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Transcript

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Rheinmetall AG Conference Call

00:00:01 Operator

Ladies and gentlemen, a warm welcome to the Rheinmetall AG conference call regarding the Q3 results 2021. 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. Please go ahead.

[0:00:21] Helmut Merch

Thank you for your kind introduction. Ladies and Gentlemen, I hope you are all managed to stay well and I would like to thank you for joining our Q3 earnings call. Before we get to the Q&A session, I will quickly walk you through our Q3 slides. As usual, please be reminded of our legal disclaimer on the next page. Additionally, I would like to point out, that the presentation only covers the financials of the continued operations. Let me now start with the group highlights on page 3.

While the political situation in Germany has de-risked, we continue to see increasing concerns with regards to the supply chain and the rising call off volatility. With regards to our own Q3 performance, all divisions were able to benefit from the high interest in their product portfolio and reported a positive book to bill ratio. The global light vehicle market had a very weak third quarter, but we delivered robust sales and outperformed global LV production by around 18 percentage points. We are comparing versus a strong previous year and the operating margin remained on a robust level of 8.4%. Operating free cash flow could not repeat last year's success. Q3 2021 was affected by necessary working capital build up, restructuring effects related to first cash outs for severance payments and no larger prepayments.

The disposal process of the Pistons business continues, because we have not found a financially sound investor yet. Obviously, the weakness of the overall automotive market burdened the process. Management however remains determined to divest the business and we will communicate progress in the next months. And finally, we started a new business for deployed operations support which I will explain on one of the following pages. Please move on to page 4.

We delivered a robust quarter despite the unfavorable development of the supply situation and the related call off decline. Sales and profits were more or less flat. Margin remained robust and moved to 8.4% in the Q3. The nine month margin comparison shows still a 200 BPS improvement year over year. Earnings per share in the quarter included special items in both periods. Underlying operational EPS was EUR1.51, which represented only a 2.6% operational softening. The Q3 special effect in our EBIT and EPS is mainly related to a real estate project in Hamburg, which we do not report in our operating business. Please continue on page no. 5.

Car manufacturers have once again increased call off volatility during Q3 and we have seen a sudden decline in September. We were ready to deliver at any time and did not cause any production stops at our customers. According to current prevailing opinion this topic will continue for the next couple of months. We continue to monitor our supply chain very closely and have secured prices and volumes until the end of this year. However, some early indications suggest that the supply situation might at one point start to affect also military vehicles as well and here especially our logistical vehicles.

Due to our combined price escalation and hedging strategy for raw materials and energies, we are well protected in Q3 and for Q4 except for our China operations. The discussion with our Chinese customers has been very constructive and we are about to introduce a comparable scheme in China soon. Please move on to page no. 6.

Operating free cash flow decreased by EUR83m to minus EUR34m year over year. The two biggest elements in our Q3 operating free cash flow bridge were cash outs related to working capital increase and effects related to the restructuring in our continuing business that we had provisioned for last year. Our 9 months operating free cash flow improves by roughly EUR260m compared to last year and stands at minus EUR79m. Please turn to page no. 7.

We successfully renewed our syndicated loan of EUR500m until 2026 with two further extension options. This has a favorable effect on our maturity profile. Balance sheet and net financial position have further strengthened. Our equity ratio rose to 30.8% and the net financial position improved to minus EUR312m after minus EUR575m in the previous year. In order to avoid penalty interest payments, we have funded a strategic liquidity reserve of EUR77m during Q3 in a special investment fund. This position is held separately on the balance sheet “line item securities held for trade” and is not included in our net financial position. Please move on to page 8.

We are well aware that a lot of investors avoid defense stocks in general and not for their actual ESG performance. Over the last years, we have made great progress in aligning our ESG reporting with additional frameworks like the science-based targets initiative and have joined new initiatives like the UN Global Compact or the Carbon Disclosure Project.

As a reminder, from 2022 onwards the entire Management Team including the Board have an updated remuneration policy including sustainability criteria which is clearly a proof of how serious we are about the integration of ESG in our company culture. All in all, these efforts have resulted in quite good ratings by the respective agencies and we will continue to increase our efforts, because we are convinced that this is an important topic. Please continue on page no. 9.

Our business focus was selling equipment and related services to our Defence customers. Now, we have launched a completely new service business called Deployed Operations Support. This, by the way, follows the trend to outsource non-core activities to external providers. It represents a huge market of around EUR350bn per annum and will grow at 5% CAGR over the next decade. The German Bundeswehr is our launching customer in a strategic partnership and we have signed a framework contract in Q3. With this business we target new budget potentials that we have not tapped historically. And we are expecting sales of EUR50m to EUR75m in 2022 and 2023. Please proceed to page no. 10.

Now we are coming to various divisions. Vehicle Systems reported again a strong quarter. Order intake increased by 168% to now EUR483m in the third quarter. Major driver was an international order for our Fox vehicles. A slightly unfavorable FX effect of 0.8% and around EUR20m of sales for several projects that slipped in Q4 prevented a more positive development. The operating result remained on previous year's level and margin rose consequentially to 8.9%. Milestone payment of EUR116m related to the Australian truck contract L121 program were the main driver for the increase of the operating free cash flow. Please turn to page no. 11.

Our division Weapon and Ammunition performed pretty well. Order intake rose by one third to EUR324m and the expected Hungarian order however is now expected for Q4. Sales grew organically by around 3% to EUR228m and margin expanded to 11.2% on a favorable product mix with a high share of large caliber ammunition. This positive development was slightly held back by the fact that a delivery to the German army slipped also into the fourth quarter. The reduction of the division's operating free cash flow was predominantly impacted by the buildup of working capital also for sales in Q4. Now moving to page 12.

Electronic Solutions reported a strong order intake of EUR251m including Puma upgrade orders. Sales of EUR195m in Q3 compare to a very good previous year including Gladius deliveries to the German customer. A margin of 9.7% remains strong, but declined by 190 BPS compared to last year. Operating free cash flow declined to minus EUR48m. Q3 2020 included around EUR170m milestone payments for Gladius, already mentioned above, for the soldier system. Please turn now to page no. 13 for the details of the division Sensors and Actuators.

The in Q2 announced delayed projects were now finally received in Q3 and helped to increase the booked business to over EUR500m. The share of alternative powertrain products continued on a high level. Sensors and Actuators' sales were held back by the semi-conductor shortage, but achieved an impressive 18 points market outperformance in Q3. Sales declined organically by 1.3% to EUR310m. This is a disappointment, but we saw positive growth in July and August, but at the end of August call offs for September were canceled at very short notice due to the increased semi-conductor shortage in the automotive industry.

The ongoing semiconductor shortage limited the growth of the Light Vehicle production to only 10% in a 9 months view. Sensors and Actuators however outperformed the market by 10 percentage points and realized a cumulated growth at 20%. High demand especially for truck components in Asia continues to support our sales line. Operating results rose to EUR23m and margin recovered further to 7.6%. That is a plus of 90 BPS compared to last year. We continue to benefit from last year's introduction of cost saving measures and our reduced fixed cost situation. The late cancelations of OEM call offs was a main reason for the working capital increase. Please continue on page 14.

Our division Materials and Trade achieved a 39% increase of the booked business to now EUR188m predominantly driven by our Bearings business. Sales continued to develop very nicely and rose organically by almost 15% to EUR165m. Operating result was negatively affected by the lower contribution of the Chinese casting Joint Ventures, which accounted for EUR6m less than last year. Therefore, the operating margin dropped to 6.6%. Lower results in combination with additional inventories reduced the operating free cash flow to EUR5m. Please turn to page 15 now.

The good demand from one of our core customers in contrast to the general market and the continuing strong truck sale helped to limit our sales decline in China to only 1.6%, which in fact was very modest compared to the market contraction of around 17%. Our wholly owned entities even grew sales by EUR11m to EUR42m. But dramatic raw material price increases especially in the casting business continued to pressure results, since price escalation or comparable protection mechanisms especially for aluminum were not yet in place in Q3 in our

Chinese operations. But negotiations with customers were however constructive and we hope to solve this issue very soon.

Please join me now on page 16 for the presentation of our order backlog details in the divisions Weapon and Ammunitions, Vehicle Systems and Electronic Solutions.

I would like to draw your attention to the right hand side of the chart. Although backlog coverage for the Q4 sales has increased in absolute terms, the gap to our expected sales is slightly wider than last year. But we remain very confident to be able to close this gap during Q4. A comparison of the 9 months backlog for the following year clearly shows and indicates that we are coming to the point where the backlog transformation starts to accelerate. The order coverage in 2021 has increased by 33% to now EUR3.1bn compared to last year. Please move on to page 17.

The positive development of the booked business continues. We saw a clear acceleration of new contracts for alternative propulsion related products and other new businesses. Looking at the year to date figure, the share has now almost doubled from 12% to 23% and accounts for almost EUR0.5b. Please continue on page no. 18.

The semiconductor supply crisis continues to have a firm grip on the industry. The crisis actually caused us to update our 2021 sales growth guidance, because the effect in the second half of this year is bigger than we had originally expected in summer. While we thought to be able to meet the lower end of the original guidance, we have now come to the conclusion that based on the conversations we had made with our customers, sales growth will be more or less around 6% for the full year.

So far, the main impact for Rheinmetall resulted from OEM customers canceling call offs, but with the continuation of the effect, we might even see a spreading into other industries in 2022.

This brings me to my last slide, the presentation of the updated full year 2021 guidance on page no. 19.

The previous page provided the details why we had to reduce our sales growth assumptions to around 6%. We continued our strict cost management throughout 2021 and we see the favorable impact of the transformation of higher margin backlog in revenues, both effects allow us to raise our margin guidance to now around 10%.

Thank you for your interest and now the floor is open for your questions.

[0:18:32] Operator

Thank you very much. Ladies and gentlemen, if you would like to ask a question, please press nine and the star key on your telephone keypad. In case you wish to cancel your question, press nine and the star key again. Please press nine and the star key now to state your question. And the first questions are coming in. And the first question comes from Benjamin Heelan. Please go ahead.

[0:18:58] Benjamin Heelan

Yes. Thanks, guysfor taking my questions. I've got a few. Can you talk a little bit about how you're seeing the balance sheet and the potential for either M&A or buy-back? So from an M&A perspective, how are you seeing the pipeline? And from a buy-back perspective at what point do you say that the balance sheet is relatively under levered and there's probably some excess cash that could be returned? That would be the first question.

The second question on semis would be on the run rate into 2022. Obviously there was little impact in Q1 2021. Should we be assuming that the run rate stays at around a EUR40m headwind into the first quarter of next year?

And then a final question. You highlighted I think in your remarks supply chain constraints that may impact military vehicles. I was just wondering if you could expand on that a little bit. Thank you.

[0:19:57] Helmut Merch

Yes. So starting with your last question, I already said that we saw the first sign that we get also some pressure in our supply chain regarding semis for logistical vehicles. I think the truck producers also have made the same observation. We see little impact for the time being, but this impact could accelerate throughout H1, for instance. Because we have also the need to purchase in due time and as you know, in this respect the whole world is a little bit confused. Therefore, this is a first indication.

Regarding the run rate of impact of semi-conductors, I think to calculate with EUR40m is a good approach because nobody knows what will really happen and therefore I think this could be a good underlying assumption.

Coming to your first question regarding balance sheet, we indicated that we showed interest for some M&A targets. One which is near to be decided from the seller side is the simulation business from RUAG. Here we are still in a competition with other bidders and I guess that the final decision could take place before year's end. But the whole process is actually being a little bit delayed by the seller. On the other hand we are also looking for some smaller types of acquisition which could be a situation which we can report during the next couple of months.

Regarding the potential of share buybacks, I said during the Q2 call that we added share buyback to our capital allocation list and I cannot disclose the timing but it is a point of high interest of management.

[0:22:43] Benjamin Heelan

Okay, great. Thank you.

[0:22:45] Helmut Merch

Welcome.

[0:22:49] Operator

The next question comes from Sash Tusa. Please go ahead.

[0:22:56] Sash Tusa

Okay. Thank you very much indeed. Good afternoon.

[0:22:59] Helmut Merch

Good afternoon.

[0:23:00] Sash Tusa

I have a question about the pistons disposal. Clearly you're not disclosing any of the pistons results as a consequence of IFRS 5. But I wondered how long you think it is proper to go on having that business as discontinued effectively if you cannot find a seller? It seems to me to be very odd that you've got this element of value that is held by the Group but which you wouldn't necessarily account for. So how long can you go on accounting under IFRS 5 before you have to bring it back into the consolidation again?

[0:23:44] Helmut Merch

Yes. As long as we are looking for an ongoing process of selling the whole thing. We also could imagine that there is a sale in parts as long we are looking for this process and we are fully engaged in this process. So far, we can also apply IFRS 5 to the piston business. If we decided that there is no chance to get an investor for parts of the total business, then we would have the duty to take it back under full consolidation.

[0:24:40] Sash Tusa

Great. Thank you very much.

[0:24:41] Helmut Merch

Welcome.

[0:24:44] Operator

The next question comes from Joseph Ayoola. Please go ahead.

[0:24:50] Joseph Ayoola

Hello. Good afternoon and thanks for taking my questions. I just had a couple. One comes back to I guess cash and balance sheet where I think you had previously mentioned interest in the RUAG ammunition business on previous calls. But, I think in answer to the previous question you didn't mention it as one of the active situations you were looking at then. Was there any comment you could give about that? Whether there's any change in interest previously on that?

My second question was just on cash, where it's not particularly surprising that you've built some inventory in the third quarter given obviously supply constraints. I was wondering if there's any change to the full-year expectations on free cash flow? I'll leave it there. Thank you.

[0:25:37] Helmut Merch

So for the second question I got the content, but the first question the line was not as good. So therefore, after answering the second question I would appreciate that you can repeat your first question please, yes, Joseph?

[0:25:53] Joseph Ayoola

Yes. Yes.

[0:25:55] Helmut Merch

Yes. So free cash flow for total year in Q2, I indicated that our target is to generate a free cash flow ratio of around 4% this year. This is still our target. Also in February our CEO indicated our midterm guidance for the free cash flow ratio and this is a span or range of 3% to 5% and this is still a target in place for the upcoming years.

[0:26:37] Joseph Ayoola

Great. My question initially was on the RUAG ammunition business where you didn't mention that in response to the question on balance sheet.

[0:26:49] Helmut Merch

Okay. Now I got you. Yes, there is a process being started by RUAG to sell the ammo business and this has been started two weeks ago. Actually we are looking at this target but as I also mentioned in the last I think two calls, this business is – margin-wise clearly below our target and our aspirations. So we have to take a deeper dive, a deeper look into this target, whether we have a real chance to turn this business into the right direction. So I think double digit should be a real target. In case we will find out that this is not the case, that we have not the right levers to push this business into a region which is satisfying our needs and targets, then we will take a corresponding decision.

[0:28:08] Joseph Ayoola

Great, great. Would you mind if I squeezed another question in, coming back to the supply chain constraints you started seeing in the military business? Is there any color you can give on the nature of where you're seeing that? You know, whether it's raw mats, labor, components and so forth. You obviously have pulled out trucks as one area but is there anything else you're still seeing in that business?

[0:28:32] Helmut Merch

Yes. We also have pressure from the raw material side, the various materials like aluminum, steel and so on. But we are in the situation that we have also in our contract with customers price escalation clauses. Therefore we are – to a large extent we are protected. But what we cannot exclude is the timing. Being protected on the price side, we are not protected on the supply side. So in case we will see a worsening situation on delivery times from our sub-suppliers, then we also cannot exclude impacts on our ability to make deliveries. And this is an issue especially for the vehicles but also for electronic solutions.

It is not as much looking to our Weapon and Ammunition division but vehicle systems is especially exposed and also electronic solutions. So we have to monitor this situation very closely. So far we were lucky to manage it very properly but if we will not see a normalization throughout the next couple of quarters, then we will definitely have also possible impacts on deliveries. This we have to watch very closely and we will give you an update during our Q calls.

[0:30:39] Joseph Ayoola

Great. I appreciate the color. Thank you very much.

[0:30:42] Helmut Merch

Welcome.

[0:30:45] Operator

The next question comes from Christophe Laskawi. Please go ahead.

[0:30:51] Christoph Laskawi

Okay, thank you for taking my questions. The first one would be on the price escalation clauses and how they work from a timing standpoint. Can you do that on a quarterly basis or is there a certain lag, thinking about three to six months where we see the impact coming through? And with that is there a certain expectation that you would have a specific hit of raw mats in Q4 outside of the bit that you showed on China where you are more subject to spot? That's the first question, please.

[0:31:24] Helmut Merch

Yes. So price escalation clauses which we have especially in our automotive-related business have, as you mentioned, have a time lag of normally minimum three months, maximum six months. We will see some impact in Q4 but this is manageable, I would say. I explained very detailed the situation in China already in Q2 and now in Q3. We picked this special topic and started negotiation during Q3. So more or less up to 80% of our customers we have been through with our negotiations. We got acceptance for price escalation clauses and therefore we will see a hit in Q4 but I think from Q1 onwards, the situation should be more on a normal level.

[0:32:38] Christophe Laskawi

Thank you. For the defense business I guess it’s far easier to pass on the input cost inflation.

[0:32:44] Helmut Merch

Yes. That is a normal situation. I do not know every specific clause in every contract but normally we see an updated price escalation on a quarterly or half-year basis. Therefore we are – in this respect we are very good protected from the negative impact.

[0:33:14] Christophe Laskawi

Thank you. Just on the potential shortage of certain parts, be it on the electronics side or raw materials, etc. In case you really experienced a shortage in the supply chain, could you leverage your, say, political position in the sense that part of your business, there’s a certain political component to it to get a bit ahead of others when delivery resumes? Or would you just be one of the companies in line?

[0:33:44] Helmut Merch

No, no. This political leverage we cannot see actually. If we would, I think to put it another way, in case we would face a serious situation impacting the delivery schedule which the customer is not willing to accept, then we could use our position, for instance, in Australia. But also the political decision-makers cannot increase capacity. So this influence is, I think, very limited. The reason why we have seen up to now not the real impact in our defence business is that we are not using so many semi-conductors. So our (order) lots are pretty small and therefore up to now we were lucky to get the necessary number of semi-conductors.

But looking to more or less mass production in our automotive-related business, here we have a totally different story. Therefore I indicated at the first sign, that we have a great tension in the market regarding supply chain. Therefore we have to inform you that we now see also some risks, especially for the vehicle business getting semis in due volume and also in due time.

[0:35:33] Christoph Laskawi

Very clear. Thank you.

[0:35:35] Helmut Merch

Welcome.

[0:35:39] Operator

The next question comes from Christian Cohrs. Please go ahead.

[0:35:42] Christian Cohrs

Yes, hello. Good afternoon. Thank you for taking my questions. Actually, coming back to China, besides higher raw material prices many regions also suffer actually from electricity rationing. So is that also something, which you experienced on your side? Is this going to have an adverse impact on your future results?

Question number two relates to the pistons business. Can you maybe work out or elaborate what is actually your Plan B now, after you mentioned that negotiations have not been successful? Should we expect sooner or later more impairments on the pistons business or is it already entirely written off?

Then on cash out restructuring, just for clarification, I assume that this is done by now? Or is there more cash out for last year's restructuring still to come in the quarter, perhaps?

Lastly, can you update us, Australia, the potential contract for the Lynx? What is the timeline there? Do you have any gut feeling, how is this going to work out and develop? Thank you.

[0:37:08] Helmut Merch

Okay, thank you, Mr. Cohrs, for your questions. So the first answer regarding pistons, no the asset is not completely written off. We have a residual value of around EUR100m in the balance sheet.

Plan B, I'm not in the position to disclose our Plan B, but I think what we are looking for, we have a responsibility for our employees. We want to transfer the business and the employees into solid hands. Therefore, the actual situation around automotive market has clearly burdened the whole situation, the whole process.

But as I already mentioned, we as management are clearly determined to go further with the process. In case we cannot sell the business in total, Plan B could be a sale in parts, and this has to be elaborated. Therefore, there is always a Plan B and also a Plan C and therefore we are following these plans. Therefore, I said during the upcoming months we will inform the market of how and when we are going to proceed with the process.

Coming to Australia, as I already mentioned also during Q2, the trials are more or less finished. Now the evaluation phase has started and I would not exclude that we could get first information of who could be the winner of this competition before year's end. But as also mentioned by me, a final signing, final negotiation will not be done before mid of next year.

China, raw materials and electricity: Yes, we have besides the semi-conductor shortage, we have a power shortage, more or less ring-fenced in China. We have experienced this power shortage but very limited up to now, only three to four days so the impact on sales and also EBIT is up to now limited.

As you know, the Chinese government has already taken action to cope with the situation and therefore personally we got the impression that this should not lead to a further escalation. But nobody knows.

Then regarding cash out restructuring, here we have seen the first payments during this year but we will see also some cash out in a small amount during next year. But then the issue should be cleaned and ended.

[0:41:06] Christian Cohrs

Thank you very much.

[0:41:08] Helmut Merch

Welcome.

[0:41:12] Operator

At the moment there seem to be no further questions. If you would like to state another question please press 9 and the star key on your telephone now. We have a question from Benjamin Heelan. Please go ahead.

[0:41:36] Benjamin Heelan

Hi, guys. Yes, thanks for the follow-up. So I just wanted to come back to some of those points on the supply chain and the pricing into next year. So it sounds like you are confident that the pricing mechanisms are going to kick in. Is there any areas of your raw material consumption that you don't feel is well covered into 2022 and you need to go out and do hedging for? I'm just keen to understand it. Are there any areas that you see as kind of open exposure or risk as we move into 2022? Thank you.

[0:42:07] Helmut Merch

Thank you for the question. In the last couple of years, more or less 70% to 80% of our raw material prices or volumes are covered by material escalation clauses with our customers. The rest, up to 20% or 30%, here we have implemented years ago a very comprehensive hedging mechanism. Therefore we are more or less, if I look to our raw materials like aluminum, zinc, copper and so on, we are more or less hedged to 80% or 90% of the rest of the volume we need.

We have this hedging mechanism on a rolling forward three years' average. Therefore this year or Q4 is completely hedged. Next year is more or less hedged for 80% or 90% and we also have a very good share of hedging for 2023 and also 2024 in place.

[0:43:34] Benjamin Heelan

Okay. Very clear, thank you.

[0:43:37] Helmut Merch

Welcome.

[0:43:41] Operator

The last question comes from Richard Schramm. Please go ahead.

[0:43:46] Richard Schramm

Yes, good afternoon, Mr. Merch.

[0:43:49] Helmut Merch

Good afternoon.

[0:43:49] Richard Schramm

I wonder if I may, one concerning this service business you mentioned here. So I did not understand how this really will be developed. Is it a new legal entity that is drawing together the service activities on the three defence divisions? Or is it a kind of, let's say, more virtual service unit you have, and the activities will be sticking to the related divisions here? In that connection you mentioned that you expect EUR50m to EUR75m. Is this sales volume from new contracts? That was correct, I understood?

[0:44:39] Helmut Merch

Yes.

[0:44:39] Richard Schramm

This will be only for the two years you mentioned? Or will this be longer term?

[0:44:43] Helmut Merch

For each year. So we actually expect a volume of EUR50m to EUR75m for each year. So this could also accelerate. So first we have established a new single entity, especially for this purpose. It's not combining the existing service products out of the three defence divisions. It is a new business, completely new. It is to be partner of the Deutsche Bundeswehr but also for other foreign armies to help them to deploy camps and to service camps and so on.

So this is a complete new business unit and as I already mentioned, the market volume is already EUR350bn per annum. Therefore to start with EUR50m or EUR70m, EUR80m is a small start but can be a very good business for the next decade. Therefore we access a completely new budget within the Bundeswehr and also in other nations and therefore it is so interesting for the future development. So new business, new entity, new potential, new budget!

[0:46:23] Richard Schramm

And in which segment will this be then located, this new entity?

[0:46:29] Helmut Merch

This is already founded, the entity. We are just hiring the staff and we are also working with a lot of sub- suppliers. We are acting more or less as a prime and we are giving tasks and services to sub-suppliers. But we are the face to the customer and therefore we take full responsibility and we are leveraging our good brand name throughout the armies of the world. But, by the way, probably this could also be part of the answer, this business will be part of the division Weapon and Ammunition but will be a single and seperate business unit.

[0:47:30] Richard Schramm

Okay. Thank you, very clear. Then just a clarification. This result from discontinued operations that we see in the P&L, that's more or less the pistons result, is it?

[0:47:49] Helmut Merch

Yes.

[0:47:50] Richard Schramm

Therefore we have seen that there was a clear improvement in Q3. So looking forward, can we expect that there is further potential for keeping the business positive in the coming quarters?

[0:48:06] Helmut Merch

Yes. Yes, that is our clear target, because it is also essential assumption for a successful sale. As you know, we have made a lot of provision for restructuring last year. The main part of the restructuring provision was dedicated to Pistons. The lower part was dedicated to Sensors and Actuators and materials in trade. And we see good progress in restructuring, especially in our US American plant. We are shifting capacity to Mexico. So therefore, we will fill our Mexican plant.

We will see also a good potential of more economies of scale and all the other necessary actions we have initiated are also in a very good shape. For instance, the large bore piston business is already in a very good shape and therefore also here I must say, despite the very bad environment in the automotive industry, we saw an improvement also in this business. I think there will be further progress next year due to the fact that the market situation will and must recover. That is my opinion. And therefore we will see also positive impact on the piston business and this should also be helpful to finalize our ongoing disposal process.

[0:50:04] Richard Schramm

Okay. Thank you very much.

[0:50:10] Operator

Ladies and gentlemen, if you would like to state another question, please press 9 and the star key on your telephone now. We will just wait a couple of seconds. All right, so at the moment there seem to be no further questions. So let me hand back over to Mr. Merch for some closing remarks.

[0:50:37] Helmut Merch

Thank you. So thank you, guys, for taking part in our Q3 call. I hope that every question has been answered and I hope that we will see us in person during next year. In early March we will have our Q4 call and the presentation of the full year's results. Until then, I hope that you will be in a good, healthy state and have a good day and nice weekend. Bye-bye.