Investors and Analysts Conference Call – Preliminary Q3 2018 key figures

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Introductory Speaker (I)

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Dr Matthias Heiden, CFO (M)

Stefan Haas, Head of Investor Relations (S)

Q&A: Question (Q)

Q&A: Answer (A)

I: Good morning ladies and gentlemen, and welcome to the SAF Holland SA conference called "Regarding the Preliminary Results of the 3rd Quarter in 2018". 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 flow over to your host Mr. Stefan Haas.

S: Good morning ladies and gentlemen. First of all, thank you for joining the early morning conference call on the preliminaries for the 3rd quarter 2018. We will first give you an overview over the preliminaries of the 3rd quarter and then we will also talk about the guidance refinements which we undertook, and with that I would like to hand over to Mr. Borghardt. Thanks.

D: Yeah, Stefan, thanks a lot for the introduction. Also, a warm welcome from my side this is Detlef Borghardt speaking. Thanks for dialing in to our today's call. I would like to jump into the agenda right away. So, on page 2 you see the overview about what we are talking today, and

what we will present. There are 4 bullet points. First of all, the refined group targets for the full year 2018. Followed by the preliminary key financial figures for the 3rd quarter of this year. We will dive into the business segment, talk about sales trends, and of their profitability and of course, finally, at the end of the presentation, we will do an outlook for the remainder of the year.

On page 3 of our presentation, I would like to start with the preliminaries for the 3rd quarter, this will be followed by the overview for the full year 2018. But let's concentrate on the Q3 first.

As you can see on the first bullet point, our sales growth in Q3 this year grew by 22.9 percent which is an enormous growth. With this we reach again our highest Q3 ever that was also in Q2 as matter of fact. So, we came in now with 340.6 million Euros previous year was 277. That means a plus of almost 63 million Euros.

Organically, that's the second bullet point. Our sales growth increased by tremendous 15 percent. So, on this, this is one of the reasons why we have this call today, because it will lead, and we will come to that on the next page, to an adjustment of our sales forecast for this year which will come in higher than expect.

On the 3rd bullet point, on page number 3, that’s the only not so nice thing today: we see high, very high capacity utilization, especially in our plants in North America, there’s still a burden from increased operating cost to the realignment of this new US production network. On top, the steel price is another burdening factor but nevertheless, our possibility improves is that we can see successive profitability improvement in America, also in Q3, and that's what we promised earlier this year. We will talk about it later more in detail.

Next one the higher than expected sales contribution from the US, this is nice but unfortunately that came in with a clearly below group average margin. Also, on that we will talk later more in detail.

In Q3 our 2018 adjusted EBIT came in at 27.1 million and the adjusted EBIT margin is 8 percent. The EBIT before was 7 and a half. That includes an extraordinary income of 4.4 million Euros from the settlement of a US medical plan. We will talk about that later also more in detail.

So, if you adjust that, we call it the clean adjusted EBIT margin came in at 6.7 percent this is excluding the 4.4 million Euros which I mentioned before.

On the next page, page number 4, I would like to talk about the 2018 full year guidance which we refined as well because of the Q3 numbers. So, based upon the preliminary Q3 2018 figures and expected further developments for this balance of the year. We refine our sales and earning targets for the full business year of 2018. First, based on the dynamic organic growth in Q3 2018 – what I talked about – and the continued strong demand as a foreign product globally, our organic sales growth will reach 9-10 percent in the full year 2018. We said before, will be between 5-7 percent. And this is also very nice to see, that the significantly better than expected performance of the latest acquisitions we did this year, this is mainly Orlandi, York, and the company Accent. We are now expecting that these acquisitions will contribute 65-70 million Euros to our group sales. We said before that will be 60 million.

On the next page, page number 5, that's the second part of the full year 2018 guidance. I will like to talk about the earnings here. First bullet point, stronger than expected: sales development in the Americas region is currently however contributes below average margin to the group results. We have continued burdening effects from steel price in the US but also in the other regions, for example in Europe. We see now, and that's the 3rd bullet, the adjusted EBIT margin in the full year 2018 including the 4.4 million extraordinary income, rather tending towards the lower end of the 7-8 percent corridor. Before we said it would be 7-8 percent and please take into consideration the usual seasonal effects in the last quarter of the year, which is always weaker than the Q3. That was the case in the past. Yeah with this, I would like to head over to Matthias, who will talk about the development of our sales in the regions and the development on organic and FX-rates more in detail. So, Mattias, please.

M: Yes, thank you Detlef, and good morning everyone also from my side. My first task on this page 6 is to go into further detail around the overall 22.9 percent growth that we see if we look at the bridge from Q3 2017, namely the 277.1 million Euro in revenue, to the 346.6 that we saw in the quarter that we just closed. The 22.9 percent growth has different components, as usual there is an organic growth effect in M&A the organic growth amounts to 15 percent in the 3rd Quarter of 2018, and then we have still some negative translational effects. This is a bit more than 1 percent or 3.7 million in total, and then we have more than 9 percent contribution from the acquisitions. And on this I would like to go into a little bit of detail, you remember from the half year mark that we decided to help you on your way in the financial analysis, and talk a little bit about the acquisition data in detail which we will not disclose on a permanent basis but again for the 3rd quarter happy to share that York contributed 20.1 million Euros in revenues, Orlandi approximately 5.3 million Euros in revenues, and Accent which was the smaller UK acquisition

that we did recently in the digital space to support our smart field strategy contributed 200K in revenues that gives you some additional perspective.

If we then move to the next page, page 7 that is. This is a look across the region in the organic sales growth and here the positive message continues, that there is very strong organic sales growth across all regions. This is a confirmation of the strength of our product portfolio and our market positioning including our dual go-to-market where we work directly with end customers and OE customers alike. And as you can see in EMEA we continue to grow strongly at 4 percent in the 3rd quarter. Here, I think it is fair to conclude that we're confident that we will continue to outgrow the clear market predictions that you see in our quarterly publications. Next update will follow in November because the 4 percent that we show are clearly above the market growth overall. Then in the US, this is something that Detlef already touched on in his opening remarks, a very strong organic growth of 18.6 percent which I perceive to be particularly positive in the overall context of the challenges that we're continuing to face, that we are working on fixing. But to then perform 18.6 percent and to protect the strongest asset that the company has, namely, its customers, is a strong performance. APEC China, 66.9 percent strong growth in the 3rd quarter. Detlef will touch on the structural growth driver behind that on a specific slide that covers the APEC China region.

If we turn to page number 8, this is where I would like to spend a moment with you on the reconciliation of the reported EBIT to a number that we now call the clean adjusted EBIT for the 3rd quarter, to be fully transparent and provide you the information you need for the financial analysis. If we begin on the left-hand side with the reported EBIT of 22.5 million for the 3rd quarter we have the usual adjustments that takes us to the adjusted EBIT: mainly depreciation and amortization from PPA, slightly higher with 2.8 than in Q2 which had 2.6 million at the time. This is Q1 additional acquisition in number 2 to a small up effect that we had to book on PPA. But you recall my comment that we will return to a lower run rate in 2019; that some of these increases are temporary in nature. Restructuring costs amounted to 1.7 million for the quarter which then takes us to an adjusted EBIT of 8 percent or 27.1 million in total. This still includes the extraordinary income from the settlement of a medical plan in the US which we took in with 4.4 million if we deduct that number that takes you to the clean adjusted EBIT which would then amount to 22.7 million or 6.7 percent.

Maybe I spend a moment now on explaining what happened with the settlement of the medical plan in the US and why we included it in the adjusted EBIT. I think the explanation for this is

relatively simple, because determination of the US medical plan has the following background. This is a plan that the company has had for a number of years. Actually, I believe it goes all the way back to the Holland days, but it only has very few active participants enjoying the benefits of the medical plan, which you can picture to be a contribution towards medical expenses that people incur in the US. Very few active participants but the accounting foresees the accrual to be billed every year for all potential participants. So, that means, regardless of whether you are 18 or 50, you have to accrue. So, for the rather younger part of the potential population of participants, you accrue for a number of years, and that explains the sum of the release, when you release it. Because we terminated the plan because of the very few active participants and the few potential active participants and also, we consider this to be a sustainable cost saving because in future periods, the accrual will not need to be made. And given that the accruals were booked as part of the operational results in personnel expenses in the past, release the accrual as a credit to personnel expenses this time. Which is why in terms of the financial reporting which we also aligned with our auditors forms part of the adjusted EBIT. That is the background to the settlement of the medical plan with that said, let's return to a more operational focus and a report for the region and Detlef will begin the Americas.

D: Thanks for the deep dive into our EBIT world. Would like to talk about the Americas first, coming to the other regions later on. On page number 9 you see on the headline that in the Americas, we still see a burden from realignment of our plant network and the high steel prices, but all this in a very strong growth environment, and this is important to notice our successful improvement in North America continuous.

Let's talk about sales first, starting with the first bullet point, the soaring customer demand and that is really soaring. I will talk about it more in detail and out of that, our net order intake coincides with completely straight industrious supply change. Our sale is well above our expectations, our organic sales draws with 18.6 percent to a 130.5 million. If we deduct the negative exchange rate effects, it was minus 1.3 percent, the sales reported and you can see it on the graph on the left-hand side, up 17.3 percent to which 129 million Euros compared with 110 million in the previous year and that was out of the 6 million up versus Q2 2018. So, we see an improvement quarter over quarter but also compared with last year. Talking about the profitability: In Q3 2018 our adjusted EBIT came in at 6.5 million, previous year was 5 million including the medical plan which Matthias just described very much in detail. And immediate annual cost savings of 0.4 million. Our so-called clean adjusted EBIT margin improved versus Q2 2018 and I believe that it is really important to notice to 1.6 percent compared to 0.7 percent in Q2. Our

additional operating expenses came in with 2 million compared with 2.3 in Q2 that were incurred due to continuous start-up inefficiencies and the realignment of new production network in the US. As you might remember, we closed 2 factories last year from 7 down to 5 now. So, the steel price burdens with 3.9 million Euros. In Q2 it was higher it was 4.3 and as quarterly average steel price index remained at a very high level. I will talk about the steel price more in detail on the next page but before I come to that, I would like to talk about for a minute about a pretty intensive customer trip or business trip I did last week, I came in the day before yesterday after 10 days. Traveling to the US starting on the West coast going then to the East, I saw almost a dozen of our top customers, biggest customers in terms of sales and so all that we described here, both in terms of sales but also in terms of profitability, is pretty much the same for every player in the market, in the commercial vehicle in North America.

It means order intake extremely high. Most of customers reported all time high levels, extremely stressed supply chain. Everybody runs not with 80 or 90 percent which is normally optimum to run an operation, everybody is well above 100 percent that always means you turn a big wheel but the profitability out of that is not as it should be. Secondly, it is all about the OE sales, secondly the after-market everybody has problems to surface after-market network because the OE customers, the demand from the OE-customers is so high and we need to keep their production lines running, and we cannot deliver the after-market first and then jeopardize the production of the OEMs. So, that means we are I would say, in a basket in this market, everybody has the same challenges. So, everybody is happy about the market, everybody is happy about the order intake, but it is really difficult to make money with turning this big, big wheel. But the good news is very good news, everybody is for this year, but also for next year very positive, I have heard nobody talking about any decrease in order intake, nobody talking about any clouds or dark clouds on the sky. Everybody says the next-, definitely the next 6-9 months next year are almost booked for all truck and trailer OEMs. So, that means, all the 2019 will be according to what I heard in the last 10 days will be an extremely good year and will continue in this high level as we have seen now this year.

I can talk about later on more in detail if you like. But I will not like to take too much of your time. I would like you to turn your attention to the next page number 10, talking about the steel price. You see here the so called HRC price index. HRC stands for Hot Road Coil index. And as you can see this is a number in 2016 on the far left, the price for a ton was roughly between 350-400 US dollar. Now we saw the peak in July, August this year with more than 900 up to 950 US dollar. You see it comes slightly down now which helps of course, but and I believe we talked about also

in the last calls, all the time. We can increase prices only 2 times with most of our customers in the US because we have contracts, long term contracts, some of them 3 up to 5 years. So, that means, in the middle of the year and beginning of the year we can increase or decrease prices according to the steel price index. So, we did it in July, we reported on that and the price increases are in place but we have a trailing average of the last 3 months when we do a price increase or decrease. And so therefore, as you can see, steel pace was higher and higher, was increasing and increasing; that means we have some issues to pass on all the price increases already now in Q3. That is to come in Q4 but also in 2019 if the steel price will continue to go down, and that is our expectation and also expectation from most of the market participants. Then we will see the full effect in 2019 for sure.

Again, this is the way how we work for many, many years now, that is very well introduced. Everybody knows how that works and it works perfectly well, but there's always a delay. And we have to live with that, but this is-, we would like to be very transparent here, therefore we show for the first time this graph, so you can follow that. And as I said, this will help our P&L in the next couple of months and quarters for sure.

Yeah, with this I would like to hand back to Matthias and I will talk later on about the other regions.

M: Yes, thank you Detlef. I'm afraid it's all about EBIT again if we look at page 11, and from page 11 we would like to do 2 things. Number 1 on the right-hand side, provide full transparency and insight into the burdening factors that we have also reported about in previous quarter. And on the left-hand side make sure that we all understand again the impact of the extraordinary income, namely the settlement of the medical plan, the 4.4 million that we showed. Because we want to ensure that for the sake of full transparency we're not going for the number on the left-hand side, the starting point of the slide, the 6.5 million adjusted EBIT which would have been a 5 percent margin in the Americas region. But we're actually taking for reporting purposes for you now to show the consecutive improvements quarter over quarter. The cleaned adjusted EBIT, the 1.6 percent or in total terms the 2.1 million Euro for the quarter for the region. This number is still impacted by the add-on operating expenses coming from plant inefficiency of freight expenses and so on, which are now down to 2 million Euro for the 3rd quarter, coming from 2.3 million in the 2nd Quarter, or 3.9 in the 1st quarter. As well as the steel price burden of 3.9 million Euro down from 4.3 million Euro in the 2nd quarter. If you bear in mind the 2.1 million clean adjusted EBIT, translates into 1.6 percent. Turn the page, on page 12, you see that we continue to improve quarter over quarter. The margin has moved from a negative margin in the 1st quarter and even

more negative margin at the low point that we hit at the end of last year via a turn into positive territory in the 2nd quarter to 1.6 percent in the 3rd Quarter. This is not where we can be happy or stop the journey, and Detlef will comment on the journey in just a second, but this is where we spend if we exclude the 4.4 million for the moment. And we are very confident to continue that journey because Detlef will give you some additional insight as to where we stand and how we intend to do that on the next page which is the management action plan.

D: Yeah. I'm happy to do so and talk about the so-called MAP, management action plan as Matthias said. On page 13 you see a couple of bullet points. There's one new one, this first one, we implemented a task force these are roughly 30 people from Germany going to US, they started in August. Helping our colleagues over there in analyzing the processes, streamlining, and see what additional potential we can gain just to remember, everybody in this call: we did a very successful plant consolidation in 2015, 16 here in Germany. We closed a huge factory and consolated in the remaining 2 ones here in our Bessenbach headquarter area. And this was a seamless exercise and that was very well executed but I have to say there have been 2 differences to the plant consolidation within North America.

First of all, all the people, which we transferred from the plant we closed to the remaining 2 plants came with us. That means we lost any employees, we didn't lost any know-how, or we call it tribal knowledge. That is a big, or was a big difference in North America. Nobody of our workers followed the equipment. That means, all of them find them new jobs in the Michigan area, and we have been forced to hire additional new people in the plants, where we did the consolidation for the remaining plants. That is the one big difference. The other one, in that days when we did the plant consolidation here in Europe or in Germany, the order intake was pretty much stable. It was very easy, not easy, but easier to plan. In North America, it was just the other way around. The order intake went through the ceiling, and so we have been really surprised with this high, high capacity utilization of our equipment. But nevertheless, the know-how we gained doing the planned consolidation in Germany, we used now also to help our colleagues in US. And we see that it will help to be faster with the remaining factories in the US coming up to speed. On top of that, our sourcing optimization runs, the measures are in place, we are also going to install a so-called APO that's an advanced product optimization that's an SAP tool or it’s a fixed to SAP which helps us to align sales and orders in production and with the entire supply chain processes. We implemented it in Germany roughly 4 and a half 5 years ago. This system is really a very helpful tool and as I said, we started it in US now as well and that will help us also so increase speed. So, the optimization of the scheduling process, and the enhancing capacity utilization is part of

the APO implementation, and this is very important: the next bullet point - employee training program.

What does it mean? We all, all participants in the North American or in the US market are facing the challenge of a high turnover rate as we do. That means we need to train our new people which we get on board and this is up and running and that also helps to improve our profitability. We are going to install additional trailer x-manufacturing line we are also talking about a new welding line, but this is to come for next year. Why is that? We see increasing market share in the trailer market, this break is a hot topic in north America. You will see much more orders on that and for this we need more capacity. So, that means our story here is absolutely intact. They disk brake is raising and raising, and also demand for our air suspensions and mechanical suspensions is on a very good way. I heard it also last 10 days, during my trip here, our products are more than well received; both on the OE, but also on the fleet side and therefore we need to have more capacity, which is good problem to have.

Focus on the after-market, as I said, is continuing, that also goes in line with the next focus on profitability, price increases are going on, I talked about it already. We are intensifying our price pass on processes. That was about Americas, let's turn your attention to the other regions, talk about EMEA first, that's on page number 14. We see a very solid organic sales growth and that allows for operational leverage.

Summary, talk about sales first: in Q3 this year our sales grew by 7.9 percent to 155.5 million; previous year was 144. On organic basis, adjusted for FOREX and the acquisition effects that was mainly Orlandi, our sales were up very solid 4 percent year over the year. And the after-market, this is a very nice development, is still growing. It grows 6.3 percent on already high basis, so that helps of course to drive the EBIT development. This leads me then to the lower part of the page here, in Q3 our adjusted EBIT rose by more than 20 percent to 17.5 million; previous year was 14.5. Previous year was already very nice double digit adjusted EBIT margin of 10.1, and now it increased to very nice 11.3 percent. Again, positive mix effect, that means a lot of after-market is part of it, and we really see the benefit out of the planned consolidation we did in 2015-16 year. Ae see the operational leverage. Also, the factory in Turkey is part of it. We are running that in 2 shifts which helps as well. So, therefore, with Europe with EMEA region we are more than pleased both on the sales but also on the profitability side.

Also, I'm very pleased with the final region, APEC China which is on page number 15. That's the highest percentage organic sales growth within the group, colluding with the York acquisition as you can see, talk about sales first. We rose sales from 23.1 million in Q3 2017 to 56 now in Q3 2018. Organically, and that is the 3rd bullet point on this page, our sales growth by 66.9 percent which is also a very nice effect, we talked about it also in the past why is that. Main reason is, our products are very safe and absolutely in line with the new trend in China and in the coming outs of the APEC region, but mainly in China for premium product. That means air disk brake and also air suspensions. And we as one of the market leaders globally in these 2 product ranges, the benefit from that and we will go on benefitting on this trend will go absolutely in our direction. On the profitability side, see that the adjusted EBIT in the region increased to 3.1 million. Previous year was 1.4. The expected temporary margin delution from York is in this corporate foundation in the segment. And the adjusted EBIT margin conclusively came in with 5.5 percent. A little bit lower than the 6.1 last year, without the acquisition of York.

Yeah, with this I would like to hand over to Matthias to the last 2 pages.

M: Happy to take it home, thank you Detlef. If we go back into the overall P&L for 2nd on page 16, then I'll remind you of a number that is not on this slide but that I stated earlier. The clean EBIT of 22.5 million ends up in a pre-tax profit of 19.5 million, which is significantly higher than in the 3rd quarter of last year, namely by more than 77 percent. Why is that? Well of course, in between we have the finance result which we do not disclose in full today, which we will do in November. But be reminded for your initial analysis that we repaid a bond earlier this year which obviously helps in the quarterly finance result and that supports pre-tax profit. If we then continue further to down the P&L, we have a lower taxes that lead to much improved net income by 104 percent or 15.3 million in total at the lower taxes are really a mixed bag of effects which we are still analyzing in detail. Some of which, just to give you an initial understanding, come from the US because with the return to profitability in the US, we benefit from the lower tax regime number 1. In number 2 we can use some of the tax assets to lower our income taxes at the same time. Given that we have a constant number of shares, this positive development then translates into an improved undiluted earnings per share number of 34 Euro cents per share which is double the amount that we have in Q3 last year. With that we can already turn to the last page which is page 17, which is the summary of the refined financial targets for 2018 and that's the confirmation of our midterm planning 2020 ambitions. The numbers on the sales side of the refined guidance on the sales side was elaborated on by Detlef already. The fact that the organic increase is now assumed to be 9-10 percent rather than 5-7; and that we also refined the contribution from our

M&A activities namely, and mainly to say, Orlandi and York, which are now deemed to be 65 to 70 million rather than 60 million. If we translate that, and I'll just repeat it, because that might be a good transition to Q&A anyway, we then translate that towards the adjusted EBIT margin that is now rather tending to the lower end of the 7-8 percent corridor, and I repeat and emphasize: including the extraordinary income of 4.4 million which we explained during the call. This is taking into consideration the reminder again, our strong growth in the US where we have the focus on OE customers our strongest asset, which comes at a lower margin than the group, which does contain a small dilution from the York acquisition. But it also takes into account the usual seasonal effects that we see in the final quarter. And with that said, and the rest of the page not being refined, I think we can close the formal part of the presentation here and open up for Q&A and I believe today, we have sufficient time for that.

S: So the floor is open for your questions now please go ahead.

I: Ladies and gentlemen if you want to state a question, please press 9 star on your telephone keypad, if you want to withdraw your question press 9 star again. Please press 9 star now for your question.

The first question comes from Alexander Waal. (4 sec.) Mr. Waal, your line is open now.

Q: Yes, good morning, and thank you very much for taking my question. First one is, you revised your adjusted EBIT margin guidance only with Q2 results and what we have seen now is actually another profit warning that was hided by a pursuit of one of gain. So, the magnitude of advance from high steel prices and also the remaining plant inefficiencies seems to be roughly in line with what you indicated was likely already at Q2. Could you just elaborate a little on where the actual outcome differs from what you expected at the beginning of the quarters, and also your view on Q4 please?

(8 sec.)

A: Could you precise little bit your-, this is Detlef Borghardt, could you precise the question a little bit because we, I believe, we covered that pretty much of the last I don’t know 16 pages. Where do we have let's say you’re, what is your main question regarding the difference?

Q: My main question is basically, I mean, in August you said 7-8 percent probably 10 towards midpoint, when I look at the magnitude that you showed us or the headwinds resulting from higher steel prices and plant inefficiencies that is roughly in line with what you indicated from magnitude

perspective. Still, I would just like to know what incrementally changed that basically led you to revise your guidance again? I think it's obviously not the steel price and the plant inefficiencies there.

A: It has a lot to do, I will start to try to answer your question, and Matthias will be happy to chime in here. The issue is, which is on one hand which is a very good problem to have that is the increased sales in US. We didn't expect it that it would be that much, that our plants will produce that many. So, I'm quite happy with the performance of our US plants that despite all the labor shortages, all the things we talked about, or I talked about in the last 30 minutes, despite that I have been able to ramp up our production. So, we did really much more sales than we expected, but – and this is the other side of the coin here, or of the medal – but this additional sales came in with really low margins. This is an effect we see always for decades if the market is hot or extremely bullish and if we need to produce with full throttle, then the sales we get out of it, the mix, is not really the best one. Because we produce a lot of standard products, standard piece wheels, standard axis, without any features and benefits, or very few features benefits. That means the pricing on these products is not, how to say, not that sexy – if I can use this word. But we have to do it, if OEM forced us to deliver and contractually we need to do it and we will do it and we will not stop any production line of a OE. Although we know that the additional sales is not good for the overall profitability because the margin is low, but, and that's the other thing and we are always long term oriented: If we bring in this high population to the market – that means we pump into the market axles, suspensions, fifth wheels, landing gears, you name them, we benefit later on in the after-market. It would take as you know 3-4 years before this came in or come in but doesn't matter. So, therefore for now this is not good for the overall profitability very clear the mix is not in our favor; but in the long run, that is good for the profitability of the company because we see more after-market. But that was something we haven't seen in Q2. That our plants in US will contribute that much more than we thought plus the mix which was not really in our favor. I hope I answered your question.

Q: More or less. Maybe a 2nd question also, this morning Volvo released figures and also provided and outlook for 2019, it sees European in truck demand for roughly 5 percent in 2019. I know that you are not that exposed to trucks in Europe but given that there's at least some correlation between trailer demand and truck demand, how do you see this focus and what is your current feedback from clients?

A: Yeah. That is a very good question and I have to be sorry, I forgot that to mention when I talked about Europe, because it's something we just discussed yesterday and will mention that. But okay, now you ask me of that, very good. We all come back now, came back from IEA in September late September this year, most of you in the call visited us as well, thanks for that. And what we have seen after these 9 days of IEA that on the truck side you might be right, or the forecast might be right that the market will normalize. If it is minus 3 or minus 5 percent I don't know, nobody knows. But as you mentioned, that is for us, not that important because only 3 and a half percent of our total sales are in relation to the European truck market but on the trailer side, and this is I believe very important to mention, we talked to I don't know how many hundreds of customers from Europe and the neighboring countries including Russia, etc. The expectations are positive. I would say, it's very positive, okay. But we see not any clouds there, that the market will be less next year on the trailer side. So, yes, there is a relation between truck and trailer you are right but that is always not at the same, there's always a delay. Sometimes truck is faster, or trailer is faster, nobody knows. But on the trailer side, I really cannot, we can report all the market participants are more than positive; also for next year. Which is surprising, I have to say, personally I thought it will be weaker, the outlook will be weaker. But there was no confirmation at all on my view on that. So, truck side maybe, trailer we don't see a weakness.

Q: Okay thank you.

A: Which is of course for us the most important market.

A: And Alexander if I may come back to your original question, because I heard a little bit of hesitancy between the line when Detlef asked you the question, whether it was fully answered. Let me try again apart from the strong US topline growth at a way below group average margin to highlight some of the other impacts that are causing us to refine the guidance towards the lower end of the range. I also mentioned York, which is growing stronger than anticipated, which comes at an improved margin, compared to Q2 but still at a margin that is below group average which is nothing unusual giving the emerging territories that York mainly operates in; and that a lot of these sales are also on the OE side, number 1. Number 2 on steel prices, nothing to hide behind, but we just need to be transparent about this, that the release doesn't come quickly, and it will still impact us in Q4. Which is why we also included the chart around the price development. And number 3, just to put this in perspective again, so that it doesn't get lost: we were fully transparent around the medical plan; but let me just stress that this is a result of the task force that Detlef described. And I made it clear in previous conversations that the task force is working across all

processes of the enterprise. So, that includes the finance processes and it includes it digging and turning every stone in established processes in accruals and so on, not and I stress, not for the sake of window dressing, but for the sake of improving the operational performance of the enterprise. There is a clear difference between the two. And that is why, we also refer to the fact that the release of the accrual is lowering our cost basis on a sustainable basis. Now, I certainly understand that 400K per year are not perceived to mean the world to P&L the size of SAF Holland but it is a proof point of the activities that we are undertaking; and there is more to come as Detlef described. But these matters take some time to be implemented, and this mixed bag of factors have led us to refine it towards a lower end of the range. Maybe this gives some additional light to answer your question.

Q: Okay thank you.

I: The next question comes from Tim Schult.

Q: Yes, hi, good morning this is Tim from Equinet. Actually I have 3 questions, which relate to each other. Firstly, it would be interested to understand completely if you reach additional revenue at the moment in the US. Are you actually booking any operational contribution margin or marginal contribution margin on that extra revenues or is it actually hurting also in absolute terms your results? That's actually my main question.

The other 2 are just smaller housekeeping ones. Firstly, the add-on operating expense of 2 million in the 3rd quarter, is this including the additional freight costs or are these coming on top? And then lastly, with regard to the steel price, you mentioned an impact of 3.9 million in the 3rd quarter, is that gross or net of price increases? Thank you.

A: Should I take all of them?

A: If you like. I can jump in.

A: Yeah, okay, maybe then I thought at the bottom, with the steel price, that's the gross impact. Then on the operating expenses, yes, does include the freight. I tried to explain it, there is still additional freight in and out to be paid. I had described in previous calls that we're monitoring this on a daily basis, the run rate is coming down slowly but surely. But the one thing to be mindful of in this context is that by now, and please do not take this as an excuse, but put it in the context of the overall industry situation that Detlef described, when he talked about his trip. By now, we are in good company when it comes to production challenges because the entire industry supply

chain is overwhelmed with the volume at this point, and it's all about getting it on time to your customer across the supply chain and this is also still leading us to pay those freight expenses but there are also many others by now, who are faced with the same challenge. So, what I'm trying to express in other words is, not all of this add-on operating expenses are necessarily home-made by SAF Holland by now, but it is not really a good point to do a deep dive into separating that out. But I think it's fair to mention that as a description of the situation. When it comes to the additional revenue from the OE sales, thanks for the question again, in absolute terms, the US EBIT is up. So, the answer is, yes, it does come with a contribution margin, but that contribution margin is clearly below the group average. We're not, because I think you implicitly wanted to ask that question, we're not protecting market share, or protecting OE customer relationships by negative contribution margin.

Q: Okay, the question is actually a little bit different with what I had in mind, the idea is, let's say you get another five million on top in terms of revenues, or extra demand for the OE side and you cannot do that without cutting back on after-market business for example. So, you might win a bit on the OE side, you'll lose lower margin business elsewhere. So, the question is really, is additional demand now coming in, is this actually in absolute terms, good or is it costing you money? Not because you want to protect market share, but because you have to cut back on more profitable business?

A: Yeah, okay that's more clear. Yeah. First of all, there is no-- for us as there is no way out. That means the additional demand which comes in now, again we didn't expect that it will be so high. There's no way for us to decline that. That means, we cannot say to our big OEM customers, thanks for the additional order but we will not going to serve you. And I have to mention all of our customers are on allocation already in US. That means, we tell every OEM how many fifth wheels how many axes, how many suspensions they get from us every week. And all, and again that was one of the outcomes from my visit here, and all are demanding more. Okay. So, if we would have more capacity already now, our sales would be even higher. But, this additional OE sales as I mentioned earlier, also Matthias elaborated on that, is from the product range wise, margin wise not that good, these are standard products, high volume, and then again that helps in sales, but it doesn't help in the average contribution margin. Because all this additional sales is below the average and also that kicks in then into the EBIT. But of course, on the other hand, and I believe I mentioned that as well, our processes are improving. We are getting better, we are having higher output, as I mentioned. Surprisingly, that the plants are already doing that on that high level, and that will help and so that means for the next couple of months to come, if the higher order intake

will continue and that's what we see, and that also kicks in, then with better processes in the factories and higher efficiency that will kick in also with higher margins, and higher profitability.

Q: Thank you.

A: Welcome.

I: Another question comes from Nikolai Kempf.

Q: Hi Nikolai Kempf here from Deutsche Bank. I've 2 questions, the first one is from the free cash flow, you expect a recurring cash flow in Q3 and Q4 but given this organic growth rate and so the payment character of 80 customer, what can expect for the coming quarters?

A: Nikolai, can I park that question to November 8 in total?

Q: Okay.

A: Not because-- don't get me wrong, I'm not trying to avoid the answer, I'm still literally in the process of doing the analysis with the team. I think we will see improvements quarter over quarter and we will see a positive seasonal trend. But as of today, given exactly what you just described, it’s a little difficult to pinpoint the answer to not disappoint you again or to come up with a wishy-washy answer, so if you don't mind me parking it until November 8. I promise we will come back, and we have to come back to it anyway.

Q: Yeah okay thanks. Then 2nd question would be on APEC. Looking at the margins there, what can we expect moving forward? More like 6 percent or like 7 percent?

A: If I may answer, I'll try to answer the question. This is today not about giving any forecast or guidance for the quarter or even for next year, we are working on that, it would be nice to see even higher margins, it depends really on the product mix. So, therefore, it also depends on how York will develop further on, if in a very good way. I'm very happy with the acquisitions so far, also our post-merger integration or so called PMI process is working very well. We see already results and Matthias talked about that, we see that the margin already improving after we acquire the company. So, therefore, let's see; we have some other activities to come next couple of weeks until theend of the year. Especially, including sourcing, that might help as well, that is so far our know how on that, we know how that works. And now having York as part of the SAF Holland group, our sourcing power is much, much higher than York as a standalone basis. So, that will

help. But on the other hand and please don't forget that all the additional, all the sales we do in China, that is more or less, 100 percent without any aftermarket. That is all OE related. So, this is to come after 2-3 years; you know, that is our policy that is our strategy. So, that means, if we do more sales in China and we will do more sales in China, the margins are not at the company average level. So, we need to have some patience on that. But on the other hand, we see new factory which we are going to build right now and which will ramp up production in Q2 next year and we are pretty much on track with the planning here. That looks good. That will also help to boost our output, that means, boost our sales. O the margin's side, if it is 6 percent by now, it's great. If you can get more, we will work on that, but again, today is not about guidance. On the long run, and that's what we always said, our china APAC business will be in the range of the overall company cross marginal also of EBIT. That is clearly our target. And I see no reasons why we are not going to achieve that.

Q: Okay, thank you.

A: Yeah welcome.

I: Last question comes from Philip Lorain.

Q: Good morning gentlemen, Philip Lorain from Berenberg. A couple of points for me, I just wanted to make sure, I understood that correctly. Did you say that you are currently pushing back a little bit off after-market sales in the US because you have to serve your clients on the OE side so just as last year? So that's the first question.

A: Good morning Philip. Yeah pushing back is probably not the right wording. We are not that there where we would like to be, we still have a huge backlog in the after-market. It's getting better, okay. And we also have a lot of big pressure from fleet and also from after-market dealers from our market distributors, they need to get parts, and we are working on that. Again, the backlog is decreasing but it's still huge. We are always running behind, because the OEM as I said now many times, the demand is increasing and increasing and increasing. I also believe our market shares, especially on the trailer side is increasing. We are running fast, as fast as possible, I definitely would like to do more with the after-market, because it will help of course our profitability, but it's a challenge. So, we are not pushing back, but we are not reducing the backlog as we would like to do.

I: But I think it’s fair to add, that this is not limited to SAF Holland when it comes to the after-market backlog, but that it is characteristic for the situation the industry is in right now, in particular North America.

A: Yes, very true.

Q: Okay I get your point that means it’s really a margin drag that you have form the mix here as well, because the after-market can't grow as it should?

A: Absolutely, and that is one of the reasons why we are sitting here today and doing this call, because our expectation, our planning was different. We said that the after-market backlog will be done in the next couple of months, that's when we presented Q2, it is obviously not the case. But on the other hand, also luxury problem to have, the order intake for the after-market is increasing as well. So, everybody is, as I said, turning a big wheel. The utilization of the fleets on trucks and trailers is so high, you cannot get trucks and trailers. It means every single truck and trailer doesn't matter if it is one year old or 20 years old, is on the street. It means, they need after market, then need spare parts, they need to repair the vehicles. So, there is a high demand at every corner.

Q: Yeah. Understand that. And that leads me basically to the next question. I mean, you seem to be pretty confident on whatever might happen next year in terms of production and I have to say frankly looking at the trend in perfect orders. Looks like the peaks of the cycle is probably going to be 2019, and not as some people are expecting at the beginning of this year 2018. The capacity utilization is still going to be very high, very probably across the industry and also on your side. So, how confident are you that you are not going to end up adding capacity, really at the peak of the cycle and then, when there is perhaps a contraction a bit later that you suffer from under-capacity utilization?

A: Yeah that's a good question of course, everybody's talking about that. First of all, you are very right, everybody is running as I said already earlier earning at full steam, or full throttle capacity utilization is well above 100 percent; which is not good in terms of profitability. When is the peak of the cycle? Nobody knows as I said, both on the truck and trailer side 2019 will be according to what I heard the last days, will be very high. We don't see any normalization, I see that the backlog from the truck and trailer guys around 6, 9 months, some trailer guys are already sold out for 2019. I heard several comments last week, from customer in face-to-face they stopped selling now because 2019 is done. And they've refused to place any orders or to confirm any orders for

2020 because nobody knows what pricing. So, that means about capacity utilization as I said, we will do something on the trailer side very clearly. Because, and that is the overall trend, it has nothing to do with cycles. The overall trend is towards air disk break, we are the global market leader on the trailer side. Nobody is doing that many trailer axles than we do. We know how that works, we are very good in that in Europe, we are the market leader here on air disk breaks with trailers. And on the US side we will take a big piece of the pie. That is clearly our plan, our target, and it shows, we are going the right direction. So, that means despite the market might normalize in 2020 or 2021 or whenever, we intend to grow market share, that means we need more capacity. The same as on the fifth wheels side, you know we are the market leader with more than 50 percent on fifth wheels in North America, and that's for more than 40 years. We are very good in that, we are running at full capacity, the increased capacity in our Wylie-plan and I visited last Saturday. So, that is well done. And most of the capacity increase we do also help us in efficiencies. So, that means, we can run this a new equipment on 2 shifts or 3 shifts, if we only run it on 2 shifts, it will still be very efficient. It means we'd will breeze with the number of people on the work floor. So, therefore even though the market will go down, we will adjust, we can adjust our costs very, very fast. Long term trend, and that is also, and then I'm done with my long speech here, we see the driver shortage in USA, that means the ratio between truck and trailer in US will increase, it means we will see many more trailers than trucks and that is our biggest business, as you know. That is driving by the e-commerce that is still on-going, we call it the Amazon effect. Or you can call it however you like. But the demand, especially for trailer, will be high in the next years to come. On the truck side, I believe so too. But it is something we will see. So, I'm not afraid about 2020 or 2021. We will invest an additional capacity and we need that.

Q: Okay that's a great point. I still have a couple of questions here, for these operating costs that you have these add on operating costs which is 2 million in Q3, would you mind sharing with us, basically, what you kind of expect perhaps going into Q4 and also going into next year, from which point do you expect these add-on operating cost to completely fade out?

A: Very difficult, I'll take a stab at this Philip, Bonjour. I'll take this as by saying initially, it's very difficult to confirm this because by now, as I said, we are in such good company, that there are 2 parts. One caused by our own inefficiencies and number two, items caused by external factors by the supply chain. So, for our own inefficiencies, we should see a further reduction which I perceive to be, or expect to be significant in nature in Q4. And then doing the first weeks of Q1 at the latest we should be done, the reason I'm saying that, if I now say, we are coming down to

zero in Q4 and I show you a number in Q4 then I get hundreds of questions. But my point is, we will see further improvements in Q4. I hope that's a fair answer that helps you.

Q: Yeah okay that's good. And I do expect then that these kind of phase out gradually, probably across let's say next year, because we then see the full effects of your reorganization across the US.

A: Absolutely, but let's make sure, because that's also our own ambition, right, that this phasing out doesn't take too long or rather the amounts that are phasing out are not too high. Because if we now leave it by saying phase out, that sounds as if we will see significant amount still wondering through P&Ls of 2019. That is something that we aim to avoid. But rest assured, we will keep up the transparency and try to explain if there are such costs and why also in the future if need be.

Q: Yeah sounds good. And the last question, on your growth targets, you print 10 percent organic growth in H1 then a 15 percent in Q3, now you guide for 9-10 percent for the full year. So, that seems to point towards a deceleration to say the least in Q4, but at the same time, you're pretty confident on the market. How do we have to understand that because you raise a bit prices, on some products, the volume trend seems to be pretty supportive. So, is it just like, the visibility is not as great, let's say, and that's what you don't want to be perhaps, too bullish by going into guiding for 12 percent increase. Or how do we have to understand that?

A: Yeah. The point is, and that is always the same, that in the last quarter of the year we have a couple of days where we still simply will not work. That means the factories all over the globe more or less are closed. That means thanksgiving, Christmas, whatever, and we are running at full capacity, that means for every missing shift, for every missing day of production, we will have less output. The means we are basically limited in growing phase as even more as I said already, that for example in US, the demand from our customers regardless which product it is, and in which product group it is, is higher than our actually output. So, what we can do? Therefore, everybody is on allocation. So, we are limited because we are running under full steam in all places and we don't have many working days in the last quarter.

Q: Yeah but I guess that was also the topic for Q4 last year. So, it’s rather on a sequential comparison that might happen.

A: I think that's a fair conclusion yeah.

Q: Okay. Good thank you.

A: Yeah. By the way, just to add one point, I forgot to mention that. I saw also last week an outlook from – I believe it was ACT or FTI I do not remember correctly – but they said, if the peak will be 2019, and you said that also, then for 2020, the outlook was that 2020 will be the same number than 2017 which was a very good year. So, that means, they see a normalization in 2020 then, but this is not really a disaster. Because, again, this is a number from ACT which is available for everybody and I looked at that for the very first time after they said peak will not be this year maybe next year. Then for 2020, if it goes back to 2017 level, good with us.

Q: Thank you very much.

A: That was just an additional comment.

I: There no more questions so far. So, just as a reminder if you still have a question, please press 9 and star on your telephone keypad.

(10 sec.)

S: If there are no further questions, thank you for joining the conference call today and we will meet again on November 8 and we will publish the full set of figures and the interim report, where we will also do as usual a brief conference call. Thanks, take care, bye-bye.