Rheinmetall AG
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Conference Call Q1 2019
Transcript

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Rheinmetall AG Conference Call

00:00:01 Operator

Good morning ladies and gentlemen and welcome to the Rheinmetall AG conference call regarding the Q1 result 2019. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to Mr. Helmut Merch.

00:00:20 Helmut Merch

Good morning ladies and gentlemen, it’s a pleasure to welcome you to our Q1 analyst conference call. As usual, I will begin with the presentation of the slides before opening the floor for your questions. At this point, I kindly remind you that during this call, we will make some forward-looking statements, which involve risks and uncertainties as detailed in our disclaimer, which you can see in detail on the following page.

Let’s start with the commercial highlights on page no. 3: I think in general, we can look back on a successful first quarter which set a solid base to achieve our full year 2019 targets. All our financial KPI have improved nicely and, as already indicated, the improvement of our Free Cash Flow from minus 287 million Euros to minus 128 million Euros is worth mentioning as a highlight of the first quarter. During the course of the presentation you will notice that the market environments in the two segments have developed differently. Nevertheless, we have currently no reason to adjust our full year guidance, since all developments are within our expectations. For a closer look at our financial KPI please switch to page no. 4.

Operational sales growth of 6.5% saw for the first time a mild FX tailwind, so in total we increased our sales by 6.6% to 1.343 million Euros. Defence was able to clearly overcompensate the contraction of the Automotive sales. We managed to improve our operating result by 7 million Euros to 54 million Euros compared to last year, again with a mild support of FX. EBIT rose to 55 million Euros, as we had another million coming from a sale of a real estate project in Automotive. Automotive experienced the expected decline, but due to the self-help measures already in place, the operating result developed much better than expected. Defence kept its momentum of positive leverage. I will present the operational details of both segments at a later stage. Earnings per share jumped by 35% to now 74 Eurocent on an improved operational performance.

Please join me now on page no. 5 for the presentation of the operating free cash flow bridge. On the back of improved earnings, major improvements resulted from the different CTA funding pattern and the working capital management. A decision on further funding of our CTA in 2019 has not been taken yet. That could change during the next quarters. The main contributor was the expected inflow of receivables and the prepayment in Defence. A further positive development was held back by a supply chain driven inventory build up in Automotive. The reason for the build up were several intercompany deliveries which led to an increase of goods in transit due to long distance travel, e.g. from Brazil to Europe and from other regions to China by a mid single digit amount. In total, our operating free cash flow improved 159 million Euros, from minus 287 million Euros last year to now minus 128 million Euros.

Please move on to page no. 6. Net debt saw the typical seasonal increase in the first quarter, but with a level of minus 171 million Euros, remained 48 million Euros below last year's comparable figure. Our financial KPI reflect this positive trend. Net gearing went from 11.7% in Q1 2018 to now 7.8% in this quarter. The equity ratio improved by 210 basis points to 32.1%. Now let’s proceed to the analysis of the operating performance, starting with Automotive on page no. 7.

We already hinted during our full year earnings call in March to the expected Automotive sales decline of minus 5% in Q1 with the possibility of the operating result trending towards a 6%-margin level. While sales development was exactly in line with our expectations, Automotive was able to limit the impact on profitability, keeping the operating margin at nearly 7%. This was again possible because of very efficient cost management. Besides the already started measures to manage personnel cost with the reduction of lease workers and hourly surplus accounts, we have also started - where necessary – to introduce or to apply for short-time work. In addition, standard cost-cutting procedures have been introduced successfully. The preparation of several start of productions later in the year – especially in the second half - and the extension of the supply chain with temporary delivery of pistons from Brazil to Europe and from several plants to China burdened the operating free cash flow development with a single-digit effect in the first quarter

Now moving on to page no. 8: Mechatronics´ sales declined 6.5% to 401 million Euros due to an adverse customer / product mix effect. The below segment development was related to a particularly weak start of some major customers in the first quarter and the premature discontinuation of one diesel engine platform.

Some start-up costs and the allocation of R&D expenses related to E-mobility projects burdened profitability and accordingly the margin went down to 7.6% after 10.3% in the previous year.

Hardparts experienced a relatively mild sales reduction of only 2 million Euros. Bearings for Diesel engines particularly suffered from lower demand. The disproportionate decline of the operating result from 18 to 13 million Euros can partly be explained by a 2 million Euro lower at equity contribution of our joint ventures with Chinese partners in China and Germany. In addition, ramp-up costs for a complex aluminum piston design burdened the quarter.

Sales in Aftermarket declined by 7.6% due to low demand in Western Europe and Asia, here especially Russia. Margin slightly expanded to 8.8%, which left the operating result at 7 million Euros.

Let´s now have a closer look at the regional sales development on page no. 9. Q1 was marked by a very weak start in all regions. Global Light Vehicle production dropped 5.7% and our FX-adjusted sales development of 5.4% is in line with this general trend. Europe continued to be under pressure from the introduction of WLTP and the Diesel decline, both effects are also visible in our slightly lower European sales volume. However, the trend for further electrification of products supported our sales especially in Germany and China. In general, the demand for our non-Light Vehicle products mitigated the slow start. The increase by 4 million Euro of our China sales is driven by imports due to sourcing from other subsidiaries for pistons, electrical pumps and equipment.

Please move now on to page no. 10. The Chinese market contracted by minus 12.1% in the first quarter. In comparison, we demonstrated a very solid performance with stable sales. This confirms that we are actually offering the right products at the right time for this important market. From a divisional perspective our Mechatronics business did very well and made up the decline in Hardparts. Margins do not fully reflect this development, because some pumps were delivered from Germany and only generating an additional trading margin in our wholly - foreign owned - enterprises.

Please turn to page no. 11. Light Vehicle sales decline was most affected by the drop of Diesel related sales which shrunk by 12% compared to last year. Over a two years comparison, this drop increased to almost 20% or 43 million Euros. However, our truck and large bore piston business helped to mitigate this negative development with a positive trend of around 3%.

Let’s start now with the Defence highlights on Page no. 12. We had a very good start into 2019 with sales rising by almost 24% to 629 million Euros, an increase of 120 million Euros comparing to a low base last year. Due to a good leverage and favorable product mix, we were able to achieve positive first quarter results, which last happened in 2012, so seven years ago. Our operating result jumped 22 million Euros to 9 million Euros and we generated an operating margin of 1.4%. Our order intake was decent, but stayed behind Q1 2018, which benefited from a sizeable international order of 380 million Euros. German orders in Q1 made up around 40% of our order intake. Last but not least, we saw a strong recovery of our operating Free Cash Flow. Including the delayed prepayment as indicated in March and cash in of receivables, operating Free Cash Flow improved by 146 million Euros to now minus 93 million Euros. Please turn to slide 13 for the presentation of the divisional development.

All three divisions reported a material sales increase and an improved operating result! Weapon and Ammunition sales grew from 139 million to 177 million Euros, an increase of 27%. German demand was strong and the division was able to lift the operating result by 8 million Euros to minus 11 million Euros due to a solid leverage and a favorable mix effect. Electronic Solutions grew even stronger and realized a sales increase of 33% or 42 million Euros to 168 million Euros. Again, German demand - and here especially shipments of our soldier system equipment – was the main driver. The combination of a good leverage and favorable effects from our cost optimization measures done last year drove the operating result by 11 million Euro to positive 10 million Euro. In Vehicle Systems sales rose by 11% to 329 million Euros. Major driver was the truck business, compensating for lower sales in tactical vehicles. The operating result increased by one million to 12 million Euros, leaving the operating margin basically unchanged. Moving now on to page 14 for the details of the order situation.

We reported an order intake of 564 million Euros in Q1 2019 after 857 million Euros in the previous year. Included were two noteworthy orders, one from Germany for 32.000 rounds of artillery ammunition as part of a framework agreement for the division Weapon and Ammunition with a net value of 92 million Euro and a second order for Electronic Solutions, where Rheinmetall acts as a prime contractor for a Command and Control Information System to the Canadian Armed Forces. The order has a value of roughly 40 million Euros.

Major order entry is expected for the remainder of 2019. The highlights include the following contracts for Germany: Starting with several orders concerning the

Puma, including VJTF and other upgrades with a total value of around 450 up to 500 million Euros; budget commission will decide the relevant programs in KW 26, the order entry we expect in Q3. And we expect also additional truck orders for the German army of at least 80 million Euros in Q3 or in Q4.

For our international projects, I will give you the following update: The UK Boxer is expected for the end of the year with a slight risk to slip into 2020. The Czech Republic is expected to decide on its infantry Fighting Vehicle program also until year end 2019. The subcontract on the Hungarian order for Leopards and howitzers is currently under negotiation and could also slip into 2020. The Challenger upgrade program will now be executed in the joint venture with BAE no matter which is the preferred technical solution of the British MOD. And finally, I can report that we have submitted the bid for Land 400 Phase 3 to the Australian MOD in Q1. This order or this program, I have to say, will not be decided before 2021.

Please turn to page no. 15: In addition to the announced acquisition of 55% of BAE Land Systems UK earlier in the quarter, we were active a second time in the M&A market with the takeover of the IBD Deisenroth Group in Germany. Rheinmetall had a long and close cooperation with Deisenroth Group, which held minority stakes of 49% in Chempro and 26% in Rheinmetall Active Protection. These minorities we both bought out. Additionally, we acquired the entire IBD Group, a leading provider of protection technology applicable for our entire range of tactical and logistical vehicles. With this acquisition, we are the number one system house in Europe for protection, including active, passive and softkill technology. Both acquisitions, BAE and IBD, should receive anti-trust clearance within the second quarter.

Please join me to page no. 16: As already mentioned, from our current point of view, we do not see any major changes to our original assumptions and therefore we confirm our full year 2019 guidance. The correction of IHS regarding the Light Vehicle production development for 2019 from a plus of 0.4% in March 2019 to now minus 0.2% in April confirms our original - more cautious - market assessment. Minor shifts of projects in Defence might delay the order intake to later in the year, but should not slip completely into 2020, hence we are comfortable with our expectations for 2019 to achieve an order intake around 4 billion Euros.

Thank you for your interest and now the floor is yours to ask your questions.

00:18:56 Operator

Ladies and gentlemen, if you would like to ask a question, please press 9 and star on your telephone key pad. In case you wish to cancel a question, press 9 and star again. The first question comes from Sven Weier, UBS. Please go ahead with your question.

00:19:17 Sven Weier

Yes, hello, Mr Merch. A couple of questions from my side. The first one is regarding what you've just said helpfully on the order intake pipeline and the 4 billion Euros you expect for Defence this year. I was just curious on specifically the Czech order that you just mentioned because I saw that the PSM consortium is now suing the Czech government or taking legal steps against the tender because it has changed to your disadvantage, so to speak. So maybe you can comment on that. And can you just remind us, is this just in Czech Republic, is this just the Puma or would this also be a Lynx project potentially? That would be my first question.

00:20:01 Helmut Merch

Yes. So we came along with two our vehicles and we are also bidding the Puma and the Lynx. It more or less depends on the final demand and final technical specification from the Czech. But once we are bidding as already said with the Puma and also with the other products with a newly developed Lynx. I do not want to comment on the legal issue which probably has occurred because I have actually no deep insight in this situation and therefore I think we should see what will happen during the next couple of weeks, if so.

00:20:56 Sven Weier

So what might be at the disadvantage of the Puma might be at the advantage of the Lynx at the end of the day?

00:21:01 Helmut Merch

That is our approach.

00:20:56 Sven Weier

Okay, good. Thank you for that. The other question I had is probably also…, we had this question before last quarter. Because if you look at the backlog for delivery in the current year and then as I compare that for ... with the guidance over the year, you're still expecting an additional 200 million revenue increase in the next nine months for Defence, whereas the backlog for the rest of the year is more like flat compared to last year. So is it still that you're expecting a lot of ... call it "in for out orders" this year? Because I just remember you mentioned the orders could be a bit more back end loaded. So is there maybe a danger they're coming too late for the revenue generation?

00:21:47 Helmut Merch

Actually we are in the process of checking necessary pre-financing situations, especially for the German customer. So you are fully right in your calculations. We have to reach – I give you a rough figure – a 10% growth, so we actually have to reach order intake of up to 550 million order intake, turning this order intake into sales in the next three quarters. But we are actually confident to reach this figure. It is a little bit more than last year but last year was more or less a little bit dampened. This figure we are able to reach, because this year is more or less comparable with the average of the years 2015, 2016 and 2017.

00:22:50 Sven Weier

Okay. Good. The last question I had was just on Automotive. Obviously your guidance is implying an improvement in the next nine months and I was just wondering how you see the trajectory of that. Should we still see in Q2 like maybe a lower single-digit sales decline and then pluses in the second half? Or how are you thinking about the quarterly evolution?

00:23:14 Helmut Merch

Yes. That is exactly our actual view. We expect more or less a decline of roughly 2% in Q2 for Auto and this is also in line more or less with the expectation of IHS. They are predicting a decline of the whole market by 2.8% and then IHS saw a recovery for Q3 and Q4 in total for the second half of this year of roughly 4%. And also we, when we track our monthly figures, we would say actually that we saw the trough in February and we saw some picking up actually in March and April. And therefore looking also to China where we expect a positive stimulus regarding the reduction of VAT and also looking at a low base in last year, especially in Q3, we are actually confident. And also having in mind that we will see a lot of SOPs, especially in the second half, in Europe and also in China, therefore we actually expect the recovery of total market and especially our sales. So this is the assumption that we are able to confirm our full year guidance.

00:24:52 Sven Weier

And when I think about March and then Automotive then is it fair that in Q2 you will then be anywhere between 7% and 8% based on the operating leverage you had in the first quarter or is that reasonable?

00:25:06 Helmut Merch

I think we have reached in Q1 around 7% and I think this should be also within Q2 probably a little bit better. But I think we are dependent as all other companies from volume effects and we will do our utmost regarding cost-cutting measures. I think real margin improvement we expect with the volume in second half of this year.

00:25:49 Operator

The next question comes from Sebastian Growe, Commerzbank. Please go ahead with your question.

00:25:55 Sebastian Growe

Good morning, gentlemen. Three questions from my side. The first two on Defence and then on the order pipeline. So I think I heard you said fiscal 2019 is likely to come in at the lower end of the 4 to 6 billion Euros order intake target range for the year and also for the next three years. I think that’s what you guided to. So, is it a fair assumption that anything that you said might slip into 2020 will then rather lead to at least the higher end of that 4 to 6 billion Euros range in 2020 or even beyond that?

The second question I have is on Germany, particularly on the on-going budget discussion. We have obviously this clash between Ms. von der Leyen on the one side and Mr. Scholz on the other side. Can you give us a sense what your longer term ambitions and also year before the 6 billion order guidance did bake in from Germany. Or put differently, what is the budget assumption that you baked simply into your internal forecast?

Then, the third question, Automotive, and you mentioned now the start of productions as obviously quite a substantial driver for the second half sales growth acceleration that you do model. And particularly Europe and China, can you put a number behind these start of productions and what the rough impact might be? Thank you.

00:27:17 Helmut Merch

Yes. Okay, picking up the last question, so we expect actually a positive effect of new ramp-up of around 100 million in the second half of this year but still fully tied with OEM development. In case there is a complete other situation second half, then also our ramp-up situation will be delayed. But actually for the time being we stick to this number.

Coming back to these two questions on Defence. If I and hopefully you remember well, this range of 4 to 6 billion was a range in which the order intake for the next three years will develop. So now I have precised our expectations for this year.
I do not guide and will not guide for order intake for 2020. This we will do early in 2020 when we have a better feeling of concrete negotiation status and projects. But I think the whole trend is fully intact. So if you know that big programs have a long pre-acquisition time and therefore I will not exclude that if we will see the lower end of our range this year, we have a better chance to walk into higher numbers in 2020.

Coming back to the question regarding budgets of Germany, if I enumerate the numbers of occasions in which Ms. von der Leyen and also the Chancellor confirmed the direction of 1.5% in 2024, I have no reason, no argument against it. So, this is a basis actually also for a lot of programs, for a lot of discussions with the user, also with the politicians. And I have actually no doubt about that Germany and also the German government is highly committed to reach this number of 1.5%. And also to give you a little bit of flavor, last year due to the late formation of the government we had an order intake from Germany of around 600 or 700. In 2017 we had order intake of 1.5 billion Euros, the years before we had average of 700 up to 800. This year we clearly expect an order intake of at least up to 1.2 billion Euros. So there will be a continuous increase also reflecting the programs and reflecting the increased budget in the coming years of Germany.

00:30:46 Sebastian Growe

Okay, that’s very helpful. And just one final clarification question. I think in the past you’ve said and indicated that of each incremental euro spend in terms of the Defence budget you have a share of around 10%. Is that still the mark from your end?

00:31:00 Helmut Merch

That is a rough figure which I can confirm. But here you should have in mind that you have the budget increase which will be partly absorbed from higher personnel costs. There is a specific title in the budget for new equipment and I think here one has to look how fast and how speedy this title will be developed in the next couple of years. But for a rough figure I can confirm your estimation.

00:31:54 Operator

The next question comes from Alexander Hauenstein, DZ Bank. Please go ahead with your question.

00:32:02 Alexander Hauenstein

Yes, hello. Alex Hauenstein, DZ Bank. I’ve got three to four questions.

First question is regarding Mechatronics. Q1 was impacted by start-up costs and costs related to the alignment of the product portfolio to the requirement of E-mobility. Could you please quantify this effect and was this something that was extraordinarily hampering the margins? And how long do you expect this impact to weigh on your results? Or was this the kind of usual trend going on?

00:32:33 Helmut Merch

Yes, so the combination of both impacts was around 3 million Euros in Q1. The cost for higher R&D expenses we have booked in the last years in our consolidation line. As you are aware, we have the difference on page number 8 from minus 5 last year in Q1 and now minus 2. Because now, the projects have a more major status we put this kind of project now into the operational division.
I think the start-up costs, it depends on the quarter in which they occur, so that is a normal issue which now falls into Q1. But I think the biggest impact we have seen in Mechatronics was this mentioned adverse customer/product mix effect. We have some customers in our portfolio which have a very slow start in Q1 and sometimes it happens that we have a good matching situation, sometimes it happens we have a bad matching situation. In Q1 I think several issues came together, customers and products and additionally ramp-ups. So this explains more or less this strong operating negative leverage in Q1 for Mechatronics. But we are still confident to get more speed in the second half of this year, especially also for the margin in Mechatronics.

00:34:32 Alexander Hauenstein

Okay, thank you. That was helpful. And with regard to Defence and Electronic Solutions, there was quite some major improvement year over year in EBIT. Is this apart from the system you booked for the Bundeswehr, due to restructuring benefits also from the Norway side? And what has positively driven this result especially? So do you expect this positive trend to continue in the next quarters?

Or was this mainly related to the system for the Bundeswehr and therefore it's a one-off?

00:35:04 Helmut Merch

No, no. That is not a one-off. I think we stated clearly several times that Electronic Solutions has to catch up with the other two divisions. We saw more or less a four-year period of flat sales and not satisfying margins. We started catching up to a normal margin last year, as you were aware, with higher sales with higher margins and this trend definitely will continue during this year. We are benefiting clearly from deliveries from our soldier equipment systems, our Gladius. But there are a lot of other programs picking up a little bit more volume and last year we spent several million for restructuring our cost base and therefore we are now benefiting this year and next year. And you are right, we have not passed the turnaround in Norway. But we clearly improved our cost structure. We reduced losses by a single-digit amount and hopefully on the operational side we should make the turnaround or at least a break-even in Norway with the last quarter and hopefully from 2020 onwards we will see some small EBIT contribution. But the big losses, we have seen in the former years, are now history.

00:37:08 Alexander Hauenstein

Okay, thank you. That sounds good. And the last questions are very quickly, regarding the supplier bottlenecks, is this still an issue in Automotive, and how long do you expect this to continue? And WLTP issues, are they done by now in Q2 or will there be potentially some spillovers into Q3? Thank you.

00:37:29 Helmut Merch

Yes. I think the bulk of the supply chain issues more or less will be done. I think we have still some minor issues on special plastics and some electronic components but this is not comparable with the situation in Q1. But there are still some bottlenecks, yes. And also WLTP has some negative effects on the actual situation. But I think after Q2 we should overcome these issues. That is our actual perception.

00:38:31 Operator

The next question comes from Sash Tusa, Agency Partners. Please go ahead with your question.

00:38:37 Sash Tusa

My question was actually about the Electronic Solutions business and you've answered it; thank you very much.

00:38:44 Operator

And then the next question comes from Christoph Laskawi, Deutsche Bank. Please go ahead with your question.

00:38:49 Christoph Laskawi

Hi, good morning. Thank you for taking my questions. Most of them have been answered already but there are two smaller ones outstanding.

Assuming China picks up again in Autos in the second half, would this intensify the problem that you would need to ship from other countries to the region? Or do you think that should be largely done by then?

And as a follow-up to that, can we despite the pick-up hopefully there comes in H2 expect then all the tied up inventory and working capital to be released throughout the year?

00:39:31 Helmut Merch

I think the bottleneck regarding China should also be done during Q2. We will see a lot of ramp-ups in China so we have done the necessary preparations.

We have started a lot of different initiatives to reduce working capital in all three divisions and therefore I think that we should overcome the things during the next couple of quarters. So actually we are still confident to produce free cash flow during this year by reducing also our level of working capital.

00:40:36 Christoph Laskawi

Okay. And lastly just a quick question on ... we've seen production data for

Germany in April already which was pretty weak, following the trend of Q1 but in Q1 other European markets basically offset that to some degree. Do you expect to see the same pattern in Q2 and could that impact your business to some degree? Or is it basically in line with what you have expected and you wouldn't see any reason to adjust for special German weakness?

00:41:08 Helmut Merch

No, it’s more or less in line with what I have already mentioned. I think the first question of Mr. Weier was in this direction, when I said we expect more or less a 2% decline in Q2 compared to Q2 2018. So we see these expectations in line with the actual situation development in the market. So we have no need to look at it from a different perspective.

00:41:51 Operator

The next question comes from Sven Weier, UBS. Please go ahead with your question.

00:41:56 Sven Weier

Yes, sorry, couple of follow-up questions from my side. The first one is on the Automotive business. When you look at the business unit performance, the weakest year-on-year performance you actually had in the Aftermarket which fully expect normally to be more resilient. Are you conscious of the fact that you really had a tough comp and in Aftermarket from last year, but was that weakness more kind of destocking related or how would you look at that? That would be the first one.

00:42:23 Helmut Merch

It was more or less market-driven, especially in Russia and Western Europe. Mr. Weier, we are talking about small numbers, 7 million Euros, yes? And therefore if a customer is missing 2 or 3 million you have the explanation of a half of the decline. So we are actually looking and monitoring the situation. I also read in some of our peers’ presentations that there is also some weakness in the aftermarket business, therefore we have not the ultimate explanation. But I think actually we do our utmost to improve the situation but actually we have only the explanation coming from the market.

00:43:21 Sven Weier

Is that a business that goes a lot to distributors? Or end customers?

00:43:25 Helmut Merch

Yes. Distributors.

00:43:28 Sven Weier

Which I guess would be the explanation, right? Because they typically do quite quickly destocking and restocking,...

00:43:35 Helmut Merch

Exactly. The uncertainty is still in the market therefore this could be one basic explanation.

00:43:47 Sven Weier

Yes. The other question was just regarding your minority line in the first quarter which was quite small, with only minus 1 and I think that on the MAN JV nothing has changed that much year-on-year. So why was there ... I know it's small figures but ...

00:44:04 Helmut Merch

Yes, we have two impacts. One comes from RDM, from South Africa. Here we have a slow start due to the incident in September which will continue also in Q2 and we have some smaller EBIT contribution in the first quarter from our RMMV. Those are the two major impacts and this leads to the difference compared to Q1 2018.

00:44:40 Sven Weier

And the Chempro minorities which I think were like – was it like 6/7 million, they will obviously now drop out then in the year end?

00:44:48 Helmut Merch

Exactly.

00:44:51 Sven Weier

So, did you mention what you paid for this in total for this whole transaction?

00:44:55 Helmut Merch

No, I have not mentioned anything and I will not.

00:44:59 Sven Weier

Okay. So we'll see it next quarter in the cash flow, then?

00:45:02 Helmut Merch

Yes.

00:45:09 Operator

At the moment there are no further questions. If you would like to ask a question, please press the 9 and star on your telephone keypad. And we have a question coming from Richard Bruce, Trinity Street. Please go ahead with your question.

00:45:27 Richard Bruce

Yes, Mr Merch, just one question on what you said about the Auto business bottoming in February with March and April looking better. Could you just provide a little bit more detail of the magnitude of that?

00:45:41 Helmut Merch

No, I won't disclose monthly figures. Therefore I comment on the trend. We saw a slight recovery starting in March continuing on a higher basis in April and this makes us confident that we expect a lower degree of decline compared to Q1 with -5%, now we're expecting -2% in Q2 and this follows our monthly observations.

00:46:20 Richard Bruce

Any detail on geography, even if not obviously on customer? I mean, was it China-based, was it Europe-based?

00:46:30 Helmut Merch

More or less I have to say, more or less both, Europe and China.

00:46:36 Operator

And the last question comes from Christian Cohrs, Warburg Research. Please go ahead with your question.

00:46:45 Christian Cohrs

Yes, good morning. Just one, two left for me. First, if I'm not mistaken, you're still sitting on trucks worth 150 million for a Middle East customer where you have faced some export restrictions. Can you maybe shed some light on the current status and whether there is a solution for this project on the horizon?

And then second question, there were some press reports that the restrictive stance of the German government with regard to the exporting of defence goods could be actually mean harm for the French-German co-operation to develop a new Main Ground Combat System. Could you maybe share your thoughts on this issue? And also how this co-operation is currently developing?

00:47:39 Helmut Merch

Yes. So one correction regarding the trucks. We are actually not sitting on trucks worth 150 million, the whole contract has been 130 million. Actually we're sitting on 90 trucks' worth roughly 50 million and we have a sub-supplier producing the trailer being worth also roughly 60 million. So here the actual situation is that the German government has extended the period of not allowing the export until end of September. Our export licence, has been extended to March next year, so 2020. Therefore, now we see more or less windows of opportunity but these are more or less politically driven but actually we have not lost our confidence that there could be some movement towards the original approach. But actually 90 trucks are on stock. There you are right. And the sub-supplier is actually producing trailers. It could be of some help that the sub-supplier has also some French connection and some French roots but this is an assumption which could turn in the right direction or not. Here we're still waiting for final German, for final political approval.

The same more or less applies to the second question you have raised. There is still an on-going discussion, on-going negotiations regarding the fighter program and Main Ground Combat Systems. Actually the two governments want to find an industrial solution to launch during Q3 the first step of a program. And this is also a very politically driven issue. We are clearly supporting the German government in arguing how we should go forward with an industrial solution, with an industrial concept. We expect during the next couple of months a final decision because every government is highly committed to launch. But there is, and you are fully right, there is an obstacle regarding a common view on export regulations. But we are not as close to this discussion that we can comment on this.

00:50:58 Operator

Mr Merch, there are no further questions from the audience.

00:51:02 Helmut Merch

Thank you all for taking part in our conference call.

But before I close the call, please allow me some final remarks:

Q1 was a good move for Rheinmetall in the right direction to achieve our guidance. Automotive is navigating in troubled waters but we are managing well and Q1 was likely the most difficult quarter in 2019 from today's point of view. Defence continues the positive development and we are well under way regarding our growth and profitability aspirations. We are confident for the next quarters. Thank you for your interest, and looking forward to meet you during our next roadshows and conferences. Have a good day. Bye.