Rheinmetall AG
Investor Relations
Conference Call Q3 2019
Transcript

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Rheinmetall AG Conference Call

00:00:00 Operator

Good afternoon ladies and gentlemen. Welcome to the Rheinmetall AG conference call regarding the Q3 results 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 your host **Mr. Helmut Merch**.

Helmut Merch

Good afternoon, ladies and gentlemen, welcome to our Q3 earnings call. We continue with the familiar setup that I will start with the presentation and then you will have the opportunity to ask your questions. Please be reminded 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.

On page 3 you see, that Q3 showed a mixed picture. While our Defence business met our expectation as for then securing our Q2 call we had to realize that Automotive operated in an overall negative market environment and failed to outperform the market. The malware attack left no visible mark on Q3 but will impact our Q4. But I will come back later to this issue. If you take a closer look at our KPIs on group level, Q3 was not too bad. Backlog remained on a high level and we expect for Defence more order intake in Q4 which will leave the year with a book-to-bill ratio clearly above one. Group sales organically by 2.5% and operating result achieved the strong last year's level and ended at 99 million Euros. Earnings per share compared with high prior year's figures and as you remember Q3 2018 reported a 30 million Euro game from a real estate project of 47 Euro Cents per share. Adjusted for this effect Q3 2019 is on par with last year's 1.33 Euro.

Same applies to the operating free cash-flow. While being down 10% on the reported basis considering the real estate game and the additional effect from the 15 million Euro funding of the contractual trust agreement operating free cash-flow on a like-for-like base was 45 million Euros higher than last year. Please join me now on page 4.

Q3 saw a positive news flow in both segments. Automotive reported the single biggest order intake for an individual product. Our electric vapor pump enters now serial production and we have two major customers that together achieve a life time order value of 700 million Euros. Two other innovations made the headlines, confirming our ability to serve different powertrain systems, for example the components for fuel cells. Defence had two major order wins, the already expected VJTF orders for Electronic Solutions and Vehicle Systems and the sub commissioning for the Hungarian orders for 44 Leopards and 24 howitzers, combined more than 700 million Euros. In Australia, we were down selected for the risk mitigation activity for Land 400 Phase III in competition to the South Korean company Hanwha. Please turn to page number 5.

Group sales increased by 5% in total supported by some FX tailwind and first effects from our Defence M&A activities and totaled at around 1.5 billion Euros. Operational growth alone accounted for 2.5% as mentioned. The operating result basically remained flat at 99 million Euros. Operational improvement of 2.2% and minor FX support were countered by some integration cost for our Defence acquisitions. However, we saw material shifts between our segments which I will discuss in more detail later. Operational EPS came in at last year's level. The adjustment of 47 eurocent is made for comparison purposes and reflects the effect of the already mentioned real estate divestment in Q3 last year.

Please move with me on to page no. 6 for the presentation of the operational free cash-flow. The operational free cash-flow was held back by lower earnings after tax missing the 30 million Euro real estate profit. Additionally we funded our CTA with 15 million Euro in Q3 2019. Working capital improvements were a big support mitigating these effects. Adjusted for these two effects Q3 2019 operating free cash-flow would have been roughly 80 million Euros minus instead of around 40/45 million Euros better than last year. The position 'others' included a variety of different measures. D&A and CapEX were nicely supported. Please move on to page no. 7.

Financial debt increased in line with a seasonal pattern of our business, especially in Defence and reflected the total of €180m cash out for M&A activities in Defence. The equity bridge shows the strong impact of roughly €190 m from the again lowered actuary interest rate for the pensions in Switzerland and Germany. The discount rate in Switzerland declined from 114 BIPs to only 9 BIPs. We saw a comparable effect in Germany with a decline from 180 BIPs at year's end to now 80 BIPs at the end of September. FX effect of €36m flight mitigated this negative effect. Apart from the normal payout of dividends we adjusted equity for the minority effect in RMMV and Chempr both effects were already booked in the previous quarter. Let's now start with the presentation of our Automotive performance on page no. 8.

Automotive is operating in a very weak business environment, additionally constrained by low visibility. In Q3, our sales growth remained below the comparable global market development. The drivers for this decline were as follows: A) Q3 2018 included a China equipment sales. So like-for-like sales based in Q3 2019 is 20m lower. Second, Automotive was not able to compensate the general market decline of 3% or minus 20m. Third, our Truck business contracted for the first time by roughly -5m and forth, the continuous casting deliveries to industry applications such as bearings and fittings also slowed down by -5m in the recent quarter. And last but not least, Q3 saw already a minor impact of the GM strike in the US but Q4 will be affected most. These effects impacted operating margin accordingly. Operating free cash flow benefited from the working capital improvement. Please move now to page 9.

Mechatronics reported a decline of 7.5% to 355 million Euro. Indifferent of the fuel type, light vehicles demand was very slow. In particular, weak demand for our higher margin Diesel related products including the premature ramp down of one engine platform burdened results. And additionally, expenses of around € 2m

Euros for e-mobility project impacted the operating result of our Mechatronics division.

The sales development in **Hardparts** was basically flat, if we adjust for the effect of the equipment sale to China in Q3 2018 ending the quarter at 228 million Euros. While passenger car pistons were in good demand, negative trends in our non-LV products, such as truck pistons and industrial applications for continuous casting products came under pressure. The problems at our Czech plant related to the fire incident in Q2 and some quality issues continued in the third quarter. And this ongoing problem at the Czech production site is expected to affect the fourth quarter also with some 2-3 million Euros. Aftermarket reported a flat quarter. We generated again operating results of 9 million Euros with sales on last year's level of 92 million Euros.

Please move on to page 10. While consolidated sales were declining globally for us, our unconsolidated Chinese activities painted a very different picture. Q3 sales performance in China was marked by successful ramp-ups of a number of products, including electric vacuum pumps and vapor pumps accounting for an operational increase of 33 million Euros. A favorable FX effect of another 7 million Euros and a contribution from our recently acquired domestic pump business of 12 million Euros, added to a total sales increase of 21% to roughly 300 million Euros. The EBIT increased by 3 million Euros to 20 million Euros, but margin was slightly softer because of ramp up cost in association with new products. FX and M&A were mildly supportive.

In conclusion, I would like to make a point: Our business was able to successfully decouple itself from the general market trend in China, because of our ability to innovate and commercialize new products with traditional western market participants.

Please now turn to page 11. Let‘s have a closer look at the business from the end market perspective: For a correct comparison, we have to exclude the deliveries of the equipment to China from the sales revenue. Considered isolated, the LV business declined just slightly below the growth of global LV production with a higher pressure on our Diesel business. In a year-to-date comparison, we have lost almost 70 million Euros or 12% of our Diesel business due to the present market conditions.

In contrast to the previous quarter, we have also observed a weaker non-LV business. Truck declined by roughly 5% in Q3, but still remains positive on a year-to-date basis with 1%. Demand for bearings and our continuous casting business from industrial applications was also weak, reflecting the more general slowdown in industrial demand. The latter is included in our other non-LV business.

Now moving to page 12. During the last week of September, our Automotive domain in US, Mexico and Brazil was exposed to a massive virus attack. The malware encrypted numerous laptops and servers. As a first step, we completely isolated the domain. Then we set up immediate response teams to counter the attack and designed work around to re-establish normal operations.

Finally, we have secured most of the topline and experienced no material sales losses. That was especially important for our customer relations, because we avoided any impact on their production process. But of course we will have a measurable impact on our Q4 results. Additional measures to maintain supply availability, external support to fight the attack and last but not least overtime to cope with additional workload, will burden our P&L in Q4 with an expected amount of 6-8 million Euros.

Please turn to page no. 13. A severe issue is the short-term nature of our call-offs. Sometimes call-offs are even adjusted last minute, which really makes business planning very challenging. From a current point of view, it is therefore unlikely that we will beat last year's sales of roughly 730 million Euro in Q4 to meet the bottom range of our full year guidance for the following reasons: A) we actually got no support from the market; IHS expectations for worldwide productions for Q4 is actually -5.5 and for the full year -5.8. And as you know that HIS forecast are in free fall in the last twelve month. B) The GM strike has an effect of roughly

-20million Euros on our sales in Q4. And thirdly, we now expect a negative net ramp up effect in Q4 of between -15 to -20 million Euros especially in water pumps, solenoid valves and EGRs.

During the course of the year, we unfortunately had to cut our ramp-up assumptions from 100 million in May to 50 million in August and now even to a negative effect of -15 to -20 million. This is due to the fact that especially customers in Europe and China delayed or even canceled the ramp-up of new products. Therefore, we expect Q4 sales more or less on the level of Q3 of this year. In addition to the weak sales development including the GM strike with a negative impact on profitability, we have to include an additional burden of the aforementioned 6 up to8 million Euros for the malware attack, leaving the margin in Q4 at around 5%. Hence, the Automotive margin of around 7% is revised to around 6.5%. This concludes the presentation of the Automotive highlights and now we start with Defence on page no. 14.

I already provided a quite detailed picture of our Defence business during our Q2 earnings call, so nobody was caught by surprise on the positive sales acceleration in Q3. Reported sales rose by 120 million Euros to 823 million Euros, an operational increase of 13%. Our operating result increased by 20 million Euros, lifting margin by 150bp to now 7.8%. The operating free cash flow was affected by the increase of working capital due to higher business activities, but when we look at the operating free cash flow to sales ratio, the effect was mitigated by improved earnings. Please turn now to slide 15 for the presentation of the divisional development.

Weapon and Ammunition reported the expected flat business development in Q3. Q4 will here be the decisive quarter for the 2019 performance. The recently introduced export ban in Italy for ammunition supplies to members of the Yemen coalition forces which was announced at 29th of July and some pending export approvals post the election in South Africa in May held back a more positive development in Q3. The Italian ban is actually expected to last for 18 months. This will have a negative impact of 40 million Euros on H2 2019 and could have a further 70 million Euros impact on 2020. This last effect alone eliminates 2% of our expected growth for the next year.

Electronic Solutions achieved a sales increase of 27% and more than doubled the operating result to 20 million Euros in Q3 on a very solid order execution. Additionally, last year's restructuring measures paid off. Operating leverage was 26%. Vehicle Systems managed to add almost 17% of sales and reported roughly 460 million Euros in Q3, generating an operating result of 36 million Euros, repeating last year's strong margin of 7.6%.

Now moving on to page no. 16 for the details of the order situation. Both, Weapon and Ammunition as well as Electronic Solutions booked new orders significantly above previous year’s level. Vehicle Solutions had a record quarter last year with the booking of the Australian contracts, but as well contributed nicely with almost 800 million Euros in Q3. This included the vehicle part of the VJTF order and the subcontract for the Hungarian order as mentioned. German order intake more than doubled compared to last year and stands at end of September at 1.1billion Euros. So this is a good development. So we are well on track to reach the expected German order intake of around 1.5 billion Euros for the full year.

And finally a very positive surprise from our British friends. Two days ago, the British MOD has signed the contract with the OCCAR department to procure more than 500 Boxer vehicles with an order value of 1.3 billion Euros for Rheinmetall. The contract is still subject to the authorization of the other Boxer nations like Germany, the Netherlands and Lithuania. But this is only considered to be a formality and so coming into force should take place before year’s end. So this order will lift our order intake to above 5bn in 2019.

Please turn to page no. 17. Germany, Italy and South Africa have installed or expanded temporary export bans for certain countries. Especially the more recent developments in Italy and South Africa will limit our export potential already in 2019 by 70 million Euro sales or 2% of growth. Germany has set up an export ban for new business to Turkey and the ban for members of the Yemen coalition forces has been extended until March 2020. Italy has suspended all ammunition deliveries to the Yemen coalition forces for 18 months, starting in August 2019 and fully covering 2020. Q3 sales impact was 10 million Euros, Q4 sales impact will be further 30 million Euros and as already mentioned, the 2020 effect from the Italian ban takes out 70 million of expected sales or 2% of expected growth!

Last, but not least, export regulation in South Africa has created an issue. Since the May 2019 elections, the South African Security Council has not resumed its work on a regular basis yet and therefore we have not received the necessary export licenses for sales to some Middle Eastern countries. This already affected Q3 and will put a severe risk of around 30 million Euro on the full year. Since we are not able to compensate this shortfall of 70 million Euros from South Africa and Italy, we included these facts in our full-year 2019 expectations and have to adjust the growth rate from around 11% in Q2 to now around 9%.

Coming to page 18 with the presentation of our guidance. The correction in the Automotive sales growth is quite pronounced. Now we expect an operational sales decline of 7%. This is accompanied by a margin reduction to around 6.5% after around 7%. The approval of arms exports from Italy and South Africa has recently become more difficult for certain countries. Against this background, we decided to take this risk on our books and adjusted the sales growth as mentioned of the Defence business to around 9%.

On the positive side, the year-to-date performance of the divisions Electronic Solutions and Vehicle Systems have given us the confidence to raise operating margin guidance from around 9% to slightly above 9.5% for 2019. The favorable current sales mix in combination with the very good execution profile allowed us to take this measure. Both divisions have entered their respective strategic margin corridor between 7 to 8% earlier than expected.

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

00:24:12 Operator

Ladies and gentlemen, if you would like to ask a question please press 9 and star on your telephone keypad. If you would like to withdraw your question, press 9 and star again. The first question is from Sven Weier of UBS.

00:24:33 Sven Weier

Thanks for taking my questions. The first one is on Defence and you just mentioned, Mr. Merch, that the order intake will be above five billion this year and just wondering when we think about next year I think in last call you already said it will be more of a single digit growth here now with the 2% missing in Italy. I mean, how much of the Q4 order intake will be still, you know, applicable for next year and how should we think about the growth corridor then for 2020. I know you will guide in March yes, but maybe some high level thought there.

Helmut Merch

No, that is clear but it's a fair question. So last call I also answered a corresponding question of you that we expect high single digit. So in my words high single digit is between 7 to 9% and if we now have to deduct and we have no view that we can compensate this shortfall of 2% from Italy. You now have a range in which we could give probably our full year guidance precisely in March.

Sven Weier

Okay, and how should we think about your adjustment to the margin in Defence? I mean obviously that's quite a bit of a bump up here to nine and a half plus. I mean should we see that as a kind of minimum level from here because I guess you don't have intention to fall back to nine then next year or how should we think about that margin level?

Helmut Merch

Yes, also a nice question. I think what I try to underline, a) we have a good margin mix, good product mix in the aforementioned divisions and we have a very good order execution. Now I think we do not fall back in former times, we have some mistakes and failures in the order execution but I think we had the midterm guidance of 8 to 9%. Now we have reached I guess at the final end of this year slightly about 9.5. I think we do and we will not fall below 9% in the following year.

Sven Weier

Okay. And also in the last call I asked you about the minority result and the P&L going forward and I think you kind of delayed that one maybe to this call. So is there any kind of guidance you would provide today, what we shall …?

Helmut Merch

Yes, so in Q3 we have a positive impact of roughly 10 Euro cent and for the full year we can rise our figure from last year's call from roughly 30 cent to roughly 40 cent for the full year in 2019.

Sven Weier

Okay good. And then finally on Automotive, obviously you've already mentioned that you expect Q4 sales flat over Q3. I mean if I do the back on the envelop calculation that would mean it's down six instead of seven. So is the guidance including another kind of safety buffer there then or …?

Helmut Merch

I think these margin guidances are always "around" and "around" means there is some move down and some move up. We're not able to guide explicitly on 10 bps of growth. So we actually see the organic growth or downturn we have to say by roughly minus seven, sorry.

Sven Weier

Yes and then you mentioned, I mean you mentioned the GM and the ramp-up impact but that still leaves quite a significant impact for the rest right? So…

Helmut Merch

Yes, I think if you look to the expected market development I think if we look if IHS would have the right figure in their mind that means Q4 we are down by 5.5 and if I look what it means if we follow the market trend, then we will lose 40 million compared to last year. Another 20 million for the GM strike which is out of the market condition explicitly and then we have additionally the negative effect of the ramp-down between 15 and 20 million then we will come roughly in the region of 70 to 80 million compared to last year which means downside volume.

Sven Weier

Good. Understood Mr. Merch. Thank you.

Helmut Merch

Thank you Mr. Weier for your question.

[0:29:44] Moderator

The next question is from Sebastian Growe of Commerzbank.

[0:29:49] Sebastian Growe

Yes, good afternoon. Thanks for taking my questions. Hello Mr. Merch.

Helmut Merch

Hello.

Sebastian Growe:

Just two areas. Usually I guess on order to start with and here on the Mechatronics part. The ramp-down was the formally in visit to ramp-ups, you know, quantified those at 15 to 20 million negative overall. I think the high level question that I do have is really how can that continue? I know it's a crystal ball question but nonetheless that it would be just interesting to hear your thoughts around your customer discussions and if that sort of general pressure might continue or if you already see it as a sort of short-term phenomenon. That is it on Mechatronics. On Hardparts, just a very quick update only, check plan issues. Can you just remind me of what the total year-to-date headwind is? I heard you were saying three to four million headwind in quarter four but what the total now for nine month and when are you expecting to have these issues fixed finally. And if I move on to Defence, or shall we start with Autos first?

Helmut Merch

Yes, I'd say we start with Autos first. So Mechatronics here I think that is a very tough question because of this low visibility and I want to remind you that the original expectation or the revised expectation in August when we saw still 50 million of a positive net effect of ramp-downs and ramp-up, that would have meant a 150 BPs outperformance. Now, due to the very weak market conditions all what we have seen and what we have shown from our customers were slipped away and actually we have not the right visibility when this will pick up again. So it will be very decisive how the market conditions will be during H1 2020. If the market will come back again, then also some of the former expected ramp-ups will take place but unfortunately for the time being I’m not able to give a right guidance on this issue.

Sebastian Growe

Yes, just a very quick follow up to that statement because I think you also made one favor remark in your prepared remarks where you were saying that one of the OEMs decided to just trim down the product platform. What are sort of these structural risks in that overall discussion if you can say anything to it?

Helmut Merch

So this was already seen but not to this extent and originally we thought that this will be covered or compensated by ramp-ups. So this will have no further effect in 2020.

Sebastian Growe

Okay, that’s good.

Helmut Merch

Okay? So coming to the Hardpart situation it’s already indicated in the Q2 call. We have quality issues, especially with the ramp-up of some new products in our casting facilities and here I have to elaborate a little bit on the swing between last year and this year. So in total for the first nine months we have a negative impact compared to last year from this issue of around eight million and this will go up in total of a number of roughly 10 million for the full year 2019 compared to last year.

Sebastian Growe

Okay. Very helpful.

Helmut Merch

And unfortunately we will not fix it until the end of this year so we expect at least some quality issues for H1 next year so there will be some burden in H1 from this production that we actually see.

Sebastian Growe

Okay understood. Then on the Defence part: The fiscal 2019 EBIT guidance will imply then quarter four EBIT of big number more than 200 million Euros around that level, 15% margin I think never seen before. Can you just comment on what the mix is behind that very high number? So and in those lines I would be interested in an update on the South African plant after the incident that she had last year and where we stand at.

Helmut Merch

Sure. Okay, two questions, picking up the first: Yes you're right. We expect additional growth in Q4 compared to Q4 2018. So we will have a positive operating leverage. Last year in Q4 we made an operating margin of slightly above 14% and we also indicated we have not only to meet this; we have to reach a little bit more. So the expected operating margin for Q4 2019 is exactly above 15%. So given the fact that we see additional growth, this should be reasonable. The driver in absolute terms will be Weapon and Ammunition. Here I already mentioned Q4 will be very back end loaded. So the major part of the expected EBIT development will come from Weapon and Ammunition followed by Vehicle Systems and Electronic Solutions. And I think therefore we will prove that Electronic Solutions and Vehicle Systems will have closed the margin gap we saw in the last couple of years.

00:36:03 Sebastian Growe

Okay. And the status quo on the ramp-up in South Africa?

00:36:08 Helmut Merch

The status quo on the ramp-up, here we have besides the new issues regarding the government approvals, but from the incident we have to state that we have made a lot of different investigations. And finally we came through and got new approvals from the authorities and therefore we started our production in the beginning of October again. So therefore from this side of the operations we should not have negative impact in 2020.

00:36:53 Sebastian Growe

Okay. That also means however that in quarter four the impact from South Africa standalone, be it for the ramp-up reason, be it then also for the regulatory issue and export approvals, is still an opportunity, so to speak, when it comes to 2020, right?

00:37:08 Helmut Merch

Exactly. Yes. If we got finally the export approvals and we are fighting hard. But as you know, there are countries which are not as speedy as some European countries so there are a lot of time-consuming discussions. But in case we will get this approval, we have some opportunities next year.

00:37:40 Sebastian Growe

Yes, okay. So to ultimately clarify, you said now EUR30m stays at risk for the full year? Can you just give us a sense of to what extent South Africa contributed overall? So what's the entire shortfall because of the re-ramp-up now really the restart of production, now the regulatory issues?

00:38:01 Helmut Merch

So I think we do not disclose the different sales numbers of legal entities. So here I have to apologize but we have this EUR30m risk that we are now including in our full-year forecast and this will definitely fall out compared to last year. And we have a significant part of our sales compared to last year which was more or less delayed or not done, even not done, compared to last year. So the impact on the South African sales is a high double-digit million sales number, also with a corresponding EBIT situation. And this also will have an impact on the minorities because normally we have good numbers in South Africa and we are now more or less in a break-even situation this year.

00:39:26 Sebastian Growe

Okay. That was more than what I would have hoped for. So thanks for the answer. The last one's on the growth outlook, and just recapping on what we have seen now with the regulatory issues, export approvals, duh-duh-duh. So what is the risk to your previously communicated 10% sales CAGR target because of these sorts of exogenous factors? Do we have any other stands, as we speak?

00:39:54 Helmut Merch

Yes, I think this corresponds a little bit to Sven Weier's question. In our Q2 call I said that life is not linear and we cannot expect every year 10%. So this was an average number due to what we see in our order backlog and our order pipeline. So therefore I said for next year we expected high single-digit growth, high single-digit, I repeat it in my words, is between 7% to 9%. Now we have an external fact that means the Italian ban which is actually in order backlog and was to deliver next year.

So this volume, the EUR70m stands for 2%, this we have to deduct. Because actually looking atour execution profile we cannot switch all the orders we have in backlog. Normally the high volume orders have a lead time of 18 up to 24 months before they come into sales. So therefore the expectations for next year will be definitely a little bit lower than originally expected, but nevertheless in March you get the final numbers.

00:41:17 Sebastian Growe

Very good. Thank you so much.

00:41:19 Helmut Merch

Welcome.

00:41:23 Operator

The next question is from Christian Cohrs of Warburg Research.

00:41:29 Christian Cohrs

Maybe first coming back to the Defence margin. Now you raised the margin to 9.5%. You mentioned already product mix effects, improved execution, etc. But in light of the fact that you had to lower your top-line guidance for the current year, especially due to loss in business in ammunition, which is usually high margin. That would actually mean on a ceteris paribus condition that without this export ban, your margin potential would be even ... would have been even as above the 9.5%. So were you simply low balling at the start of the year when you guided us much more conservatively? Or what has changed? Or also, have you may be changed also ... I mean, you're doing a lot of percentage of completion accounting. Have you been more generous with regards to the amount of earnings contribution you simply book in the course of the project execution? That's maybe question number one.

Question number two then relates to the French/German cooperation on the main battle tank. There was some news flow recently. Are you happy with it? Or to what extent are you happy with it? Maybe can you shed simply some light on that?

And then two housekeeping items. First, your interest expense has gone up a bit in the third quarter. I just wonder, is this already a reflection of the M&A spending we see in the current year?

And lastly, could you shed some light maybe, I was a bit surprised about the low minorities in the third quarter. Could you shed some light, due to the fact that you have bought back the technical vehicles from MAN, etc. What the minority line in the full year is going to look like?

00:43:32 Helmut Merch

Yes. Yes, okay. Starting with the last question, I try to give some light or some indication when Mr. Weier raised the same question. So facing a loss in South Africa in the first nine months and also in Q3, this is a normal reduction of our minorities because in South Africa we have only 51%. So this is one driver. And the other driver is the buy-back of shares in our RMMV business. And we expect a significantly reduction of minorities this year, driven by South Africa and driven by the buy-back of the minorities regarding our protection business and our vehicle tactical business. That was number one. Number two...

00:44:26 Christian Cohrs

But can you – could you quantify it a bit? I'm fully aware of the two effects, but could you provide some sort of quantification, especially on the RMMV side?

00:44:38 Helmut Merch

Yes. This is around EUR0.40;

00:44:42 Christian Cohrs

Okay, sorry. Okay. Maybe I understood. Okay.

00:44:33 Helmut Merch

No problem.

00:44:46 Christian Cohrs

So EUR0.40 for the full year?

00:44:48 Helmut Merch

Yes.

00:44:49 Christian Cohrs

On a per share basis?

00:44:50 Helmut Merch

Yes.

00:44:51 Christian Cohrs

Okay, understood. Thank you.

00:44:53 Helmut Merch

So the second question was regarding interest. We have a minor impact from the M&A transaction because these were done and paid out beginning of Q3. We had some impact on impacts on the pension interest. So all in all, we expect roughly a number of interest or a net burden in the interest line of roughly 40 million plus for the full year.

Christian Cohrs

Okay.

Helmut Merch

Yeah. And coming to the first question, your calculation is right. In case we would have the opportunity to have additional 70 million in ammunition business, we could have reached a better margin.

Christian Cohrs

Okay, okay. Understood.

Helmut Merch

Yeah. And the issue, which is a bit complicated to answer, what is our view on the main ground combat system. Here we have to take the following: What has been elaborated in the press is around the first, very first phase of this long term project. This is the first system architecture definition study which has now been clarified between the three parties involved. But this is the phase which involves a very small amount of money. So this will not be, that is my view, not the indication for the full program, but I think the whole program is still under discussion. But the first phase covering some double digit million Euro amount is actually decided and will hopefully go into a start beginning of next year.

Christian Cohrs

Okay. Thank you very much. And maybe just on Automotive one question. I got a bit lost. The malware attack you mentioned a negative impact in Q4, is this going to be part or is this part of your operating earning guidance or is this impact going to be adjusted ?

00:47:46Helmut Merch

This is in our operating earnings guidance.

Christian Cohrs

It will not be adjusted?

00:47:52 Helmut Merch

No. We have not adjusted because is an operational ... It isn't an extra ordinary effect, so this should not occur also in the next quarter. But we have included this effect in our operating margin.

Christian Cohrs

Okay, that's clear. Thank you very much.

00:48:10 Helmut Merch

Welcome. Thanks.

[0:48:14] Operator

The next question is from Harald Eggeling from Oddo BHF.

Yes, hello.

00:48:19Helmut Merch

Hello.

Harald Eggeling

Two questions on Automotive. First one, could you please elaborate how your e-mobility activities will develop in 2020 compared to 2019? And also I've seen in Q4 2018, you had a pretty pronounced at equity results of 12 million, how was your China business expected to perform in Q4? So has it been an extraordinary tailwind in Q4 2018? Thank you.

00:48:56 Helmut Merch

So regarding our E-mobility, we will concentrate especially on motor housing with some Chinese customers. Here we have these businesses more or less in our joint ventures and we will start with pump business. So this will be on the operational sales side. I do not know whether you are asking for our R&D activities. Here, we have a separate R&D budget which increased in the last couple of years and here we reserved an amount on a yearly basis between 10 to 15 million.

Harald Eggeling

Okay. One for last, the R&D budget is 10 to 15 million and this value applied for 2019 and 2020?

Helmut Merch

Yes, only for some new E-mobility projects. We have an R&D budget which is clearly higher in automotive and covered roughly 6% of our total sales.

Harald Eggeling

Yes, sure.

Helmut Merch

Okay. You got the answer or I got your question rightly?

Harald Eggeling

Yes. And the equity results?

Helmut Merch

Okay, at equity results, we have to look. I think, we had last year in Q4 we had some extra ordinary income from China. So this will not be repeated in Q4. This is a situation coming from the tax authorities. We got some reimbursement or so and this was a volume of ... this was combined with our high tech status in China, and this was a single digit million Euro amount and this will not reoccur in Q4 20 19.

Harald Eggeling

Okay. Thank you.

[0:51:24] Helmut Merch

Welcome.

[0:51:27] Operator

Ladies and gentlemen. If you would like to ask a question, press 9 and * on your telephone keypad. To redraw your question, press 9 and * again. The first question is from Sash Tusa of Agency Partners.

[0:51:44] Sash Tusa

Thank you very much indeed. I've got two questions. The first is on the Boxer. The British Army or the NATO has announced that the value of the contract is 2.8 billion sterling. But you've said that you think the value to you will be around one point three billion Euros. I'm a bit puzzled to where the rest goes because you are in or you are 64 % shareholder in ARTEC. So the fact is, your share (have contact).

Helmut Merch

I'll try to solve your puzzling insofar that these 2.8 billion Euro represents roughly 3.2 billion Euro. And you are right, now we are only reporting 1.3. Here, we have to mention that the amount which has been announced by the British government covers not only the value of the contract but also the future price escalation. Yes? And here we have a difference. We cannot book future price escalations because we do not know of the future price escalation, so we only book the value corresponding to the value we actually see. But in case, and this will come in the coming year because the first delivery is expected for 2023. So there will come future price escalation and this price escalation will give us an opportunity to book this price escalations as further order intakes. Understandable?

Sash Tusa

If I understand correct...

Helmut Merch

Understandable?

Sash Tusa

It's understandable, I'm puzzled as to how the Ministry of Defence has got this marvelous crystal ball but there are a lot of things that are puzzling about the UK

Ministry of Defence. So I think we can pause that one just a moment. So thank you.

Helmut Merch

Okay.

Sash Tusa

My second question actually is about the press coverage of the Renk transmission business. I wondered whether this is still a business that you are potentially interested in at the right price.

Helmut Merch

So we normally do not comment on press statements. Press statements are not given by us. Press statements are given by some people who we do not know. And we know that there is a process. But we do not comment on our possible role in this process.

Sash Tusa

Okay that's great. Thank you so much.

Helmut Merch

Thank you.

[0:54:47] Moderator

There are currently no further questions in the queue.

That is fine. So if there are no further questions please let me just give a brief note at the end of our call. I think the successful acquisition of the UK Boxer contract is a further demonstration of our high quality product portfolio and that we are able to participate in the so-called super cycling Defence. Growth will not be linear, but I think it will be a sustainable and profitable growth path for our Defence business. On the other hand, automotive is facing a very, very difficult market environment. So even under the current circumstances, profitability is certainly below previous levels. So thank you very much for joining us in our call and see some of you in our Capital Market Day and also on the road. Bye bye.