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DAI.DE - Q3 2019 Daimler AG Earnings Call

EVENT DATE/TIME: OCTOBER 24, 2019 / 5:30AM GMT

## OVERVIEW:

Co. reported 3Q19 revenues of EUR43b and net profit of EUR1.8b.



## CORPORATE PARTICIPANTS

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**Harald Wilhelm** *Daimler AG - CFO & Member of the Management Board*

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## PRESENTATION

### Operator

Welcome to the global conference call of Daimler. At our customer's request, this conference will be recorded. The replay of the conference call will also be available as an on-demand audio webcast in the Investor Relations section of the Daimler website. The short introduction will be directly followed by a Q&A session. (Operator Instructions)

I would like to remind you that this teleconference is governed by the safe harbor wording that you find in our published results documents. Please note that our presentations contain forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to many risks and uncertainties. If the assumptions underlying any of these statements prove incorrect, some actual results may be materially different from those expressed or implied by such statements. Forward-looking statements speak only to the date on which they are made.

May I now hand over to Björn Scheib, Head of Daimler Investor Relations.

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**Björn Scheib** - *Daimler AG - Head of IR & VP*

Good morning, ladies and gentlemen. This is Björn Scheib speaking. On behalf of Daimler, I would like to welcome you on both the telephone and the Internet to our Q3 results conference call.

Today, we are very happy to have with us Harald Wilhelm, member of the Board of Management and responsible for finance and controlling as well as Daimler Mobility. In order to give you maximum time for your questions, Harald will begin with a short introduction directly followed by a Q&A session.

With this, I would like to hand over to Harald.

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**Harald Wilhelm** - Daimler AG - CFO & Member of the Management Board

Thank you, Björn, and good morning to everybody. It's very early morning or maybe even late night for some of you. Thanks for your patience on us, but it's key to us that we bring across to you the dialogue and our understanding of the Q3 results. Talking about the Q3 results, by the way, let me remind you this is not the CMD, but it's coming up soon by mid-November.

So how to take the Q3 events and highlights, maybe a few overall observations before we go to the numbers. First and foremost, obviously, at Mercedes-Benz Cars, we had the best-ever third quarter with 605,000 units sold. That's actually 8% more year-over-year. So what you can see is that the markets were strong in the third quarter. And at the same time, we could supply with good material, also good margin material.

If we look on the Trucks side, I think it's actually interesting. As you know, we acquired Torc Robotics. And in the third quarter, we started the trials on highly automated trucks on defined public roads in the U.S. And actually, we see good opportunities to monetize, I mean, a significant TCO benefit for our customers, also for ourselves. So that's I think an interesting piece of the [AD].

But I would say coincidence, I mean we wanted to highlight, I mean, as a matter of fact that BAIC invested 5% in Daimler shares. And I think that was confirmed just yesterday, so really by coincidence, you see that here on the chart. But what does it mean? We're very happy about the investment, and that fosters the long and good relationship and cooperation with BAIC in China.

More recently, the Stuttgart district attorney's office issued a fine notice of EUR 870 million against the Daimler based on a negligent violation of supervisory duties in the area of vehicle certification in connection with deviations from regulatory requirements in certain Mercedes-Benz vehicles. After weighing all aspects, the company has refrained from taking a legal remedy against the fine notice, and the administrative offense proceeding against Daimler is thereby fully concluded.

Well, and then on the numbers. The strong sales at Cars and Vans, I mean, supported our Q3 numbers. I think that's pretty obvious and clear. We'll go through that a bit more in detail. And therefore, I think, I mean the Q3 financial, I mean, performance is on track in terms of the margin generated by that higher level sales but also the cash flow. And I mean talking about the cash flow, the cash flow generated, that's EUR 2.8 billion in the third quarter. Obviously, it improves the net industrial liquidity to EUR 9.6 billion, and that brings us closer to EUR 10 billion -- to a double-digit net liquidity target for 2019. At the same time however, the Q3 numbers demonstrate that we have challenges to tackle. And we're happy to talk about that.

Looking at the market developments on page -- what is it? Page 4. How did the markets develop, I mean, in the third quarter? Well, I talk about the passenger car market shortly at our end. Globally, it declined by 3% in the third quarter, but the premium segment proved to be more resilient. And we could materialize, I mean, that 8% growth in the third quarter, which has chiefly a result of the compact car segment, the S-Class and the E-Class; and from a geographical standpoint, also a lot of the momentum happening in China. In the U.S., we saw the year-to-date sales at the previous year volume. China had the best quarter of all time. It was more than 180,000 units. So all in all, I think a very healthy situation in terms of the sales at our end.

If we look on the Trucks, on the sales, the NAFTA region and Brazil trended favorably, while some other key truck markets such as Europe, Germany, Turkey and Indonesia slowed down significantly.

The demand for vans and buses continues to be high in all major markets. And on the portfolio development of mobility, Daimler Mobility, we could see that, that proved to be stable, and we had actually a 4% year-on-year growth in the third quarter with the portfolio at EUR 160 billion by the end of the quarter.

Looking on the financials on the Page 5. We sold 839,000 vehicles at the group level. That's 6% year-on-year mainly due to the increase in passenger cars, as commented already before. That translates into EUR 43 billion of revenues compared to EUR 40 billion in third quarter 2018. On that basis, we achieved a third quarter EBIT of EUR 2.7 billion, and that is slightly above the previous year figure of EUR 2.5 billion. In the third quarter, free cash flow of the industrial business was EUR 2.8 billion. It improved significantly compared to the previous year quarter but still reflects a high level of investments for future products. The net profit for the third quarter is at EUR 1.8 billion and therefore slightly higher compared to the EUR 1.76 billion we had the previous year.

Let's have a look a bit more in detail in terms of the financial performance, the EBIT performance in the third quarter on the Page 6. While we can see that the volume and the structure and the pricing, the net pricing leverage benefit in the third quarter was actually pretty strong at Mercedes-Benz Cars and Vans, at the same time, we see the impact on the same situation, the market situation on the Trucks, which I commented just before. On the FX side, we faced headwinds from multiple currencies such as the British pound and the South African rand. In the other cost changes, we see mainly the impact of higher product and product-related costs. Despite continued efforts, we were not able to compensate, I mean, cost insulation everywhere, and that is also due to some of the challenges that we're facing in the ramp-up of some of the products in the course of the quarter. So my take a bit on the Q3 EBIT, may say I mean overall performance, I mean, is okay. But moving forward, so looking ahead, and actually if you take the 9 months, for example, we see that we need to address the issue of cost growth harder at a point where the volume leverage might be softer.

Let's have a look on net industrial liquidity on Page 7. So since the beginning of the year, the net industrial liquidity came down, I mean, to EUR 9.6 billion. We all know that, that is a function of the dividend payment in the first place; the IFRS 16, we talked multiple times about it already; and a cumulative cash flow over the 9 months now of minus EUR 500 million. The significant improvement in the third quarter free cash flow can primarily be attributed to the general business performance. We were able to better translate the EBIT into free cash flow. Furthermore, the Q3 cash flow was supported by some positive effects, for example, the BBAC dividend which we cashed in as well as some favorable tax impact from the Q2 charges.

The working capital in this quarter remained stable. We could see an increase -- a further increase in the inventories, which is normal at that point of the year to prepare for the run in the last quarter, but then offset by a lower trade receivables and higher accounts payable. Again, this quarter, additions to PPE remained higher than the depreciation.

So with the EUR 9.6 billion at the end of the third quarter net industrial liquidity, as I said already before, we are moving closer to a double-digit territory by the year-end in 2019. Worthwhile to say as well that the gross liquidity at the end of the third quarter reached EUR 26 billion. I think that speaks in itself that we enjoy a significant financial flexibility.

Let's have a zoom now on the performance on the individual businesses. The MBC side on the Page 8. Well, I commented already on the sales, 605,000, supported by compact S-Class and E-Class. In the third quarter, the output from Tuscaloosa plant improved. And the inventories of the GLE and the GLS were reduced significantly. However, the ramp-up remains, I mean, for the remainder of the year and carries on, I mean, obviously in 2020, so it remains ambitious. The revenue of MBC increased by 9% to EUR 23 billion. The EBIT was 5% (sic) [4%] higher than in the same quarter last year and came in at EUR 1.4 billion, with the key levers explained at the group level already before.

On the Page 9, here we actually have it. The volume and the pricing was very favorable. On the other side, higher product and product-related costs by advanced expenditure for new technologies and vehicles as well as some exchange rate impacts provided some headwind. In the prior year period, income had been supported by EUR 185 million from the remeasurement at fair value of the shares of Aston Martin Lagonda.

Page 10. On the Vans, on the sales actually in record, more than 100,000 units are sold in the third quarter. In consequence, revenue increased by 15%. The increase results mainly from ongoing positive sales and market performance in the mid-sized and large Van segment in Europe, the U.S. and Brazil. However, we reduced the decrease in Latin America. Furthermore, unit sales in Russia and Turkey were significantly below the previous year. The Q3 was significantly above prior year level but I have to say apart from our expectation and targets for the business in the future.

Page 11. If we look on the EBIT evolution on the Vans, the boost in the sales, the volume leverage obviously was favorable. We also had a favorable aftersales performance and lower cost of sales. The positive volume and structure effects were offset by some unfavorable currency effects and higher product and product-related costs. In the prior year earnings, the earnings were affected by expenses in connection with ongoing governmental proceedings as well as by lower unit sales due to delivery delays.

Let's move on to Page 12, the Trucks. At trucks, the sales figures differ significantly in the regions. The U.S. and Brazil were stronger. In Europe and Indonesia and Turkey, however, the markets were softer and some significantly softer. The revenue of the Daimler Trucks division increased by 3% to EUR 10 billion supported here by some favorable exchange rate effects. The EBIT was at EUR 774 million.



So let's have a look on the EBIT evolution on Page 13. The return on sales here was 7.5% in this quarter. We had a positive impact from exchange rate and better pricing, but that was more than offset by lower volumes especially in Europe and Asia. Earnings were also reduced by higher expenses from advanced expenditure from new technologies and vehicles as well as product-related cost. Further analysis of the impact of Takata airbags recall for Daimler Trucks resulted in a significantly lower estimate of repair expenses than initially anticipated.

On the Page 14, we have to look on the order intake side, on the incoming orders on the Trucks. And here, we could see that in the North American truck market, we had significantly less orders than in the last year, so which means -- clearly mean that the market is now returning, I mean, to more normal levels, i.e., we had a really exceptional Q3 2018, and that is coming down now, as you can see on the chart. Therefore, Daimler Trucks will have to address its production output to the anticipated lowered market demand resulting in the release of production workers at various sites in Mexico and the U.S. And on that basis, i.e., on that update of the market evolution in the third quarter across all markets but now in particular, I mean, North America and Europe, we had to adjust our expectations for the fourth quarter on the Trucks business, to which I will come when we talk about the guidance.

Page 15. On the Buses, let's make that maybe a bit shorter. We had a positive development on the unit sales. The revenues increased by 16% to EUR 1.2 billion. The EBIT was recorded at EUR 79 million, which is a nice progression compared to last year. And we can also see a nice demand by public transport companies for the battery-powered eCitaro. In addition, we also see some first orders not just from German public transport but also from abroad for the eCitaro. So the Mercedes-Benz bus models with other types of alternative drivetrain technologies enjoy a nice demand.

On the EBIT side, Page 16, the third quarter, I mean, progressed to EUR 79 million. That progress from the volume is coming from the EU, from the European region. We sold significantly more complete buses and chassis of Mercedes-Benz and Setra brands, 2,500 units in the third quarter. So that growth momentum and as well as the momentum in Brazil is driving the performance in the quarter.

On Daimler Mobility, Page 17. The Daimler Financial Services was renamed into Daimler Mobility. The new business acquired is EUR 18.3 billion. That's significantly higher than in the third quarter last year. With this, the portfolio is at EUR 160 billion by the end of the third quarter. That's a 4% growth year-over-year, with 2% of that coming from FX. The EBIT at the division level is EUR 413 million. That's slightly above previous year number. The return on equity decreased to 11.9%.

Why, let's have a look on that on Page 18. The earnings development was supported by a more favorable interest income and increased contract volume. At the same time, the EBIT in this quarter was impacted by higher cost of risk, reflecting the normalization of credit cost. On the mobility services side, we decided higher investment in our NOW mobility solutions especially to realize the growth and scaling for our FREE NOW, the ride-hailing joint ventures. At the same time, we also had to record some headwinds from some other NOW JV impairments, which were mitigated by the disposal of our Flixbus share.

Let's have a look now on the market outlook on the Page 19. Worldwide demand for passenger cars in 2019 is expected to be slightly lower than in the previous year. Demand for Vans and Buses should remain high in the major markets. In the Truck business, we expect the NAFTA region in weight classes 6 to 8 to slightly surpass the high level of the previous year. In view of generally weaker economic growth, we now expect demand in the EU30 region to be slightly below the high level of 2018. In Brazil, the market is expected to continue its recovery with a significant increase in truck sales. The Turkish market however is likely to contract again significantly as a result of the country's economic recession. And on the bus, we expect significant growth.

How does that translate into our sales outlook for 2019, Page 20. So based on the assumptions for the development of the markets which are important for us, we expect total unit sales in 2019 to be in the magnitude of the previous year. Our expectations for MBC remain unchanged. We expect unit sales to be at the prior year level. Q4 deliveries should be strong due to significantly better vehicle availability. For Mercedes-Benz Vans and Daimler Buses, we have adjusted our assumptions and now expect slightly higher unit sales for both divisions for the full year. In the third quarter, overall economic growth in the core Truck markets of Europe and North America slowed significantly faster than expected. Therefore, we now expect sales to be slightly lower.

On Page 21, what does that mean for our return on sales guidance in the group? So based on current assumptions, we assume the following performances at our divisions: for Mercedes-Benz Cars, 3% to 5% return on sales; minus 15% to minus 17% return on sales at Mercedes-Benz Vans.



As outlined before, Daimler Trucks now has to expect a return on sales of 6% to 8% due to the significantly slowing demand in key markets, however, keeping in mind the outlined challenges, we expect the full year performance at the lower end of the range. At Daimler Buses, we assume a 5% to 7% return on sales; and 17% to 19% return on equity for Daimler Mobility. For the group, this means that our EBIT in 2019 will be significantly lower than in the previous year.

As reported, Daimler is subject to legal proceedings in connection with diesel exhaust emissions. In the context of their final resolution, additional expenditures may arise, which may, subject to the further development of the proceedings, negatively affect the aforementioned profitability expectations in particular of the Mercedes-Benz Cars and the Mercedes-Benz Vans divisions.

Based on the recovery in the third quarter, the industrial free cash flow for the fiscal year 2019 is assumed to be positive but significantly below the 2018 number. Strong sales at Cars and Vans supported our Q3 financial performance. However, in order to master the transformation in the next few years, we need to increase our efforts considerably. We therefore have to significantly reduce costs and consistently strengthen our cash flow.

So for the remaining months of the year, we'll keep our focus on our operational challenges and the financial targets. Furthermore, we continue to review the strategy and the efforts of the Daimler Group and our divisions. And we are happy to update you on both the strategy and the performance on our Capital Markets Day taking place in November 14 in London and November 15 in New York.

This being said now, we're happy to take your questions.

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**Björn Scheib** - Daimler AG - Head of IR & VP

Thank you very much, Harald. Ladies and gentlemen, you may ask questions now. The operator will identify the questioner by name, but please also introduce yourself with your name and the name of the organization that you're going to represent.

A few practical points. As always, please avoid using mobile phones or any hands-free speaking systems. And the third, ask your question in English. And last but not least, speak loud and clear. (Operator Instructions)

With this, we're going to start with the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And the first question is from Tim Rokossa, Deutsche Bank.

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**Tim Rokossa** - Deutsche Bank AG, Research Division - Research Analyst

Harald and Björn, it's Tim from Deutsche Bank. I'd like to come back to free cash flow. Harald, you already touched on it, but I think this is absolutely key this morning. It's a very nice speed, and it obviously mitigates a lot of the concerns that people have on the net liquidity. Can you explain in a bit more detail how you managed to do that? I see that working capital was more normalized than last year. It wasn't really a major tailwind. There's a 560 million dividend from China already. What were the other ingredients to get there? And then also when we think about Q4, I know you're not going to give us a number, but let's maybe talk about the ingredients that are coming up to stream in Q4 as well. There's another 560 million from China obviously. What happens to working capital? Is the GLE and GLS issue largely fixed now, or do you still carry a lot of inventory?



**Harald Wilhelm** - Daimler AG - CFO & Member of the Management Board

Thanks, Tim. Actually, there's only one question. That's good. So first, Q3, how to think about the Q3 free cash flow, well, first, I would say that the conversion rate basically from EBIT to free cash flow was pretty good, I mean, if you look on the EBIT to free cash flow but also if you look from EBIT to operating cash flow. Second, you mentioned it, there was a dividend which has been cashed in of more than 500 million, I mean, from China in the third quarter. I also commented before that we had some favorable tax impact from the charges taken in the second quarter.

And then, yes, on the working capital actually in the third quarter, that was balanced. You can see the inventories growing somehow further, as said before, but I mean this is controlled, so this is not, I mean, a function of missing a ramp-up. So actually, the other way around. We could reduce the yards significantly in the third quarter and use the third quarter to prepare for the sales, which we see at a strong level for the fourth quarter. That has been balanced by chiefly payables, i.e., an increase in payables and a reduction in receivables. At the same time, the investment, we started, I mean, to review and to prioritize. But as said earlier in the year, that did not -- we did that, I think, in hindsight and not stupidly, so we didn't cut things. So the investments are still running ahead of the depreciation level in the third quarter.

So all in all, I hope that gives you a bit of a color of the third quarter free cash flow. Now how should we think about the fourth quarter cash flow? Yes, sir, there should be a dividend to come from China in the fourth quarter. At the same time, I commented about the settlement with the German prosecutor. That is going to lead to a cash-out in the fourth quarter.

What else? Yes, a lot of stuff which has been prepared and, as just commented on the Q3, will come off, so we have to see a significant release of inventories in the fourth quarter chiefly on Mercedes Cars side but all across, I would say. Probably, we're going to lose some of the payables as -- I mean than -- I mean, some of the factories were closed down, and therefore, I mean we'll see a reverse on the payables side.

So all in all, I mean, what does it mean? If I look ahead for the free cash flow on the fourth quarter, well, I will not set out a Q4 cash guidance now, nor will I do that for the full year. But clearly, I mean the fourth quarter cash flow should therefore be positive. And I remain the view as of July that we should be able to reach a double-digit net liquidity by the end of 2019.

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**Tim Rokossa** - Deutsche Bank AG, Research Division - Research Analyst

That is great, Harald. If I may just follow up on the payables, obviously, your French competitors -- or at least the French OEMs, but not sure if they are really competitors in most instances. They pay their suppliers substantially later than you guys. I've heard from various German suppliers that the German OEMs are now starting to stretch the payment terms as well. Is the development that we're seeing in the payables a reflection of that? And is it sustainable, or was it an exception in Q3?

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**Harald Wilhelm** - Daimler AG - CFO & Member of the Management Board

No. In 2019 in the Q3, and I don't see any change for the remainder of the year, we stick to our current policies. You mentioned that the policy maybe at our end and some other German OEMs are a bit at the lower end. I think there's a potential for the future. We're looking into that, but that's neither baked in into the Q3 numbers nor baked in into the expectation for the Q4, but it is a potential for 2020 and beyond.

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**Operator**

And the next question is from Arndt Ellinghorst of ISI Evercore.

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**Arndt Alexander Ellinghorst** - Evercore ISI Institutional Equities, Research Division - Senior MD & Head of the Global Automotive Research

It's Arndt Ellinghorst, Evercore. Just a follow-up on the cash flow and the dividend at least. How strict do you want to be this year that the dividend should be covered by free cash flow, please?



And then secondly, on emission regulation at CO<sub>2</sub>, could you give us an update what your current CO<sub>2</sub> footprint is in Europe? I remember you finished last year with roughly 132 grams CO<sub>2</sub> per kilometer. How much progress has been made this year? And how do you as a CFO, how do you -- especially for Mercedes-Benz Cars, obviously, but it's also kicking in for Vans. But how do you prepare for next year? How much visibility do you have now? And how much of an increase in product costs do you bake into your views for next year?

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**Harald Wilhelm** - Daimler AG - CFO & Member of the Management Board

Thanks, Arndt. Maybe on the second question, well, I mean we're working very hard, I mean, to meet the standards -- all standards while knowing that the European ones are pretty tough to meet, with the significant investments into the powertrain and the switchover in the powertrain was hybrids and also the best to come. From today's standpoint, I think what we're preparing, including the industrial road map for 2020, from everything I know, it's feasible to match the 2020 targets. It's tough it's tight, so I don't say it's without a risk, but there is a road map. At the end, it obviously depends on the customer choice. But from our side, what we do, clearly, we want to meet these targets. For the outer years, for 2021 and 2022 and beyond, I think we have even a bit more flex as much more plug-ins in [Bus] and 48 volts are coming in.

Back to your first question on free cash flow and dividend, well, this is a Q3. I don't want to fuel speculations, I mean, about the dividend for 2019. We have to close 2019 first in terms of our sales, revenues and the net income but also the free cash flow. I think we have a dividend policy out, i.e., payout ratio of 40% on reported net income. That's the policy under the control of my colleagues here. But clearly, I mean I will have a look into the free cash flow generated in 2019 to form a view. And I will also have a look into 2020 cash flow expectation when forming an articulated view on the dividend proposal, which obviously is to be discussed in the Board. That's all I can say at this stage.

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**Arndt Alexander Ellinghorst** - Evercore ISI Institutional Equities, Research Division - Senior MD & Head of the Global Automotive Research

Okay. And if I may, just one add-on. On Trucks, the performance just really remains disappointing, as you know. Should we see the run rate level of profitability that you're showing in the second half and especially Q4 as a glimpse of what to expect for next year? Or are there any hopes that anything's getting better from the sequential momentum the division has?

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**Harald Wilhelm** - Daimler AG - CFO & Member of the Management Board

Well, Arndt, you're touching a point on which we are working hard, the Truck team, but I mean altogether, I mean, what's the situation. But I think we'll talk more about it during the CMD, so I will cut it short. I think the good news is what our -- I mean, U.S., the NAFTA business is actually very strong, and the profitability is I think at real benchmark level. This is not the case for, I mean, some of the other businesses, in particular the European one. Now as we see the markets coming down from a pretty record high level to more, call it, normal level in the U.S., I think that situation surfaces. And that's what we see in the Q4. And before actions kick in, in terms of improvement, that's what you will see then probably also moving into 2020. But we're not happy with that, and we will not leave it there. But we'll talk about that during the CMD.

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**Operator**

The next question is from Max Warburton of Bernstein.

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**Max Eliot Adair Warburton** - Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst

It's Max of Bernstein. Two questions, please, unrelated to each other. Harald, the first one, could you just give us a bit of color on what the company is seeing in premium segment pricing in Europe? Some in the industry are saying that pricing has gotten quite tricky over the summer in some of the bigger markets. But what are your commercial guys saying about what they're seeing particularly in Germany and the U.K.?





And then the second question, maybe this is naive on my part, but could you give us a little bit of feel about the process internally ahead of the CMD in terms of what you're planning to present to us? Is this something that you will share with people in the company ahead of the event, and/or is it subject to a Supervisory Board sign-off? Is there some sort of formal process ahead of November 14?

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**Harald Wilhelm** - *Daimler AG - CFO & Member of the Management Board*

Thanks, Max. Interesting question. So first one, on the pricing side in the European markets, I mean I think you emphasized Germany and the U.K. I think people really enjoy the quality of the products and the attractiveness in terms of its features. I mean there's a lot of content in the car. What you see in the Q3 bridge actually in the volume and the pricing is that I think there is a nice price leverage in the Q3 numbers which we could materialize. And I'm not sure we split out, I mean, the pricing evolution by regions, but I mean I can say that I think it applies in a favorable fashion for the European markets in the third quarter.

On your second question, what is the process in terms of the CMD, well, I don't think -- I mean I will set out the agenda at this juncture. But certainly, we want to do a frank and honest and a fair assessment of where we are, where we think our strengths are but where we think that we need to do better. And we'll do that basically focused on the 3 businesses, i.e., on Mercedes-Benz Cars and Vans, on Daimler Trucks and Buses and the Daimler Mobility side, and then maybe give a perspective then on what that means financially for the group as a whole. In terms of, I mean, the validation and the vetting of that, we are -- at the same time, we have been conducting extensively a strategy exercise over the last at least 9 months and also had opportunity to discuss that internally and also with the Supervisory Board. So I mean that I think is a good opportunity to talk about that. At the same time, we're working on an operational plan as I think many other companies do at this juncture of the year. We will try to give a very recent perspective of that. So let's call it, I mean, a reasonable balance between work in progress and sharing that with relevant stakeholders.

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**Max Eliot Adair Warburton** - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Just a quick follow-up on that, is there a rubber-stamping process by the Supervisory Board in the days before the 14th of November?

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**Harald Wilhelm** - *Daimler AG - CFO & Member of the Management Board*

I don't think we are commenting on our Board meetings and agendas, but rest assured that I think what we want to say in terms of key messages will be nicely aligned with our Supervisory Board. I think anything else would not be really prudent.

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**Operator**

The next question is from José Asumendi, JPMorgan.

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**José Maria Asumendi** - *JP Morgan Chase & Co, Research Division - Head of the European Automotive Team*

José, JPMorgan. A couple of questions, please. The first one, on MBC, Mercedes-Benz Cars, can you shed a bit more light behind the EUR 1 billion move on the bridge on volume, pricing and structure? And also do you expect the fourth quarter settlement to be as dynamic as Q3? And also if you could comment also please on the other cost changes, how should we think about that also going into Q4.

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**Harald Wilhelm** - *Daimler AG - CFO & Member of the Management Board*

Thanks, José. Yes, I mean third quarter, I mean the volume and the pricing beat or boost of EUR 1.2 billion on the Page 6 of the presentation. I mean you see the split by the segments, by the divisions. We're not splitting out, I mean, the volume from the pricing. I could give a flavor and say that the volume, I mean, is higher than the pricing, but that -- I will not go further than that, if I may say. On the MBC and the Vans side, I mean that was positive. On the Trucks, net you see on the chart.

On the other cost changes, well, I mean there is more content in the Cars, for which you get a pricing premium. And at the same time, we also have to ramp up, I mean, the investment, I mean, for the transformation which is yet to happen. That's what you see in the number of the EUR 628 million in the third quarter. So on the third quarter, I think you can see, I mean, that works as you have that volume and the pricing leverage, which is more than offsetting, I mean, the cost evolution in the third quarter. Clearly, I alluded to that, I mean, before. If we take perspective over the first 9 months, you will see that the volume leverage obviously is a much smaller one. Or basically, we are now at, I think, 0.6% year-on-year growth in terms of the sales. You don't have the volume leverage. And as we say on a full year basis, the volume should be at about 2018 level for MBC. So the left bar, I mean, will be much smaller. And the bar on the right-hand side, i.e., the other cost changes, I mean we'll maybe not grow proportionally, but it will continue to grow. I think we alerted on that, if I remember correctly, in the Q1. We emphasized it in the Q2. Now you see it happening.

So what does it mean? At the point where the markets are definitely softer on the Trucks, at a point where maybe the growth on the MBC side isn't as strong as it was in the past, the emphasis on cost changes, i.e., on cost reductions, needs increase. And that's clearly what I want to say here. So our job is not to report the numbers but, I mean, to analyze the numbers. And that means that we have to -- we took actions and that we have to take action moving forward in terms of cost improvement and probably step up the effort in this respect. That's also what you see in Ola's quarterly press release.

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#### Operator

The next question is from Patrick Hummel, UBS.

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#### **Patrick Hummel** - *UBS Investment Bank, Research Division - Executive Director and Lead Analyst of European Autos*

A couple of questions, please. First, I just wanted to confirm that the GLE, GLS ramp-up issue is now finally solved. You said that the inventory for these products start to come down. But is it fair to say that the ramp-up is now really fully completed, meaning production run rate is hit and that now you're just working on getting the retrofitted cars to the customers, so there is no queue of vehicles waiting for retrofit anymore?

And the second question relates to the mobility service business. I mean it seems to put a bit of a shadow on the otherwise very solid mobility division in terms of the lost contribution and the cash burn. There were some reports in the media about getting additional investors on board. How do you think about funding -- continue to fund the business? Or isn't it time actually to stop the bleeding here and find an alternative solution?

And lastly, let me say I'm very much looking forward to the CMD in a couple of weeks' time. I think you're well aware that at least the bulls on the stock expect some quantified hard targets on cost structures, on investments and the free cash flow for the years ahead. So I'll leave it with that and look forward to seeing you in a couple of weeks' time.

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#### **Harald Wilhelm** - *Daimler AG - CFO & Member of the Management Board*

Yes. Thanks for setting the expectations low on the CMD. Well, we'll see where we are by then and then talk about it. I will not make any further promises, and I think we shouldn't make -- we shouldn't increase the hype a bit on the CMD further. So at the CMD, as said before, we'll talk about our performance situation and the way we want to address it moving forward as well as the strategy.

On your question for the GLS and the GLE, well, huge effort has been put into the Q3. I think a significant improvement has been achieved. The yard has really been reduced significantly. Well, you're squeezing the last juice out -- I mean, out of me. I mean let me say we halved it by the Q3, at the same time, ramping up the production of the new ones, so I mean a double-dip challenge, I would say. But we're not done. I mean we're growing further in the fourth quarter. And in 2020, we have to reach even higher levels in terms of production rate on the run rate, I mean, 2020. This being said, it goes without saying that, that remains challenging to make the full supply chain work internally, externally, and therefore, you can never say, I mean, it's over. And even if you're done with the ramp-up, I mean, to keep it running at a high level is not a walk in the park either, so let's stay a bit realistic here.



The other point on [DMO], on the mobility services side, well, we're going through the portfolio. We are looking into it. Just look at the Q3. I commented before that we took an impairment on one of the ventures. So we are looking into the business perspective and to the business plans, and then I mean we do what we have to do, i.e., in this case, to record an impairment. On the other side, we are also looking into the portfolio in terms of what is it we want to keep and what is it we wanted to divest. And so we came to the conclusion that we had a nice ride on Flixbus, and so we divested from it. And we had a pretty decent capital gain and also cash inflow in the third quarter from that activity. Globally, it's not I think just about, I mean, pouring money into it and the dilution here. No, I mean it's conscious investments where we believe there is potential, there is value potential and look a lot on the FREE NOW, on the ride hailing here, which requires some significant investment. But we clearly see a valuation potential for that. So that's what we're doing. Again, CMD, will shed more light on it, but it's a very conscious portfolio management we're doing.

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#### Operator

The next question is from Stephen Reitman, Societe Generale.

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#### Stephen Michael Reitman - Societe Generale Cross Asset Research - Equity Analyst

Stephen Reitman, Societe Generale in London. And I have 2 questions as well. First of all, on China, obviously, performance there has been very strong from a production and wholesale and retail perspective. We've seen obviously your rival BMW being now already preparing to take increased stake in its joint venture. And there have also been noises from China as part of the U.S.-China trade talks that they might also relax the rules on joint venture [such] ownerships a bit earlier. Is Mercedes prepared as well to increase its stake in its Chinese -- in its partner as well?

And secondly, just more of a remark, really. I mean I understand your comments about GLE, and I understand the vehicle is quite -- has been -- is a sophisticated and complicated product, and you've changed suppliers and the like. But it is rather unusual to see the degree of problems that this vehicle has encountered from a journey experience of Mercedes, which normally it tends to execute quite well. So I think -- I mean just explain to why a lot of these questions are coming out.

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#### Harald Wilhelm - Daimler AG - CFO & Member of the Management Board

Thanks, Stephen. So yes, I think the second one was not really, I mean, a question anymore, but just let me add to it. It's a fantastic product. Yes, there is quite a lot of complexity, but it's a fantastic offering, I think, of our customers. Nothing more to add to this point. On the first one on China, well, I think we have a very fruitful cooperation with our partner BAIC. That's -- I commented also at the beginning that we're happy about their investment into Daimler, manifesting that corporation. I have a chance obviously, as part of my onboarding, I mean, to visit it and to see the impressive ramp-up from where we were and where we are by now and where we would probably be in the full year deliveries. I mean, in China, I think that's a really impressive track record and success. And I think both sides, BAIC and ourselves, we are ready, I mean, to take the success into the future, but I have nothing more to say than that.

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#### Stephen Michael Reitman - Societe Generale Cross Asset Research - Equity Analyst

And maybe if I could then use my second question then on -- the question on Page 21, the comment about potential for future diesel litigation issues. Can you just explain if this -- does this relate to cartel investigation, or is this just to further issues?

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#### Harald Wilhelm - Daimler AG - CFO & Member of the Management Board

No. I mean the meaning is that we are -- I mean as part of the earnings guidance, I mean, which we announced in pending legal proceedings in connection with a diesel fraud, there was a considerable degree of uncertainty. So I mean, therefore, it is possible that additional expenses become necessary, which could affect the expectation, the returns for 2019. And I think that was important to us, I mean, to remind everybody, and that's why it sits here in the guidance chart. And please refer to the risk section in the interim report.



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**Björn Scheib** - *Daimler AG - Head of IR & VP*

As we are running out of time and we have only 5 minutes left, (Operator Instructions) Thank you.

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**Operator**

The next question is from George Galliers of Goldman Sachs.

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**George Anthony Galliers-Pratt** - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Just one question from me. Obviously, the cash tax was much better during the third quarter and looks like a positive cash tax rate. Can you give any guidance on what you're expecting for fourth quarter in terms of cash tax rate?

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**Harald Wilhelm** - *Daimler AG - CFO & Member of the Management Board*

Yes. Thanks to hit that point. I mean as I said earlier, I mean the Q3 had a favorable impact from the Q2 charges, which means tax refund. And while I will not split out now country-by-country where we are, I think that would go too far. But at this juncture, I mean I do not expect any further refund in the fourth quarter. And therefore, we should -- we will not see that favorable impact in the fourth quarter and, I mean, hopefully, be rather back to normal in tax rate, which you see in P&L also in cash flow in the fourth quarter. So I think it's an important reminder on your side that we shouldn't take the third quarter cash flow and just, I mean, copy-paste it for the remainder of the year. Thank you.

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**Operator**

And the next question is from Angus Tweedie, Citigroup.

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**Angus Vere Tweedie** - *Citigroup Inc, Research Division - VP & Analyst*

Another cash flow question. Please, can you just talk about the movement in other operating assets and liabilities? It looks like you had EUR 1 billion inflow in Q3 there. Can you just explain what that is, please?

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**Harald Wilhelm** - *Daimler AG - CFO & Member of the Management Board*

I think the major part in that line item is the dividend which has been cashed in from China, as I commented earlier.

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**Operator**

And the last question is from Kai Mueller, Bank of America.

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**Kai Alexander Mueller** - *BofA Merrill Lynch, Research Division - Associate and Analyst*

Kai Mueller here from Bank of America Merrill Lynch. Just a question. Well, you mentioned earlier obviously on the demand on the GLEs and GLSs looks very healthy. And it's more on the supply side, the constraints you've been having. With regards to your CO2 saving and CO2 targets into next year, do you have with your dealerships incentive schemes or your sales trying to push consumers to go for the plug-in versions? Or to what extent have you seen the plug-in demand actually shaping up since you launched the vehicles really at the Frankfurt Auto Show in a wider range of models?



**Harald Wilhelm** - Daimler AG - CFO & Member of the Management Board

Well, I said before, I think I mean plans are in place, I mean, to make sure that we can achieve the CO2 ambitions 2020 and beyond the targets on the industrial side but also on the sales and the dealer side, I mean, to support -- I mean, however, at the same time, I mean clearly, this is very valuable stuff. And we'll be responsible in terms of pricing for these products. So that is certainly going to be a very interesting question moving forward. And we'll see the customer choices as a result of that.

**Björn Scheib** - Daimler AG - Head of IR & VP

As we are running out of time, ladies and gentlemen, thank you very much for your questions and being with us today.

Sorry for cutting this one over here so prudently off, but we've got a press call starting immediately. That should be remaining -- the IR team fully stays at your disposal.

Harald, thank you very much for answering your -- these questions. And we look forward to see you all either in London on the 14th of November or the day after in New York. Thank you also very much to all of you listening on the phone, and hope to see you soon. Bye-bye.

**Operator**

Ladies and gentlemen, thank you for your attendance. This call has concluded. You may disconnect.

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