Klas Bergelind (Citi)

Yes, hi. Klas Bergelind at Citi, can you hear me?

00:32:21 Klas Bergelind (Citi)

Hi, Christian, hi Matthias. So, my first question is on production and price cost and you ended your presentation with this question, but is there anything we should think of beyond the normal seasonality now into the third quarter? And I am thinking about Scania here. You obviously handled the bottlenecks really well during the second quarter. But we have read about some extended shutdowns at Scania over the summer. So we wanted to confirm if that is the case and to what extent and if raw materials will impact you more in the third versus the second? So-, I will start there.

00:32:57 Christian Schulz

Well, look, as you have rightly said, I mean, we pre-poned the summer vacation by a week. We have minor impacts that we will see in the third quarter in inventories, stuff like that. But we do not yet expect, Matthias, high impacts on operations there also in the third quarter.

00:33:13 Matthias Gründler

So far not, definitely. I think the pre-ponement will stabilize the situation of the holidays.

00:33:17 Klas Bergelind (Citi)

That is good. My second one is on MAN and the impact from dual production and from the launch cost. And at the time of the IPO, you gave this information for Scania, before, the margin drag. And I was wondering if you are willing to do the same for MAN? It could be quite good supporter for MAN into the second quarter, into the second half as these effects drop out.

00:33:44 Christian Schulz

Well, as you rightly said, it is pretty much similar effects like we had in Scania. We see those fade out in the second half of the year for the most likely we will have them, we will have them come through.

00:33:56 Klas Bergelind (Citi)

Okay, That's good.

00:33:59 Christian Schulz

The absolute amount, Klas, not the percentages.

00:34:02 Klas Bergelind (Citi)

No, of course.

00:34:03 Christian Schulz

You know what I mean.

00:34:04 Klas Bergelind (Citi)

Different sales line. Then, my final question is on Caminhoes e Onibus, obviously a great margin. We have seen this, however, in the past, with this business delivering great results in one quarter and then for us to perhaps get a bit disappointed in the next quarter. So can we talk a little bit more about the earnings bridge here for Caminhoes e Onibus? How sustainable is this kind of profitability? Was there any extra price mix impact that we can't carry into the second half?

00:34:35 Matthias Gründler

I think you have to understand that we now sell our extra heavy truck Meteor in the market. And this is a real structural change for the company, which we didn't have because actually Volkswagen was not in that segment. So this is a structural change in the margin, which you can see and will be also reflected in the future. But we see a heavy increase in raw materials in our Latin American business and we need to see how we can price for that.

00:35:00 Klas Bergelind (Citi)

Okay, thanks guys. Thank you.

00:35:04 Operator

And the next question received is from Kai Müller from Barclay's. Your line is now open. Please go ahead.

00:35:18 Kai Mueller (Barclays)

Hi. Thank you very much for taking my question. The first one really quite an impressive order intake that you have shown right now. We have seen some of your peers, they have been a bit more reluctant opening the order books. Can you give a comment on how much of these orders are ready for 22? And what would speak against that you already get a substantial portion from them also in Q4, i.e., having a strong second half. First question.

That follows, on your outlook, you now, of course, specify it, saying, you know, you can achieve the upper range from the 5 to 7% operating return. And also on net cash flow, the upper area. Now, you have already delivered an 8.3 at H1. You have delivered already more than 500 on net cash flow in H1. What keeps you to keep the lower end of the guide intact and not actually upgrade the lower end or maybe even drift the entire range higher? And then the last question is really on your debt financing. I think the chart was very helpful that you outlined the different loan agreements versus Volkswagen and then the bonds you have issued yourself. What is the plan to refinance this Volkswagen loan that you said, I think had a 13-month maturity? So I understand it would be coming to you end of this year. Thank you very much.

00:36:40 Christian Schulz

So then I would start with the order intake. We already have bookings for the Q2, and we never closed our order books. And our customers are so far satisfied with our delivery terms.

00:36:53 Matthias Gründler

Looking to your question, Kai, when it comes to the second half of the year. Of course, we did not change, let's say, the range, because we still see those uncertainties. You know, we saw in Scania, we needed, at the end of the second quarter, to pre-pone the summer holidays because even with the good measures we came into certain, let's say, challenges in our production network. Now, even if you have a good order book, you see that things are going to be delayed to a certain extent because you don't know when will this crisis on the semiconductors go away. Secondly, we see no discussions on the third wave. And we simply said, look, I mean, we feel confident at the upper end of the range, but the risks around us do not allow us to see it more positive. There is still a view that the second half of the year will be weaker than the first half of the year, driven by those levers I just outlined. And this is why we kept the guidance and specified that we currently, this is a good second quarter, see us at the upper end. But again, the year is still running.

00:37:50 Christian Schulz

And on the on the terminal, Kai, the terminal has a tenor of 30, three zero months. So luckily, we are not under pressure. It matures in May 2023. We have reduced it now from the 3.3 to the 2.75 because of the good generation of net cash in the group. And you see actually that we are confident also on that cash generation for the coming quarters. So there is plenty of opportunities and we will definitely behave opportunistic. We have always said that we have the capital structure now clearly in sight. So a clear intention also to reduce the level we have now on the balance sheet. You might understand that we will not elaborate here on more details, but obviously the bond market is an option for the remainder. But also our net cash generation remains an option for reducing the term loan on the Volkswagen side.

00:38:48 Kai Mueller (Barclays)

That's very clear. Thank you very much.

00:38:53 Operator

The next question received is from Nikolai Kempf of Deutsche Bank. Your line is now open. Please go ahead.

00:38:59 Nicolai Kempf (Deutsche Bank)

Yes, thanks for taking my question. And my question would also be on the guidance, because if I just look at your numbers, you have the strong order intake, you have a good pricing, you have the right products and supplies chain could probably improve in the second half of the decade. Could you just again maybe also quantify what happens you see in the second half? I mean, yes, rising raw materials, but are there any other issues holding you back? Because it looks like you are very conservative here.

00:39:33 Rolf Woller

Hi Nikolai. I think the answer is not changing dramatically from what you heard before, I mean, what we would like to emphasize, that the covid pandemic now we have the discussion about the holidays when everybody returns from holiday, incident rates could go clearly up again. We cannot rule out another lockdown, be it on the industrial side, be it on the social side. We have then FX rate volatility, material costs, we have the semiconductor shortage. So call us too shy or too cautious, but I think for the time being, given the experience we made also in 2020, where only one month really caused a huge hiccup in our P&L, we just want to be on the safe side here.

00:40:15 Matthias Gründler

And really on the supply chain side, it is actually not only semiconductors, it is tires, it is plastic, there are a lot of areas where our people really have to work around the clock to make it happen in the production side and in the logistic chain and we don't know what will happen in the second half.

00:40:29 Christian Schulz

And you saw even in the second quarter that some of the competitors had their biggest struggles when it comes to their supply chain. So I think it is fair to leave it at that point.

00:40:39 Nicolai Kempf (Deutsche Bank)

OK, thanks.

00:40:43 Operator

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

00:40:49 Hampus Engellau (Handelsbanken)

Thank you very much. Three questions for me. I am sort of coming back on the orders, but they were really significant during the quarter. Could you maybe talk a little bit about the process here with price increases coming in correctly for next year, as you highlighted some of the orders in the second quarter next year, and also, thinking of lead times and maybe comparing when we last time had this really strong order bookings there was a lot of issues with double bookings, et cetera, and customers being afraid of not getting their deliveries in the beginning of the coming years when the list is in starts. That is kind of the first question. Second question is more or less also coming back to your guidance, which I will admit is a little bit conservative, but could you maybe talk a little bit about how normalized costs could affect you guys coming into the second half? I just assumed that you continue to open up to society. Let's assume that we're starting to travel more. And if there's any part of that cost that we should think of, that may be boosted the result somewhat more in the second quarter of this year. Those are my questions, thanks.

00:42:04 Matthias Gründler

To the order intake, I don't see that we have double bookings or anything like that, I think we have a quite clean order book. We also have, you know, for these units where we don't have semiconductors, a very clear process in place. You know, we call it like ring-fence, we know exactly the units which are in there, where the customers have to wait, but they are informed. So I don't see any issues on that side.

00:42:24 Christian Schulz

So we think the order book is stable. And when it comes to price increase, as Mathias has outlined in the beginning, obviously if raw material prices are coming in, there will be discussions on certain prices per market, depending on the situation and quite honestly, Hampus, on the guidance, let's not speculate on if travel goes up and there's no fourth wave and all is normal and normalized cost levels, we have a very solid order book. So if the situation is going to be stable, then we will be doing fine. If it is continuing like it was now when we pre-poned the vacations of Scania, things get tougher and get difficult and that will then be the result. And that's it. And that's nothing more to say to the guidance.

00:43:06 Hampus Engellau (Handelsbanken)

Fair enough and congrats on very good results.

00:43:09 Matthias Gründler

Thank you. .

00:43:13 Christian Schulz

We also like it. I mean, it was a good half year. I mean.

00:43:21 Operator

And the next question received is from Jose Asumendi of J.P. Morgan, your line is now open, please go ahead.

00:43:29 Jose Asumendi (JP Morgan)

Thank you very much. Hello, everybody. Just a few items and yes, congratulations on the progress down there. Looks like a promising second half. I guess the first question, I would like to get some comments, please, on the I mean, on the EV disclosure, on the orders. Do you think you have the right competitive product specifically, also in the past ED segment there, I am just looking at the in the light of the work done by other competitors, including BYD in Europe, I see them taking quite a lot of market share? Do you think you can gain, re-establish a little bit your market share on the bus ED side as you continue to roll out the products? That would be the first one and if you could also comment a little bit of how you see which segments you think are going to be electrified first, bus, truck, and within truck, which segments are you seeing more demand. The second one pretty straightforward. How much capacity do you have for Scania in China? I mean, this is clearly a growth region. So if it is not now, a year down the road, where do you see this business going? That would be great. Then three, on Navistar, North America. I think a very interesting chart. Can you talk a little bit about how does it work to re-establish the heavy duty segment for you? Is it a question of technology? Is it a question of investment? Is it a question of, you know, discussion with customers? Is it a mix of everything? But how does it work to build up that heavy duty share in the US, which I think is very, very interesting to track going forward. Thank you.

00:45:11 Matthias Gründler

Okay, let me start with the bus side. Yes. We have now a very comprehensive electrified offer from MAN as well as from Scania. I think, yes, we have the product portfolio to actually fight back BYD and other Chinese players. Surely, we will not do it on every price. We have also certain margin targets in our bus business, and we will not do every deal. On the truck side where will electrification starts first? As there is no charging infrastructure on long haul as yet, and that is why we have done that joint venture with the other groups. It will not start with long haulage. It will start where you can do home depot charging and so on. So this mainly is driven, not by the electrification of the trucks, by the possibility to charge. And that is why it is now so important, if we want to have a higher share of long haulage in 2025 that we start now working and implementing these charging stations for long haulage. So we can really change the industry there. Then you were asking on Navistar. Yes, it is technology, but we have a clear roadmap there. It is about implementation now. And then, with the new product, you know, it is then to enforce the sales side of the business and enforce and invest there.

00:46:31 Christian Schulz

And in Scania China. I mean, Scania is the only one amongst the truck manufacturers with 100% owned license for R&D production and sales. So they are going to be the spear head for the group. There is a license up to 50,000 units, but you know how we see how are we going to evolve this? We are going to talk about our China strategy later this year. Matthias outlined that in the annual meeting speech, I think, Matthias, but it is not Scania only, it is going to be the spearhead for the group.

00:46:59 Matthias Gründler

Absolutely.

00:47:01 Jose Asumendi (JP Morgan)

Very interesting. I have one little follow-up, please, and we had this discussion before, Matthias, in terms of increasing the free float within TRATON. And I should be asking this question in a different conference call. But is this still part of the discussion? Is this still a valid argument? Is it being considered or is this not the case at all?

00:47:23 Matthias Gründler

This question I have now to pass on to the CFO.

00:47:27 Christian Schulz

Who takes that question with pleasure, because it is the first time that this question has ever been asked in a conference call. Thank you. So, I mean, all jokes aside, I mean, we have done the closing on 1st of July. You know, that our industrial debt significantly increased by this. We said, that we are going to refinance the Navistar take over with all options, so we don't rule out anything. Rolf has said before, it is on the bond side that one can imagine, but also equity could be an option, if market permits. And I said it in the press call this morning, I do not know where this Q3, Q4 discussion comes from, surely not from us. We look and review the markets. We will discuss with our board. And then as time has come, we might or might not consider an equity portion.

00:48:13 Jose Asumendi (JP Morgan)

Super helpful. Thank you very much. Welcome.

00:48:18 Operator T

The next question is from Himanshu Agarwal of Jefferies. Your line is now open, please go ahead.

00:48:28 Himanshu Agarwal (Jefferies)

Hi Matthias and Christian, Himanshu from Jefferies. Thanks for taking my question. I just wanted to ask a few questions on BEV actually. I understand it is early days, but can you talk about the ASPs and margins on battery electric trucks? And secondly, we never talk about PHCBs when it comes to trucks, but it has been a critical part of the car oriented electrification strategy. Do you see that as a possible solution in future? And do you have some products in that category? I will leave it there.

00:49:05 Matthias Gründler

Yes, we have a Scania product with the hybrids in the market. It works well. But if you ask me long term, I fully believe in the fully electrified truck. That is what we need in the future to actually achieve our CO2 targets and contribute to the plans of the European Union.

00:49:22 Christian Schulz

And when it comes to your question to the EV margins, we do not discuss this now in public. I mean, we started here with the track record to show you and the community how much progress we are doing on the operational side by selling those vehicles. It is increasing. At a later point in time we will talk margins. But let's see how the market develops.

00:49:40 Matthias Gründler

But plug-in technology can be a bridging technology. But we need a charging infrastructure, and we need electrified trucks.

00:49:46 Christian Schulz

And this is why Daimler Truck and Volvo Group and we have found agreement to found a joint venture and bring up the infrastructure. That is right.

00:49:53 Matthias Gründler

Exactly.

00:49:56 Himanshu Agarwal (Jefferies)

And if I may just ask one quick housekeeping question. Before the merger, Navistar had around 2 billion in deferred tax assets. Can you just tell us, like, are those taxes transferable? Will you be able to offset your future profits against those? Or they are not?

00:50:14 Christian Schulz

Look, Mathias said it in the beginning. We are going to now incorporate Navistar into Q3. We are going to do the first report on the, let's say, new group on an outlook and also on the subject that you just referred to. Just give us a little bit time. The closing was just a couple of weeks ago. So we need to manage through the opening balance and the first integration quarter.

00:50:35 Himanshu Agarwal (Jefferies)

OK, thank you.

00:50:40 Operator

The next question received is from Erik Golrang of SEB. Your line is now open, please go ahead, sir.

00:50:48 Erik Golrang (SEB)

Thank you. I have three questions. The first one trying to get a bit better understanding of what you think you could achieve in terms of production volumes in the second half. It is quite uncertain, but you don't see any major disruptions at this point. Does that mean you will sort of keep the production rates you have had during the second quarter? Obviously, orders would indicate that you need to ramp up production to bring lead times down a bit. You may feel it is a clean order book, but history would dictate that when lead times are this long, we see cancellations in the other end. That is the first question. And then the second question, if you could maybe shed some light on how we should think about where the earnings base now is for MAN in the first half. If you can relate it to how much of the total restructuring program you've outlined, 1.7 billion, how much of that is in the books right now? And then the third question, just if you can conceptually, seasonality in margins, is that like a percentage point for Scania, H2 versus H1 and around for 2 for MAN?

00:51:55 Christian Schulz

Hi, Eric. So let's start off first with MAN, and I said it the last time, we start getting the contracts in place by the first quarter. Now we start implementing those. You have seen that we found an agreement on Steyr that deal is supposed to be closed by end of August. So there are only minor parts of that cost portion out of the 1.7 included in there. What you saw in Q1 and also Q2, that the market share of a MAN was lower. That was intentionally because, like Mathias has outlined before, we go for margin before volume with the new truck, with the better fuel consumption. So that portion is in there. But we do not yet quantify how much out of the 1.7 is in the first half of the year, because what you see now only includes a minor portion of the MAN restructuring. It is coming in the next, let's say, seven to eight quarters, Matthias, going forward. Then, when it comes to your question of production volumes, look, I mean, I repeat myself again, and I add now the flooding situation in Belgium, in Germany and suppliers that have difficulty there. It is really hard to give you a volume number for the second half of the year because we simply do not know. The order book is quite solid. If we can get the things under control, it is going to be okay. If we have increasing challenges like now the one with flooding, and the semiconductors and others, there might be impacts also in there. And to your other question, we have not yet seen cancellations in size because of the long lead times. This is not the case. The order book is very solid. The market is really good at the moment. And that is reflected in the order book, right Matthias?

00:53:23 Matthias Gründler

Absolutely.

00:53:25 Christian Schulz

And on the seasonality, Erik, I mean, the seasonality, as you know, third quarter can be clearly weaker than the second quarter. It is normally, seasonally, the weakest we have because of the summer shutdown. So ...

00:53:39 Matthias Gründler

... and I mean, the production in the first half was 118,000 units, so if you see for the whole year around 238, 240. The question is, can we deliver what is reflected in the order book? And that is a miracle. If you have that glass ball, please hand it over to us.

00:53:55 Erik Golrang (SEB)

I acknowledge that there is plenty of uncertainty, but could you at least say if you're planning to increase production rates at all? Or are you just ... running a dessert

00:54:05 Christian Schulz

It is very similar, first half year, second half year will be very similar.

00:54:08 Matthias Gründler

That is why I said it is 118 in the first half of the year, it might be around 120 in the second, because if you are running almost at full capacity, I mean, it's tough to increase.

00:54:18 Erik Golrang (Jefferies)

Thank you.

00:54:19 Operator

The next question received is from Michael Jacks of Bank of America. Your line is now open. Go ahead.

00:54:30 Michael Jacks (Bank of America)

Hi, good afternoon. Thanks for taking my question. I have two. The first one is just to follow up on the question on production, but perhaps more with a view to 2022. Assuming orders do not fall dramatically in the second half relative to historical levels, then it looks like the order backlog will continue to grow. So, maybe asking it this way, absent bottlenecks, if they clear, what is your unconstrained production capacity in order to start working the backlogs down. That is the first question. Mean, I guess just to add on to that, I mean, you do not have a long history, per say, you know, would it be fair to look at sort of 2019 levels or 2018 levels as a basis. That is the first question. And then the second question is just a follow up on raw maths. Given that the lead times are growing, are you able to make adjustments to the prices quoted at the time of booking the orders? Thanks.

00:55:27 Christian Schulz

To the later one, we said before, I think it was Matthias, that, as raw material will sustain, we will adjust prices in certain segments, in certain markets as time goes by. And for the volume, I mean, it is essentially the same as in 2021. As I said before, if you are running on full capacity ...

00:55:49 Matthias Gründler

You go in a bit more detail. I think Scania will be very limited on additional production volume for the next year because we run, as Christian said, on full capacity. On the MAN side, on the Brazil side, there are slight opportunities. If there are no shortages in the supply chain anymore to increase slightly in comparison to '21.

00:56:07 Christian Schulz

It is the same thing, you can increase from a two shift to a three shift, in particular, but again, the old problem, you need to have parts. If you don't have parts, it doesn't make sense to increase the shift.

00:56:16 Matthias Gründler

No means exactly.

00:56:27 Matthias Gründler

Question answered, Michael?

00:56:30 Christian Schulz

I think he's gone.

00:56:32 Matthias Gründler

I think he is on mute.

00:56:36 Michael Jacks (Bank of America)

Thank you. Thank you very much.

00:56:38 Christian Schulz

Okay, thank you.

00:56:41 Operator

Okay, and we have the last question for today. It is from Frank Biller of LBBW. Your line is now open, sir, please go ahead.

00:56:50 Frank Biller (LBBW)

Good afternoon, Frank Biller, LBBW. It is three quick questions here left on my paper. The one is again on semiconductors and raw materials. What are you expecting on the impact on working capital in the second half coming out of these issues? Should it be a positive impact here from increased prices more on the negative side? The other thing is on residual values of used trucks. What was the impact in the first half and what are you expecting for the second? And also for the second half, are there any one-off items left coming from MAN or other topics?

00:57:30 Christian Schulz

So let's start with the easy first. We do not see on top any larger onetime effects in the second half of the year for MAN. You saw the documenting material that two portions have been booked in Q1 and Q2. When it comes to semiconductors, well, I think we discussed it before. I mean, it is the question how this business is going to develop and what the impact is on our operations is hard to judge. And when it comes to residual values in the complementing material, Frank, you find the overview on the inventories, and you basically see that in used trucks we have historically low levels. That means residual values at the moment are not a threat to the business. And when it comes to the working capital, the effect of the semiconductors, again, we continue the ring-fencing, as Mathias has said before, so there will be similar effects. We will have working capital, maybe having some impact with higher working capital in third quarter. But it seems to be seen. But as long as there is a semiconductor ring-fencing supply chain rearrangement, we will stick with some impacts in chain.

00:58:44 Frank Biller (LBBW)

Okay, so no big issue here. Uncertainty. High uncertainty, but a lot of big issues here starting the second half.

00:58:49 Christian Schulz

Yep, true.

00:58:50 Frank Biller (LBBW)

Okay, thanks.

00:58:54 Operator

As we have no further questions, I hand back to the speakers.

00:58:59 Christian Schulz

Thanks very much. Thanks for the vivid discussion. Yes. And thanks for attending us today. We will now go on summer holidays for the next two or three weeks. However, the IR department is definitely available for you in case there are any follow up questions. And then, I say I look very much forward, together with the gentleman here, to speak to you again in late October when we report on the nine months results, and then this time with Navistar on board. Thanks very much for attending today's call and have a good time.

00:59:31 Matthias Gründler

Thanks, everybody. Bye bye.

00:59:35 Operator

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