Rheinmetall AG
Investor Relations
Conference Call Q1 2020
Transcript

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Rheinmetall **AG Conference Call**

00:00:01 Operator

Good afternoon, ladies and gentlemen and welcome to the Rheinmetall AG conference call regarding the Q1 results 2020. 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.

[0:00:23] Helmut Merch

Thank you for the introduction. Ladies and Gentlemen, before I start the call, I would like to welcome you all and hope that you and your families, friends and colleagues have managed to stay safe and healthy in these times. After I have presented our Q1 2020 results to you, the floor will be open for you to ask your questions. As a reminder, please take note of our legal disclaimer on the following page. And now let's begin on page no. 3.

I would like to start with an update on how Rheinmetall is coping with the current situation. It is very important for us to protect our employees on the shop floors and offices around the globe. We have learnt from our Chinese colleagues how to deal with the situation and started to monitor the health status of our employees and our supply chains very early. A daily reporting system is keeping us up to date. From a peak of 24 infected employees on March 31, this number has come down now to only 6 people on a worldwide basis.

We are trying to support our communities where ever possible, for example with disinfectants from our own production in South Africa and Germany, but as well by leveraging our network for the procurement of urgently needed protective equipment, for example with protective masks for the German army. Especially in Automotive, we are in close contact with our customers to accompany them on their way to revitalize their production. Please join me now on page 4.

Our production set up was and in some parts still is affected by governmental lock down in a number of countries, starting in China, which is already back to normal by now. To a lesser extent quarantines forced us to reduce capacities and only in one case because of our supply chain issue. Our Vienna truck plant had to switch to short-time, because our local partner discontinued the production of chassis.

As you can see from the data above on page no. 4, compared to the end of Q1, the situation has already returned to normal in China. However, the production status in Europe and the Americas is now significantly more affected. Especially Automotive reports at the end of April 15 plants with reduced output and 12 plants in lockdown. Please turn to page number 5.

Commercially, we noticed already a decline of our Automotive sales in the first quarter, but still did significantly better than the global Light Vehicle benchmark which declined almost by 23%. Excluding Chinese LV production for a better comparison with our consolidated regional sales mix, we outperformed the market slightly and only reported a sales decline of roughly 14%. Since we already know that Europe and the USMCA region is worse affected in Q2, we currently forecast a much bigger impact on our performance.

The Defence business delivered an excellent start to the year, even outperforming 2019. Sales rose 18% and order intake showed no sign of weakness. The various limitations regarding our export business are still in place or have been extended until year’s end in the case of German exports to Saudi Arabia. Please turn now to page no. 6.

Rheinmetall immediately took action to manage cost and cash to prepare for the obvious. Temporary workers in Automotive have been reduced by 50% on a year-to-year comparison and our permanent staff declined by 3% compared to last year, no fluctuation was replaced due to the current hiring freeze. Especially in Europe, we are participating in short-time work regimes, while in other countries, for example the US, workers are on temporary leave. Basically all non-essential spending has been halted. Additionally, all cash spending is under tight control, each and every project needs board approval. As of today, our receivables are fully recoverable and we observe no delays in customer payments. Please follow me now to page no. 7.

Order intake and order backlog further improved and benefited from the good demand in Defence. Sales were stable because Defence compensated for the decline in Auto. Defence reported a material improvement of the operating result, but was not able to fully compensate for the decline in Automotive.

Accordingly earnings per share followed that decline and had an additional effect from minorities. Operating free cash flow declined. This was partially attributable to the CTA funding of €42m versus zero in Q1 2019. Please follow me now to page no. 8.

Group sales were operationally stable year on year. This increase of EUR16m was basically related to our M&A activities for Defence in Q3 2019. The operating result was impacted by the increased pressure on our Automotive business and declined operationally by EUR22m to EUR34m resulting in an operating margin of 2.5%. FX and M&A played only a minor role.

Earnings per share dropped by almost 60% predominantly on the back of the lower results and higher minorities that were triggered by the good results of our truck Joint Venture with MAN. Please turn now to page no. 9 for the cash flow details.

The operating free cash flow declined by EUR60m to EUR188m. Lower earnings were partially offset by D&A. Major swings resulted from the CTA funding of EUR42m and the business related increase of working capital in Defence. The position “others” included an increase in short-term provisions and a lower decrease of other liabilities. While Automotive had already started the disciplined capex spending in Q1 with a reduction of 35%, the Defence business continued with the planned capacity expansions. Now moving on to page 10.

Our Balance sheet remains rock solid, the equity ratio stays above 30% and our liquidity disposes of around EUR700m of cash and undrawn credit lines of EUR900m per quarter end. We have no maturities for 2020 and 90% of our debt is long-term. We currently do not anticipate any issues regarding the access to the debt market. Moving on to page no. 11.

Auto-market weakness continued in Q1 and even accelerated due to the beginning effect of the COVID-19 pandemic. Automotive reported a sales decline of 13.5% slightly below the decline in relevant markets, which accounted for 14.7%. For the purpose of a better comparison, we excluded China LV data and only refer to global LV production adjusted for Chinese production volumes in order to better match our regional sales split. The unadjusted decline in global Light Vehicle production however, accounted for minus 23%.

The first quarter had an operating leverage of 40.6%, adjusted for the negative swing of the at-equity contribution, the operating leverage was around 34%. Most importantly, the result of the first quarter was still positive, although already significantly impacted. Already mentioned cost saving measures were effective. Disciplined cash management helped the operating free cash flow development. The reported EUR49m operating free cash flow included a contribution to the CTA of EUR30m for Auto. On a like for like basis, operating free cash flow has even improved by EUR57m to minus EUR19m. Please turn now to page no. 12.

Mechatronics´ sales declined 13% to EUR348m in Q1. Corresponding results went down by 71% to EUR9m, causing the operating margin to drop to 2.7%. In addition to the weak market and demand, net negative ramp-up impacted the quarter with around EUR10m.

Hardparts reported a sales reduction of 16% to EUR210m. Slow sales in small bore and large bore pistons burdened the quarter, especially in Europe. Operating result was additionally impacted by the lower at-equity contribution of our JVs which declined from positive EUR5m to minus EUR1m. Aftermarket demonstrated some resilience and reported almost stable sales. Results were affected by the first time consolidation of our Amprio e-bike activities with a negative effect of EUR-1.5m and reported in total EUR4m, translating into an operating margin of roughly 5%. Join me now for the presentation of sales split on page 13.

Q1 reported a strong decline in Light Vehicle sales of almost -12% which is still better than the global LV production decline of minus 23% and was predominantly caused by lower Diesel sales due to ramp-down and the discontinuation of customer specific engine platforms which have already started in Q1 2019.

Sales in our Non-LV business slowed down even more, led by a decline in large bore pistons of roughly 30% and in trucks of 24.6%. Large bore pistons experienced a general demand slow down and our trucks business saw a combination of slow demand and some ramp-downs at some customers.

On page 14, we compare the regional IHS LV production data on the left side in grey with our corresponding consolidated sales on the right side in blue. In order to better match our regional sales split, we have added a comparison without Chinese LV production volumes in the global figure.

Automotive sales growth was globally slightly better than the adjusted LV production growth, resulting in an outperformance of 2%. The regional difference can be explained by the ramp-up schedule for different products with different platforms. While Germany reported ramp-downs for some LV and truck products, Eastern Europe benefited from low comparables. The region USMCA benefited from ramp-ups including the electric vapor pump for a leading US customer. Aftermarket performance was particularly strong in Europe and USMCA, the latter reporting a double digit growth. While consolidated sales to China were only slightly better than the IHS benchmark, slide 15 provides more detail situation on our Chinese activities:

Although impacted strongly by a sales decline of 34% to EUR165m, our Chinese activities performed much better than the overall Chinese market, which collapsed in the first quarter by 47%. Following Chinese New year, the governmental lockdown order due to Corona brought production to a complete standstill until late March. Fortunately, none of our employees were infected with the Covid-19 virus and we were able to resume production to almost normal levels in the meantime. Results declined materially from EUR14m to minus EUR5m. We were able to avoid an even stronger decline by introducing cost saving measures. Please move now to page no. 16.

When we compare the monthly sales development in China and our consolidated Automotive sales in the first quarter, we observe that the recovery in China already started during March and has now improved to almost normal output levels at the beginning of May. The decline in the rest of the world has only started at the end of March and is expected to accelerate further in Q2. For example Mexico has ordered a lockdown of all non-system relevant production until the end of May. Europe reports the gradual restart of production, for example Ford only started the Cologne operations this week on Monday.

On page no. 17 you find the expected regional production development according to the latest IHS information. According to IHS data, the Q2 impact is obviously expected to be much worse for Automotive than in Q1. With most of the plant closures scheduled for April and May in Europe, the USA and Mexico, the region that accounts for around 80% of our consolidated sales will receive the main hit in the second quarter. Since March, the dynamic of the crisis has significantly accelerated. Please turn now to page no. 18 to our defence business.

Defence delivered a strong performance in the first quarter. Order intake grew by almost 30% to EUR730m, sales increased by almost 18% to EUR740m and results tripled from 9 to EUR29m. Around EUR25m of sales increase were contributed from last year’s M&A activities. The operating free cash slid from -93 to -EUR152m reflecting the increased level of activities in the working capital development and in the increase of capex. Let’s turn now to the page 19 for divisional details.

Weapon and Ammunition Q1 sales declined by 7% to EUR166m. The business is still held back by export restrictions mainly in Italy and South Africa. Electronic Solutions grew sales by 4% to EUR174m. Here, deliveries for VJTF in Germany and Land 400 supported this growth. Vehicle Systems reported another strong sales increase of 35% to EUR446m. Again both, the tactical and the logistical business i.e. trucks contributed. The high quality business mix drove results from EUR12m last year to now EUR36m.

On page no. 20, you find the order intake and back log details. Orders from international customers for artillery propelling charges and an air defence system drove order intake in Q1. Compared to last year, the increase accounted for almost 30%. The order backlog remains double digit at EUR10b, but currency devaluations, especially for the South African rand and the Australian dollar had a negative effect of EUR358m, means a translation effect. We are confident with the order backlog development for 2020 and see us on a good trajectory to reach our growth target.

Please move now on to page no. 21. A lot of discussion has already evolved around the resilience and the potential direction in which defence budgets might develop, for example whether they should be kept up or increased to foster fiscal demand. Another side of the discussion is whether a focus on public health spending could have an adverse effect on defense spending.

As of today, we can provide you with the following status of our main customers: Germany is continuing in its endeavor to launch all EUR25m proposals for 2020. In fact, we observe high readiness to push the projects. Internationally, we saw quite some positive signals. The prime minister of the Czech Republic announced a decision to be made on the Infantry Fighting Vehicle program in H2 2020. A second East European contract is in the final stages and Australia took the next step in the Land 400 phase III project by turning the roadshow for the industrial participation all virtual. Furthermore, the US announced a restart of the Bradley replacement project with a development budget of around USD300m, but this will only start in 2023. The decision for the Challenger LEP is scheduled for Q4 2020, but the risk is still there for a slippage to 2021.

However, some countries have started to discuss defense budgets and we cannot rule out that some countries will have to change their priorities. Although this risk for lower spending exists, the original drivers behind the defense activities did not go away with the corona crisis. Threats have not changed and for example the VJTF commitments from Germany and all other countries are still in place. We are still confident therefore that our relevant projects will be executed as planned.

Now moving to page no. 22. We kindly ask for your understanding that we are currently not in the position to provide a full 2020 guidance for both segments and consequently, the Rheinmetall Group. However, management would like to provide best possible orientation for the business development as currently anticipated and therefore has decided to provide a trading update for the second quarter and additionally a FY 2020 guidance for Defence.

Please find the trading update and the Defence Guidance on page 23. Our expectation for Q2 in Automotive is in line more or less with IHS data and backed by our own assessment. Sales are anticipated to decline significantly, in a range of 50 to 55%. Additionally, we anticipate an operating leverage between 35 to 40%. For Defence, we expect a high single digit sales growth in Q2 with an operating margin of around 9%. For the full year 2020 we guide for a sales growth of between 5-7% and an operating margin of 9-10%. Therefore confirming our guidance of March this year. Of course, this guidance implies that there will be no second wave in corona pandemic and business assumptions do not change materially.

With these comments, I would like to thank you for your attention and open up the floor for your questions please. [0:23:02]

Operator

Ladies and gentlemen, if you would like to ask a question, please press nine and star on your telephone keypad. Please press nine and star if you like to ask a question. And the first question comes from Mr. Sven Weier.

[0:23:24] Sven Weier

Yes, good afternoon Mr. Merch. Thanks for taking my questions. The first one is regarding Defence and thanks for the detailed presentation also on the big projects and how do you see them progressing from here. I'm a bit more curious of what you see happening, let's say, on the mid-sized one which would probably have a shorter lead time. Because I saw your backlog for delivery next year is up like EUR150m for 2021. I was just wondering in terms of the mid-sized projects you see in the project tunnel, if they would be kind of wanting that volume further up or maybe or maybe just a general evaluation of the mid-sized projects. That's number one.

[0:24:08] Mr. Merch

Yes, thank you for the question. So I give you some flavor for order intake in Q2. For Q2 we actually do not expect a big ticket order. Here Q2 will be more or less done with small or medium sized orders, despite this we expect a growth on our order intake line at minimum 10% ahead of last year so actually we expect 550 up to 600m in Q2. So the big ticket orders we expect - and this is more or less the same situation last year - in H2.

[0:24:54] Sven Weier

And basically the range you provide the capital market in terms of 6 to 8% topline growth for the medium term. I mean in terms of the order funnel you see that it's basically supporting that range also for 2021 so far.

[0:25:11] Helmut Merch:

Yes, for the time being yes, firstly we have to concentrate on delivering in 2020 but for the time being I also would confirm the growth range for 2021.

[0:25:32] Sven Weier

Thank you. The second question is on what you mentioned supply chain on the year truck side and MAN which I guess has probably caused a little bit of less revenues for you already. I was just wondering what you kindly see from them, ramping up again, I mean is it coming in time for you to have no disadvantages further or could that still make a bit of difference on your full year target?

[0:25:58] Helmut Merch:

We had a more or less complete standstill for three, three and a half weeks in Vienna but now our procedures and plans for the revitalization and ramping up the production again are fully in place so actually we are very confident to catch up the delays in H2 so this should be despite - and this I have to admit it - despite a possible second wave hopefully it will not come but actually everything is in place to catch up in H2 so no impact on the topline from the trucks.

[0:26:46] Sven Weier

And my last question is around Automotive. And the contribution margin guidance UK for the business. I was curious. Is it basically also assuming already a positive impact this time around from the JV without in China? Are you modeling this neutrally in the 35 to 40%?

[0:27:08] Helmut Merch:

No. The leverage is including also JV effects, but for the time being, I do not want to differentiate these effects comparable to Q1. There I said 34 to roughly 41. I guess that we will see a positive situation starting in May, but it's too early to give specific guidance on this item.

[0:27:39] Sven Weier

And if we assume that maybe in Q3, this rate of decline hopefully comes down, which is still ... would you then see a lower operating leverage, because I could imagine that with this kind of sharp drop in the revenues, the leverage is a bit greater than usual or does it not really make a difference.

[0:27:57] Helmut Merch:

I think we actually do not expect and now I exclude the Chinese impact from the equity results. I actually do not see that we will face a lower operating leverage compared to 35-36%.

[0:28:18] Sven Weier

And then just the housekeeping on the auto margin, because I saw that if I saw it correctly, there wasn't kind of a special write down in Automotive of EUR4m, which I guess you have not adjusted in the EBIT in the 10 million. Is that correct?

[0:28:34] Helmut Merch:

No, that is not adjusted. That is a write off in one of our German plants on machinery equipment, but not here adjusted.

[0:28:48] Sven Weier

And the pedelec cost you include in the aftermarket, because I thought your other lines basically now zero. That I was sort of wondering if that's kind of sustainable.

[0:28:58] Helmut Merch:

Yes. This is what we tried to explain last year. We moved the activities for pedelec or e-bike moved from central now to Aftermarket, Aftermarket takes over the responsibility for the last designs and for the expected ramp up in production mid of 2021.

[0:29:27] Sven Weier

Because I thought the one and a half million pedelec was a bit below what you guided for which I guess was more around €10m

[0:29:33] Helmut Merch:

Also here we have a softer ramp up. I think we will see some acceleration in the next quarters.

[0:29:42] Sven Weier

Okay. Thank you, Mr. Merch.

[0:29:44] Helmut Merch:

Thank you for your question, Mr. Weier.

[0:29:47] Operator:

And the next question comes from Mr.Sebastian Growe.

[0:29:52] Sebastian Growe:

Yes, good afternoon. Hi, Mr. Merch. Thanks for taking my question. That's first one is on Defence. And it's more on the margins. And before the margins come into play, there is an order backlog obviously, and we have seen a tremendously positive development around the Vehicle Systems business. So the question that I do have when looking at the rolling twelve months then we already have now a 10 percent margin in Defence. And I do appreciate that this I think a function of potentially lower contributions from weapon ammunition this year on the export ruling, can you just walk us through the bits and pieces for this 9 to 10% margin guidance, i.e. what do you expect for the full year at Weapon and Ammunition as the contribution after 6% decline in the first quarter. And can you just talk around the order backlog quality, particularly for Vehicle Systems? And the other question would then be on Automotive, but maybe we start with Defence first.

[0:30:49] Helmut Merch:

Yes. So as you know, it's always the same pattern, Mr. Growe, weapon ammunition shows a weak start and will show a good acceleration through the next couple of quarters. So already in Q2, you will see a better performance in weapon ammunition and this will be also accelerated in H2. So this year we expect growth on top line and also growth on bottom line from Weapon and Ammunition. And looking to the Vehicle Systems division here, I think the first thing we have to mention and this is a running gag in the last couple of years now you see the legacy projects are on their way out. And here we are benefiting from better sales mix. And we have these results despite that we see the first impact in Vienna in the last week of March. We see a strong and excellent execution, no quality issues, no execution issues and this is reflected in the operating margin. And I hear your bullish tone regarding defence margin, but I think we still are very happy to confirm our range of 9 to 10%. In case we see a following Q3 and Q2 quarter compared to Q1, I think we will do our utmost to compensate negative impacts from auto. But I think for the time being, we should stick to the guidance of 9 to 10% for Defence margin.

[0:32:51] Sebastian Growe:

Yes, that just makes sense and is a good running gag, indeed. We can eventually then shift to Automotive. And here the question is around potential rightsizing measures. Given that you should experience about a 20 percent contraction eventually in volume as per LMC just forecast to name them, we already have a 5 percent decline organically in fiscal 19. And I did see in your own director remarks on slide 6 that you have reduced the temps by 50%. You have reduced the permanent workers by 3. But given that there is no very, very short time recovery ahead us of things today, are you prepared to take some more action here?

[0:33:31] Helmut Merch:

Yes, it's a very fair and also important question. I think even in the light of the expectation for Q2 and nobody knows what is really happening in Q3, we are taking actually our eyes on various operational sites in Germany but also outside and we will have a deep analyses what is necessary looking also, for instance, in 2021, because here also the expectations are not really specific or concrete. Some participants are expecting growth again. I think we will not expect a further decline, but we will see lower levels. And this is also the crystallization point for us to look at some specific operation side. Therefore, I will not exclude that there will be more to come in the following quarters regarding deeper restructuring.

[0:34:56] Sebastian Growe:

Okay, that makes sense. And the very last one, I'm sorry, just very briefly, most an housekeeping item. But for the consolidation aspect, about EUR20m that you had on the quarter can you just give us a sense of what the full year impact will be, like times four or would be fair?

[0:35:14] Helmut Merch

Consolidation impact in what ... Do you have an info?

[0:35:20] Sebastian Growe

Sorry, it was on slide 8 you have singled out the 25m from M&A for the topline contribution from what your did inquarter three 2019?

[0:35:28] Helmut Merch

Oh, okay. So, as you know we have included M&A from the 3rd quarter last year so, therefore we expect for Q2 this year another roughly 20m, so the total impact will be around 45-50m on the sales in Defence.

[0:35:56] Sebastian Growe

Alright, that is helpful. Thank you.

[0:35:57] Helmut Merch

Yes? Okay. Thank you for your question, Mr. Growe.

[0:36:04] Operator

And the next question comes from Mr. Alexander Hauenstein.

[0:36:10] Alexander Hauenstein

Hello everyone, it's Alexander Hauenstein from DZ Bank.

[0:36:13] Helmut Merch

Hello.

[0:36:14] Alexander Hauenstein

Hello. I also have a couple of questions. Maybe I'll also start coming back to Automotive. Obviously, it is difficult to say for how long this auto thing and the difficult environment will continue, but in a base case what are your assumptions as we speak? I mean, it seems like when I look at the things you said today and what you revealed in terms of the operating leverage, feels like Q3 will probably also be on a loss number and maybe even Q4 in slight one. But maybe could you give us some of the points here where we should look at and you mentioned that you mentioned that you are currently monitoring the situation. So, what are the critical points here what we should look for in order to get a better feeling over time?

[0:37:05] Helmut Merch

Yes, I think what you are aware of or must be aware of is our regional sales split. This was in our favor in Q1 but this will be a burden in Q2, but I'll give you some numbers. If you look at our consolidated China sales in 2019, this was around 5% of our total sales. In Q1 it was only 3%, therefore we benefitted in Q1 because our direct exposure to China was very small. But you saw our exposure in our 50-50 JVs. If we now look at Q2, here we made roughly 80% of our total sales in Europe and USMCA. There we will experience a significant hit and I only want to refer to IHS data. Actually, we expect a decline of 50 up to 55%. The expectations of IHS for the decline in Western Europe is -64, in USMCA it is -70%, in India -78, in Brazil -81, in China -11. So, despite a severe decline of 50-55% we are still better than the expectations for the volume development in our major regions. So, I think this has to be carefully watched and I beg for your understanding, I have no clue about the development in Q3. The expectations of IHS data is around -8 or -9 compared to last year. The same applies to Q4. And now, jumping back to Q1 and referring directly to your question. In case IHS is moving only by 8%, then I think we will not move by 20%. Our orientation is actually, overall, IHS data and with a minus 13% in Q1 we were able to manage a positive EBIT and this should also be applicable to Q3 and Q4 but I think it is too early to speculate about the volume development. [0:40:44]

[0:39:53] Alexander Hauenstein

Yes, absolutely, but still that was quite a bit helpful. Moving on to Defence, and looking also here at the sequential development, I appreciate that you gave also quite a clear statement with regard Q2 I think. My question is a bit, what could be the level after that and the question would also be, is there any kind of special situation which we should think about in Q2 leading to kind of an extraordinarily strong Q2, or is it probably likely that the sequential development will be as always. Meaning that Q3 is potentially a bit up compared to Q2 or at least at the same level. Or is there anything special we should look at and keep in mind?

[0:40:44] Helmut Merch

Yes, I think that the forward guidance for our Q2 in Defence, I think gives you a flavor that this will be the best Q2 ever seen. And last year we showed an operating margin of around 8% in Q2, now we are guiding for around 9%, supported by high single-digit growth. So, I said the other day that now the machine in Defence is running at full speed and I think we guided for a growth in 2020 of between 5-7%, so we had a good start in Q1, Q2, that in total will show a good H1. But then we should expect lower growth rates in H2, compared to last year, otherwise our guidance would not be in the right scheme. So, therefore, to put it in a nutshell, H1 in 2020 is clearly better than H1 2019. We will see a better H2 that is clear to reach guidance, but the growth acceleration will not be the case. We will see lower growth rates in comparison to H2-2019.

[0:42:22] Alexander Hauenstein

Okay, thank you. And lastly, maybe you can give us an update on the several export bans, whether anything is moving and whether there is any silverlining at the horizon.

[0:42:34] Helmut Merch

Yes. So, first thing, in Germany, I already mentioned that the extension of the German export ban to Saudi Arabia is still in place and now is being extended until end of March 2021. So, a complete standstill. The export ban from Italy to Saudi Arabia will hopefully end – and this was the last and official announcement - at the end of 2020. And actually, the thing is moving in South Africa. Here, we got some first promising signals from the government that during H2 we should see some relief and we hope that during that during Q3 and at the latest during Q4 we can ship first orders to the different countries.

[0:43:47] Alexander Hauenstein

Okay, thank you.

[0:44:10] Operator

Then the next one is Mr Joseph Ayoola.

[0:44:19] Joseph Ayoola

Hello. Thank you for taking my question. It's Joseph Ayoola from Morgan Stanley I've just got a couple of questions please. Maybe just going back to the growth guidance so indications given around the 2nd half year in Defence. Is there any reason why the Defence growth should be slowing, just sort of squaring with your commentary around some relief in South Africa. And my second questions was just about some discussions you were having with customers on some sort of larger tenders. Especially on the truck side but also maybe you're give an update on Hungary and Australia.

[0:44:20] Joseph Ayoola:

But also maybe could you give an update, please, on Hungary and Australia in terms of Lynx tenders there, please?

[0:45:01] Mr. Merch:

Please repeat the last question. I did not catch it all.

[0:45:07] Joseph Ayoola:

Yes, I was just asking for an update in terms of discussions you're having with customers, particularly on the Czech, Australian and Hungarian Lynx tenders at the moment?

[0:45:18] Mr. Merch:

Okay, yes. I put the last question and – or I take it – I tried to give some flavor in my statement, and you see it on page number 21. For the time being there is still the announcement of the Czech Prime Minister that there is a wish or a willingness to finally decide in H2 2020 That is our latest news. But nevertheless this could also slip into 2021. But I do not know anything better and more to what I tried to explain.

And the second thing, here we are in the last phase of negotiation and here also last news is that during H2 there will be a final signing and so we are looking for a corresponding order intake in H2 2020.

And regarding growth in H2, I would remind you that we had strong order execution in H2 2019 for our Land 121 project and also for Puma deliveries. These deliveries will not occur twice and looking to our order backlog, we have fixed and firm time schedules for deliveries. We still have to acquire roughly EUR500m of new order intake to reach our mid-point of topline growth, I mean 6%. So there is still some way to go. And I think this is the basic reasons for seeing not the high growth in H2 compared to expected growth rate in H1.

[0:47:53] Joseph Ayoola:

Okay, great, then. That's very clear, thank you.

[0:47:55] Mr. Merch:

Welcome.

00:47:58 Operator

The next question comes from Mr. Christoph Laskawi.

[0:48:06] Christoph Laskawi

Hi, Christoph Laskawi, Deutsche Bank. Thank you for taking my question. Actually only a couple left, on Autos. The first one will be, I guess you've taken a short time working measures in Germany and other European countries. Could you just give us a rough indication how much staff was in short-time work or is still in short-time work? And if you pay up above the government level that is paid?

[0:48:24] Mr. Merch:

Yes. So that is a very mixed picture. Actually I have no global figures, but again, give you a flavor for the German situation. In April there were – end of April there were 4500 people in short-time work. We actually are not paying more than the governmental situation so we will have no overpayment. It's a completely different situation, for instance, in one of our largest plants in Mexico. Here we had a complete governmental shutdown. We have sent all the people home and we have to pay them full by 100%.

A different situation in Italy. Here we have a more or less same situation comparable to Germany, but the payment from the government is a little bit higher. You know the 60% and 67% in Germany; in Italy it's up to 80% and more or less the same situation in France.

In the US it is completely different here with most of the workers are on a temporary leave and our payments have been more or less reduced. Different we see the situation in India. So ever country has more or less different procedures and regimes in place but this is for the time being the actual situation.

[0:50:10] Christoph Laskawi

Thank you. The second question on the ramp-up in Mechatronics that you saw a negative impact on EBIT from. Could you give us an indication on the phasing? Is it more or less expected to ease the drag on EBIT in the coming quarters in Q3/Q4, it should be less than EUR10m, that you said? Or can you not really say at this point in time given the volume uncertainty?

[0:50:36] Mr. Merch:

Yes, so actually we had seen this negative net effect in Q1. Originally we had planned a positive net effect regarding ramp-up and ramp-down, but due to the crisis we must be more cautious. So actually we will have, that is our view of today, a neutral situation. So no negative but also not positive, no positive impact from ramp-up, ramp-down, so a neutral development. That means that in the next three quarters I do not exactly know when it will happen, but we will see it catch up of the EUR10m for the Q1 development.

[0:51:26] Christoph Laskawi

Thank you. The last question on your aftermarket business. Other suppliers indicated that the April was particularly weak in the aftermarket business, given the closure of the shops and they saw revenues trending down 30% to 40%, but already now indicating much better business activity. Did you see a decline in the same magnitude in that month? Or would you say more stable?

[0:51:53] Mr. Merch:

Yes. I think it is also very important to look at the global figures and only to underline our flavor for Q2. April figures on the top line are down by 67%. Looking what has happened to Western Europe, here we see the numbers declining by 98% and USMCA region by 99%. So this is what is driving the market and the numbers, and seeing the April numbers down with 67%. This is the indication for the Q2 expectations.

I think May will be also not a good month. We see some small signs of recovery, slight recovery on low level in June. But whether this will be a stable situation, we will see, because we see a daily reshuffling of call-offs and therefore no real good visibility. But we do not see this development in our Aftermarket in the first week of May.

[0:53:21] Christoph Laskawi

Okay, excellent. Thanks a lot.

[0:53:25] Mr. Merch:

Thank you.

00:53:39 Operator

Ladies and gentlemen, if you would like to ask a question, please press 9 star on your telephone keypad. Please press 9 star if you'd like to ask a question. There are no more questions.

[0:53:41] Mr. Merch:

So thank you all. Stay healthy and I hope you be part of the next call early in August. Thank you, and bye-bye.