

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DAI.DE - Daimler AG Capital Market Day - London (Morning Session for Investors)

EVENT DATE/TIME: NOVEMBER 14, 2019 / 9:00AM GMT



CORPORATE PARTICIPANTS

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

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

Martin Daum *Daimler AG - Head of the Daimler Trucks & Buses Divisions and Member of the Board of Management*

Ola Källenius *Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division*

CONFERENCE CALL PARTICIPANTS

Adam Brian John Hull *MainFirst Bank AG, Research Division - MD*

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

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

Daniel Schwarz *Crédit Suisse AG, Research Division - Research Analyst*

Gautam Narayan *RBC Capital Markets, Research Division - Assistant VP*

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

Harald Christiaan Hendrikse *Morgan Stanley, Research Division - MD*

Henning Cosman *HSBC, Research Division - Analyst*

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

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

Michael Dean *Bloomberg Intelligence - Analyst*

Michael Raab *Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research*

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

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

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

PRESENTATION

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

Good morning, everybody. Very good to see you all over here. This Björn Scheib of Daimler speaking. On behalf of Daimler and the entire Daimler management, I would like to welcome you here at the Corinthia Hotel at London. Also, a very warm welcome to all of you on the Internet to today's 2019 Daimler Capital Markets Day. This strong attendance today shows that huge interest in Daimler and the business performance and strategy of ours. We appreciate this very, very much.

Therefore, I'm very happy to have today with us Ola Källenius, the Chairman of the Board of Management and responsible for the Mercedes-Benz Cars; Martin Daum, member of the Board of Management, responsible for the Daimler Trucks & Buses; and our CFO, Harald Wilhelm, member of the Board of Management, not only CFO, but also responsible for Daimler Mobility.

Ola will begin with a presentation regarding Mercedes-Benz, which will be followed by Martin on Trucks, and then Harald on Daimler Mobility. Ola and Harald then will complete up the presentation with statements regarding the Daimler Group. After that, you're going to have sufficient time to ask your questions.



Having said this, I would like to remind you that this investors' conference is governed by the safe harbor wording that you can find on our published documents. Please note that all our presentations contain forward-looking statements that reflect management's current view with respect to future events. Such statements are subject to many risks and uncertainties. If these assumptions underlying any of these statements prove incorrect, then 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. Please be aware that this conference will be video broadcasted and recorded and then will be available for replay on our website.

Before we start, we kindly ask you, please switch off your mobile phones. And with this, thank you very much. I pass on to Ola.

Ola Källenius - *Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division*

Thank you, Björn. Good morning, ladies and gentlemen, and welcome to this Daimler Capital Markets Day here in London. Great to see that so many people could join us here today in the room and on the stream. I'm going to start by giving a presentation about Mercedes. And if I look at this picture, first move the world, our purpose. It goes back to that original idea, the original attitude of our founders. And I could probably give a very long presentation today about brand technologies, the great products that we have in the pipeline, and we have many of them, but we have chosen today to focus on our financial situation, our performance, what we're going to do in the next few years. But of course, also give you a strategic outlook, where is this business going, what are we thinking about the business and where do we want to take Mercedes. In the last few months and weeks, we have spent a considerable amount of time analyzing our business and understand where do we stand, what's going on right now in the company and also in the industry. And I've tried to summarize here on one page, how do we view the current situation of Mercedes-Benz Cars, what is the company good at and where are areas where we need to improve.

Starting from the top, great brand. Again, recent survey, we came out as #8 most valuable brand in the world. Great products, good, strong competitive products, we don't have to hide anywhere on the product side. Our pricing is intact. We have, I would say, reasonable price premiums vis-à-vis our main competitors in all markets. We keep disciplined pricing, watch our discount levels very closely. And you can clearly say that, not only the styling, but the product innovation that we have support that good pricing.

Sales volume. Why do you put that here in amber when we're going into a new record year? Because we have not reached the levels that we had originally set up to do and that we built up our capacity for. We're #1. We have turned the tide in this year as we discussed with some of you when we met after the Q2 numbers. Started the year in a little bit difficult position, but have turned the tide in the second half year and going to end with another sales record, but only slightly above where we were last year. So good-ish, but not good enough.

Variable cost as a part of this portfolio and technology expansion have been creeping up. And this is before we go into a full-scale rollout of the CO2 technologies that you will see here in a minute.

What are areas that are more -- that need more attention? Yes, we have invested heavily in the last few years. The industry is in transformation, we have to do this. We know that 10 years from now, this industry is not going to look the same. And we have been ramping up our investment from the new, while at the same time, keeping high investment level on the current. And that leads to an increased level of depreciation that we will see in the numbers here.

And fixed cost. If we're honest, this is probably an area where we've never been benchmarked, and we're not benchmarked today. We need to address our fixed cost because, especially if the revenue line is not sitting at where you originally planned it to be, you got to address this in your fixed cost as well.

And of course, as you know, we have had some onetime events, items from the past going to burden the results in this year. Some of these proceedings are ongoing. We're seeking resolution. We have made provisions in our books for it, but we don't know yet what the final outcome is of all of these. One of the main proceedings, we were able to close, as you know, in the third quarter of this year. So that's a frank assessment of the current situation.



Then, of course, you look ahead, what's coming towards you. Is it going to get better? Are you going to get some tailwind from the business environment? Or is it going to get tougher? In our case, we believe it's going to get tougher. Maybe the main thing is now kicking in, in 2020, especially European CO2 targets, the fleet targets. It's the first year of reckoning here where those 95 grams, or in our case, slightly above 100 grams because it's weight-based, actually become real for the first time. And we have to address that with technology to meet those targets, driving up costs.

On the investment side, can you just ramp that down now after having a few years of investing into transformation? Not yet. We still have work to do here. We have seen the first few chapters of the transformation, but this is a book with many chapters.

Softening growth. We are planning for growth, and we think we have the product portfolio, the brand and the strategy to grow, but you can feel that there's a little bit more unease in the market here and there compared to only a few years ago.

Then comes an outlier, tariff risk. If you had asked me 5 years ago, I wouldn't necessarily have had this on my radar screen. But as we stand here today, it is a fact that the Chinese have announced that they would significantly increase tariffs on cars from the U.S. to China, so middle of December of this year. And us being one of the biggest exporters and looking for a big year of sending SUVs from the U.S. to China, this affects us significantly.

And of course, we have Brexit. Your guess is as good as mine. But we believe there will be some turbulence, if nothing else, turbulence in the market. And some of the operational issues that we have had, had model change over new launches. We're getting to grips with that, but we're not quite yet out of the woods. And we still have some work to do, but we have made a significant improvement in the second half of this year.

So those are the headwinds. Starting position, some good things, some tougher things and some headwinds.

Let me comment a little bit more on these headwinds because we have gotten questions about this in the past. And I'm going to start with CO2 because that's probably the biggest one. And as part of transformation going to ultimately CO2-free mobility, this is really where the journey starts.

We know that 2020 is the first year of measuring in the new target regime in the EU. We are sitting probably roughly as a projection for the end of this year, the year hasn't ended yet, and this includes vans now because we sell commercial vans that count as passenger cars as well, at around 138 grams. So you start asking yourself, yes, of course, a car company, premium luxury, larger vehicles and commercial vans, also larger vehicles, how are you going to get from 138 to somewhere above 100? That's a very -- that's a big distance in 1 year.

And you see the first bar here, xEV, which is battery, electric vehicles and plug-ins. 48-volt and the portfolio, of course, we're improving everything. Every new vehicle that we launch, we take every sensible technical measure to shave off grams of CO2 of this. That's a big chunk.

Just to give you a feeling of some of the numbers on 48-volt alone, we're more than doubling the number of vehicles that have 48 volts from around 200,000 to about 400,000. That leads us to a technical prognosis for 2020, it falls short of the target. The regulator allows us to use so-called super credits, which means double counting of some of the xEVs. And you can choose to use them the way you see fit in the first few years. We're going to use the next year, and they also allow you to do a phase-in in the first year. So you shave off the top 5% of your fleet, and it doesn't count in that first year.

So even though it looks like a Herculean task that to the outsider might be impossible to solve, we can get within target range. That's our message today.

What we can't control is, of course, we can't control it completely. We can influence, but we can't control it completely, is buying behavior. So buying behavior and the mix of this fleet will, of course, make this a moving number throughout the whole year. But what we're saying today is we have the technologies in our portfolio to be able to get within target range. But I put that gray area on the outlook next to the target. We're not going to go below target, that would be unrealistic. But we can get within range, and we will keep you posted as the year develops.

So on the xEV, the xEV, and this is one of the cost drivers on the variable side, on the investment side as well, of course. We have about 2% xEV in 2019 if we look at our outlook for sales this year. We're quadrupling that next year. More plug-ins, first full year of the EQC. And then eventually,



more bets. And we're taking another big step in 2021 because the phase-in and the super credits that you get in 2020, needless to say, you don't have those in 2021. So you have to outweigh that with technical performance as in vehicles that have lower CO2 ratings. That's why 2020 and 2021, particularly are 2 very challenging years to get to this. In the midterm, with the fleet that we're rolling out, we're cautiously optimistic that compliance will be, so to speak, next second nature for us. But these next 2 years, it's a real task. We are calculating roughly 1% ROS effect per annum over the next 3 years for this. And it's the cost of the technology, not so much the cost of a potential penalty.

On the investment side, what's going on here? I talked about the first few chapters of the transformation. Can't you just turn off right now the combustion cycle? No, you can't because it wouldn't make sense. We have said in our Ambition 2039 that we count on maybe 50% xEV by 2030. So by definition, if that comes true -- a little bit of a crystal ball, but if that comes true, significant piece of your portfolio will still be combustion-based for the next 10 years. We are in the final phases of rolling out a complete engine family. As a matter of fact, the biggest volume engine of that is going to come end of next year, which is a brand-new 4-cylinder gasoline engine.

And then, of course, we will roll those out into our different vehicles. We will make those engines, EU 7 ready for the '24-ish time frame. It's not quite yet set when it will kick in. And if there are sensible CO2 technology packages where the return on investment is sensible, of course, we will do that. But we would not, on that generation of engine family, then start brand-new projects and go from 12 cylinders to small 4 cylinders and replace the whole thing again. But what I'm saying is that the investment cycle for that stretches through roughly '23-ish in R&D and the CapEx, and then you have some rollout to go with that.

So in terms of complexity, we haven't reached peak complexity. We have everything of everything on the combustion side today. In the next few years, we'll have everything of everything in all categories, combustion, plug-ins, BEVs. So peak complexity is ahead of us, and it drives some of the cost. But I'll talk about later what our strategy is to deal with this in the longer term.

So if this is the situation you're in, once you have realized that, and you have digested it, you come to the conclusion that you have to tackle everything. And that's what we're doing, but the main job is obviously on the cost and investment side, the things that you can definitely control. That doesn't mean that you should be shy or not ambitious on the top line, we will be ambitious on the top line. But the focus in terms of what we need to do in the next 2 to 3 years is looking at costs and investment.

And let me go through in more detail what we are -- what we're already doing and what we intend to do. The biggest cost category, by a wide margin, is your material cost. That is what carries your variable cost. In our case, it's about EUR 45 billion for Mercedes-Benz Cars.

It's standard operating procedure, and has been for decades or 100-year plus, to attack your material cost. There's no doubt about it. And we have been doing it as well. But we have started this year, earlier in this year, a more comprehensive program than what we have done in the past and really asking ourselves, is our variable cost position -- is it okay or is it not okay? It's impossible to know exactly where the competitors are, but you buy competitor vehicles that are in the market, you tear them down, you compare your designs to their designs, you do all of those things. We have, in a much broader way, addressed the suppliers to say, even though we have quite an amount of engineering pride and we believe we know what we're doing, in some cases, maybe things that they have, which is less complex and less costly, could fill the same purpose and put us in a better cost position, so inviting the suppliers into this discussion in a more active way.

I'm not going to pretend that we're not going to put pressure on suppliers. We're going to do that as well. And especially in terms of claim management, if God forbid, there is a recall or something, very, very, very seldom, is it the fault that actually happen in any of our production operations. Most often, it's actually something that's happened in one of the tiers before us. But we bear the brunt of that cost, and we'll be more aggressive in claiming that back.

Of course, leveraging partnerships. We have in the background, a procurement partnership with BMW in non-differentiating parts. There are some opportunities there. Some of them we have already reaped, maybe there's more. And if there are other partnership models that will benefit us here, we will go for them.

Investment cap. If I think back the last 10 years after the financial crisis, this number has been going up and up and up and up. Of course, we have been growing. We're installing more capacity. We've been successful. We have regained the #1 position. Investment is not a bad thing. It's a good



thing if you get the return on it. But you come to a point where you have to go into a more, I would say, focused cash management. And that point is now. So if we would have continued and just kept on going, upping the bet on transition technologies, transformation technologies, the blue line here is suggesting we could kept on going. But we have made a clear decision in management that the first protocol here is a cap and then bring it down. What you try to do, of course, is you try to get and do what you are trying to do anyway for less money. That's always task #1, create efficiencies in your product projects. But it's also about being more, I would say, choosy when you pick the projects that you're going to do, perhaps have a slightly more risk analysis of which technologies, which product projects do you actually start, and what does the downside of those projects look like if your assumptions don't come to fruition? So here, we will be more precise and we will start moving this line down. This is important later on for the chart when we come into cash conversion and also putting ourselves in a healthier position in the outer years.

Personnel cost. Especially for a German company, but not only for a German company, this can get quite emotional but there are no 2 ways about it. We have to adjust our fixed cost level to match the revenues that we expect to get. And it is our analysis that our fixed costs are too high. So once you have addressed every other cost category, you will not get around the personnel cost category. For Mercedes, it's around EUR 13 billion or so per annum.

So you start from the top. The management structures need to be leaner and our decision-making process needs to be simpler. Even though it looks like a lawnmower here, reduction of management position by 10%, we have not done that. We have done a thorough analysis of the areas where there's a lot of potential, the areas that might have growth where there's little potential and areas where they've already squeezed the lemon to the point where there is not as much potential as to some other areas. So you have to also be a grown-up inside the company and resist the envy debate when you have analytically based targets, which is what we have done across the business. But every part of the business is affected by this. And roughly, on average, for Mercedes and for Daimler as a whole, it's 10%.

But we also have to reduce staff. It's -- the main focus is in indirect areas. The no-brainer which you do anyway, but which we will continue to do, is labor productivity hours per vehicle. If we can get down the hours per vehicle, we need less labor to do the same thing or the same labor to make more cars. That doesn't stop, of course. We will use attrition and all the measures, socially responsible measures that you would use to do this, and there are different regulations in different countries. Our biggest area is Germany, where we have most of our staff. So we have entered into discussions with the labor side that they will not initially applaud such an initiative, I think, is clear. But at the same time, we're in the same boat. We want this company to be successful, and we will drive this negotiation in the interest of the long-term financial health of the company.

The restructuring cost because we haven't finished this, we have not yet determined. So that's an open issue.

Working capital. This looks like a generic chart from, I don't know, second semester business school, how do you address working capital? But it's actually -- that's the way it is. You have to optimize stock ranges. We have a historic business model. We have the vertical integration that we have. It's not always easy to compare 2 companies with each other, it often ends up being apples and oranges. But in a way, whether you compare it to others or not, it doesn't matter. You've got to work on your area and try to get better. We have increased our footprint across the world, obviously. And as you grow, if you maintain your stock ranges, you would grow working capital. A team is in place to particularly look at the stock ranges across all levels of the value chain. And of course, you look at the financial side of this as well. There is an opportunity here, I believe.

I was talking about peak complexity. Well, if you believe that in the next 5 years or so, you're running into having everything of everything, what about the decisions that you make now? The decision that you make now are the things that affect you in '25 to '30 and beyond. Of course, we're looking at this and thinking, how do you reduce the complexity in the outer years? How do you make architecture decisions, smart architecture decisions, where maybe you don't have dozens of engine variants from small [4.0] cylinders to 12 cylinders, all the way, once you get there on the other side and once the xEV rate is going up? We are doing that as well. The first decision and decisions that we have been made is the successor to our current compact car platform. Internally, we call it MFA2, and we now have a new platform. For competition reasons, I'm not going to put the blueprint of what that looks like in front of this audience because I don't want to show that to the world. All I can say is we are dead set on reducing complexity in those '25 to '30, '30-plus time frame because we must do this to drive capital spend down.

So what's the summary of this in the next 3 years? This year has been a relatively difficult year for us, and the underlying ROS is above 5%, way below what we had set out to do for reasons that we have explained. And one would hope that, that would be the lowest number, and it will go

up from here onwards. As you can see on the charts, the CO₂, and this is the cost of the -- the variable cost of implementing all those things, quadrupling your xEV, going from more 48-volt and so on, it puts a big chunk in there in terms of headwind financially.

The depreciation is a consequence of what you have done in the past. So it's the next chunk of depreciation that comes in. Some FX, some hive down of costs from [DAD] through the future project. Of course, material cost efficiencies, personnel cost improvements, volume and pricing, we're looking at -- I mentioned that in 1890, we were on a lower level than we had originally thought. What do we think now? We think we're going to grow with the market roughly in 2020. We have the changeover of maybe our most important model symbolically but also financially. The SFAS is next year. That comes -- kicks back in, then in 2021 and 2022. So we're looking at above-market growth in 2021 and 2022. But you have another chunk of CO₂ coming at you, and you have the second phase of this depreciation, which is again a consequence of the investments they've made in the past. You could say, when you get that into balance, when you start investing less, but your balance should not come from having very high depreciation and then just make it meet your capital investment. But as we start dampening your capital investment, when you move on a few years later, this will then stop being a negative number on the EBIT side. Cash flow is a different matter, I'll comment on that in a second.

So we have a lot of work to do here. The wildcard and the harsh truth is if those tariffs remain because it's such a big part of our business, moving from the U.S. to China. We're looking at above 3 next year and above 5. Otherwise, the underlying would be above 4 and above 6. So that's the picture.

Cash conversion. Having met with several of you over the years, many have said, you're investing so much so the cash conversion never comes up, it sits at maybe 0.5. In some years, it's 0.4. Some years, it's a little bit better. We realize that there needs to be a balance here, and you have to temper yourself. So we're targeting a cash conversion going in towards 2022 at about 0.8. So if you will, for the cash-oriented people, and we are cash-oriented people. That's the silver lining on this chart as harsh of a message as it is, that we will get them the cash a little bit closer to where the profitability is sitting.

Now that's the next 3 years, and it's the main focus of our messaging today. However, I think it is important, even though I could give a 2-hour presentation on strategy, that we give you a glimpse of where are we going. So what are we thinking about the transformation? What does that target picture look like in 2030?

The first message is here, and this is before I get to the strategy. We believe that the car business is a growth business. And we believe that the premium luxury segment, as part of the car business, is higher in growth than the volume side. We believe as wealth growth continues in relative terms of, obviously, most of that in China and in Asia but not only. There is wealth growth in mature markets like Western Europe, United States and so on and so forth. So we should be able to grab a piece of that market. So we believe the underlying business is a growth business per se. How do we win in that business? And this is a very, very concise summary of our strategy, but let me give you some context. Brand and positioning from product to customer experience-centric. That sounds quite banal, but if you look at the brand model that we use, which has very often been product-centric, what the engineers develop is what the brand models tell them to develop. We have to be more clear on what we think that the customer is really willing to pay for and then develop those technologies, not develop technology for the sake of technology. So we're not going to go away from being an innovative technology-oriented company, that's our DNA, that's our soul. But we're going to move the needle here more towards really thinking through where you put your euros and cents.

We have some exclusive parts of our portfolio, AMG, Maybach, the G-Class, which is kind of a segment of its own. And over the years, we think we can develop the upper end of this portfolio more because generally, the margins are higher there than at the bottom end. This goes, if I look at market and growth, for our whole portfolio. Our #1 strategy, it's not #1 for the sake of being #1. We should grow, but we should grow profitably. So we will also carefully look at architecture decisions. I talked about '25 to '32, what vehicles do we put into the market, what are the ones that we can really make money with? I would rather go for a little bit less growth, but the right growth than growth at all cost.

Leverage China potential. China will still, in spite of the fact that the overall market in China has been down for the last almost 18 months, premium has been faring better. We have been faring better. Going forward in the next 10 years, China still has the biggest growth potential, and we think we are not done there. We're going to leverage our partnership there to continue to grab market share and grow. But China is more than a market. China is increasingly a place for sourcing and finding technologies that we can also leverage. So it's a bigger play than just the market play.

We believe that individual mobility, we call it Ownership+, is still in the premium luxury segment, the main road also in the next 10 years. Yes, we're a car company, and we're proud to be a car company. But you've got to be smart about it. Working with the Daimler Mobility guys, they always talk from years to minutes. You got to offer the customers smart solutions so they can get to ownership/user-ship in a convenient way. But the basic business model, as we know it, we believe that, that is the core of the basic business model also going in, in the next 10 years.

We already announced in May of this year that we're pivoting from being a modern luxury company to being a sustainable modern luxury company. We believe in the long term that we need to solve the CO2 problem. We believe that we need to get to CO2-neutral mobility. Yes, it is a very great technical and commercial challenge to do this, it will take many years. But we believe for a brand that needs to stand from -- for the promise of the future, that license to operate, that leading brand cache and also ability then to grab customers and sustain pricing, we're tilting towards sustainable modern luxury, electric mobility, and in our architectures, we talk electric first. We think the car first through electric, but we will maintain the flexibility on the combustion side albeit with reduced complexity in the future.

I already mentioned about the ICE powertrain, the investment cycle continues at least until 2023. But in the outer years, I see significant, significant reduction potential here.

Autonomous drive. Is it a hype? Is it real? What's going to happen? If you had gone to the CES a couple of years ago, you would think that autonomous driving would be omnipresent in a few years from now. I think there's been perhaps a little bit of a reality check setting in here. What's our strategy? The area where we are strong that supports our core business model, L3, eventually L4 system for autonomous highway, what you would expect from an S-Class and so on. Tick, we're going to do that. But we're going to share the burden with BMW. As we announced earlier this year, the next-generation highway pilots and autonomous for private use, we're going to develop together because it's a pricey, a pricey endeavor. On the L4, L5, the full autonomous robo-taxi for a chaotic urban environment with hundreds of thousands of Mercedes' robo-taxis in the next few years, we don't think that's realistic at this stage. So we're pivoting here. I'm looking at Martin, he will talk about this, to go for this truck Hub2Hub first. Why? Because we think this is the place where you can make money first with this technology. That doesn't mean we're going to give up that technology, of course, we will. But we will rightsize our investment in this area, and we will leverage partnerships to do this.

Software-driven architecture. What's that all about? For the longest time, when you talked about the car industry, we're talking about architectures and platforms. And in essence, you were discussing metal, so the bodies, what kind of architectures do you have and what body shapes do you do on to architect. That still exists. The product is still a physical product. We will still move in a physical product. But equally important, if not perhaps even more important in the future, is the software architecture. That digital marketplace, that base operating system, we believe you need to, as an automotive OEM, you need to own that. You need to control that. You don't need to do all of it yourself. But you need to understand it, you need to have IP in this area, and you need to be a software-minded company. But if you look at it as a marketplace, other people can put stalls on your marketplace. You don't have to reinvent every single thing, every use case for the customer. Even if I look at -- I have an iPhone, I use Google Maps, I guess Apple has their own map, but I used Google Maps. And obviously, they allow Google Maps onto their marketplace. We will also allow relevant use cases for our customers onto our marketplace, but we don't want to give up the marketplace. We believe it's important as a car company that you have a software-driven architecture and that you own that.

And last but not least, partnerships. Partnerships is a necessity from our point of view in transformation because the capital intensity of this exercise for many years to come is so high that if you can create win-win situations with partners, we will seek those. It's not partnering for the sake of partnering, it's partnering for the sake of making the financial business cases better. And in some cases, of course, accelerating access to technology.

So in a nutshell, that's our strategy. That's where we're going. But we got to do the heavy lifting in the next 3 years and beyond, of course. It doesn't stop. You never stop going to the fitness studio, you always have to stay fit. But we need that exercise to be able to have the financial capability to invest into this future.

So if I sum that up, it's a growth business. We have the brand. We have the products. We have the technologies. We have the people. We have a road map to meet CO2, an expensive road map albeit. And of course, one of the main task will be to shave off cost of electrification. We have kind of the worst situation now, low volume first generations of technologies. Later on, higher volume, better scale, new technologies, better battery chemistries, et cetera, et cetera. So we will gradually shave cost off of electrification but that's a burden. Rightsizing our cost structure and our



capital spend, and then in the mid to long term, simplification of our portfolio. And of course, trying to then stick to the fitness regime, not forgetting the cash flow and always have that in mind and try to keep a balance there between your investment.

Before I hand over to Martin, who's going to talk about trucks, I've only brought 1 slide for vans. It really doesn't do them service for all the work that they're doing there. But a lot of questions came in the second quarter. What happened to Vans? I mean it used to be a pretty profitable business and then suddenly, something happened there. This year, this very big bar going downwards is, as you know, burdened by the onetime charges. A lot of that is associated with diesel. But the underlying was not particularly pretty either for this year. And without repeating everything that I said on the Mercedes-Benz Car side, yes, we have to do the same thing on vans that we have to do on cars. So it's back on track type of program. On a strategic -- from a strategic point of view, is commercial vans a growth business? Yes, it is a growth business. Usually, commercial vehicle business, there is a correlation between GDP growth and commercial vehicle business because economy is moving people and things and all sorts of goods around the world. And the commercial vehicle, for most of those, is still the unbeatable way to do that. On top of that, urbanization and digitization of commerce is actually driving van business up. So we think we have a strategic -- in the long term, we think we have a strategic opportunity with vans, and we are going to continue developing that. That concludes the first section of this presentation today for Mercedes-Benz AG with cars and vans. And Martin, I would like to hand over to you to give us some insights of the truck world, please. Thank you.

Martin Daum - Daimler AG - Head of the Daimler Trucks & Buses Divisions and Member of the Board of Management

Hello to everyone. For all who keep the world moving, that is the key to success for the truck business. It has 2 for me, 2 very important meanings. Without trucks and buses, the world we live in comes to a standstill. Trucks and buses are the backbone of the economy from each and every country of this world. And on the other side, we have to serve those who keep the world moving. If we make our customers successful, then we are successful. Whenever we forget that, we have problems. So therefore, for me, this philosophical start is extremely important to run and guide our company. When we look in the world where we have strong brands in nearly every market of the world, we have extremely heterogenous picture. You see in the bottom line, the weight of the individual business in percent of our revenue. And you've seen the colors, how they contribute to the overall success. Our poster child, our crown jewel is a business in North America. Absolutely in benchmark level, good margins, great customer position, great products, great product pipeline, good cost position, that's how you would like to have a company.

We have the second one which comes pretty close to it, and that's our bus business. Globally, from Buenos Aires to Jakarta, from Stuttgart to London. You see in nearly every city, our buses, you see on every -- if someone travels with a couple of friends in a bus, most likely, you have a fair chance, 30%, 40% chance to be on a Mercedes bus, and that's the most comfortable way to get from A to B with several other people in the same vehicle. Bus, very tough market. Lots of public tenders, so cost is #1 in that business. We have a very flexible production footprint. We worked on our cost base always, and we have continuous programs to increase our profitability. And the result is that bus is on benchmark -- is the benchmark in the global bus world. And that's despite 2 of the key markets, Argentina and Turkey, where we have both market shares north of 50%, are really nil, nonexistent.

So despite that external pressure, still very good, very high benchmark margins.

Then I have on the far right -- yes, right. This is right. This 2%, you can say insignificant but worth mentioning, India. And here, I've chosen the mix of orange and green. From the overall result, truly orange, potentially even a little bit reddish. But India, we started 8 years ago with nothing, no brand, no factory, no team, no dealer network, no product. Meanwhile, we broke even. We would have had a good profit this year if there wouldn't be one of the worst declines in markets in India. But still, it's not a loss-making operation. It's still better than breakeven. So for me, this is worth, given the situation, a greenish at least 2% revenue, not significant.

Asia, we don't like the market position. Our home market, Japan, we forgot to focus on retail there, which is the biggest profit pool in that market.

So we have to have here to do some homework. There is good ways to improve. But on the other hand, it's not a bad business either. Now we are very strong in Indonesia. It was last year, our second largest market in the globe. So we have this FUSO, a global presence, have a great product, have a good cost base and a promising future.

Brings us to the problem child in the middle, the Mercedes-Benz Truck brand. Two markets, Latin America versus Brazil, long decline of the market, very depressed volume overall, but a lot of home grown mistakes, wrong product, wrong cost base. And we started 2 years ago a significant restructuring program, which hasn't brought the fruits this year. But I'm very positive, and you'll see more details on the next couple of charts.

And that brings us to Mercedes in Europe that have basically 3 problems. Number 1, we have a great product with the new Actros. We've wanted to launch Actros 5 this year very early, but we delayed the launch because we want to make it absolutely qualitative, high-quality and no breakdowns at all. And because we had a lot of new electronic features, ground-breaking technology in the truck, we thought it's safer to delay it. Why? Because we want to make our customers more successful. And quality, nothing makes the customer more successful than quality. So we delayed the launch, which cost us significant amount of money. We just launched it a couple of weeks ago. Very promising results, very promising outlook for the future.

We have a [wrong] variable cost base on the truck. This is definitely or was an overengineered truck, and we worked hard to get the cost out of that truck, and I will come to that in a little while, in a little bit more depth. And then we have still far too high fixed costs. We started 2 years ago a program called STREAM, and we talked about that in one of the previous capital market days. We are well underway. We'll see next year and the following year the full impact. We have about 2,000 people, which we took out in that program but with early retirement and so on. It took some time until you get the full benefits in your balance sheet, but it's not enough. We have to continue there and have to reduce further our fixed cost basis to fix that problem.

In total, that leads us, this year, to a return on sales from slightly north of 6%. And you see the results in the past, not disastrous. But given the benchmark in the market, absolutely not satisfactory. And if you see what we are able and capable of doing in North America, then it's definitely rather disappointing than not satisfactory.

What we looked always too is that our cash conversion rate is right. So despite the ups and downs, we always kept it pretty close to the 0.9%. That is a clear strategy. And we want to stick and keep that strategy for the future.

We'll face next year several headwinds. First, the market slows down in the major truck markets. Most importantly, and I'll give you the numbers in the next slide, in North America. Importantly so, this is not a crisis. The markets in North America and Europe going down what I call the normal level. Each economy needs what we call normal year, long-term average of trucks. If you sell more, you will get the bill a couple of years later while selling less than the average. Because nobody buys a truck because he wants to buy a truck, you buy a truck because you have to buy a truck because there's transportation need to be fulfilled. So therefore, the rightsizing we get in North America is actually healthy. If the market would have continued very hot, like it is in 2019, it would foreshadow already 3, 4 years down the road a used, used truck. Problem at all those exact -- excess vehicles will push into the secondary market. So for that, this is healthy. It brings us back to normal levels. However, with our strong market position, it certainly gives us some headwind next year. And same is in Europe, not to the impact as U.S.

We will have high investment levels. So this is a challenge, especially keeping the 0.9% cash conversion rates. Why? Because we have faced significant challenges in the years ahead. Not immediately tomorrow, but 5, 10 years down the road to get trucking CO2-free. And that means investment in the full range portfolio of battery-electric vehicle and fuel-cell vehicle. And then we have that untapped huge profit pool of the future, which would be if we get the hub-to-hub operation on autonomous driving, and I will talk about that later.

And then we have exchange rate exposure. We are, in our operational business, relatively independent from exchange rate because we have that what we call natural hedge. So in all the big markets we are, we always look that the import and the export volume are balanced. We have that exposure in the translation of our preferred profits from North America, which certainly are in U.S. dollars into euros. So strong dollar certainly helps us, weaker dollar will give us some headwinds.

When you look at the overall markets, we have this year 340,000 market: Heavy-duty North America, NAFTA, Mexico, Canada, United States. We think there is a 25% to 35% decline in that market next year. Europe, 310,000. Europe 30, that's the European Union, that's Switzerland plus Norway -- and in future, Britain. So the countries who are not part of the family, but we still keep treating a little bit like family.



So going from 310,000, 10% to 20% down. That for me, normal. Not crisis, normal good economy, and I would say, long term better for the truck market anyhow than a too hot one.

Brazil, we see it bouncing back. We are at 70,000. Here, the long-term average and the country's size and the population and the economic system like Brazil, will need about 120,000 to 130,000 trucks a year. So there's a huge pent-up demand, so there's a huge increase the moment this country comes back to normal, the economic position. So I could see here a continuous growth in the next couple of years, we estimate for 2020, 5% to 15%.

And that brings us back to Japan, 50,000 market, we see a slight decline. Here, again, normal fluctuation in that. Unfortunately, all 4 key markets going in the same direction. So that will give us some significant headwinds for next year.

We have countermeasures in place. First ones, where we have the orange and the green bars, in NAFTA we immediately adjusted our production structure, all the flexibility instruments were in place. We adjusted our production structure, whether in our powertrain plants or in our assembly plants, to the lower market needs. So there is no problem with that. Everything covered in Q4 going forward, adjusted to the market.

Managing the cycle is one of the key issues all our organizations are trained for. Same thing, by the way, for Europe. In NAFTA, we have about filled product pipeline, and we will launch 2020, 2021, some really exciting product in segments of the markets where we are not that dominant, like in the on-highway tractor market. So I see further growth potential for the Daimler Truck AG in this market.

On the bus side, our efficiency program is well underway, will pay us dividend, will increase the margins in that. If then the markets in Turkey and Argentina bounce back, I'm really confident that bus continues to deliver profits on benchmark level.

India, variable costs are key. Brutal, tough markets, heavy-duty truck in India, revenue less than a high sophisticated engine costs in Europe. So we have to vary continuously on our variable cost, which gives us besides very good outlook for our variable cost in other parts because we can use India for subgroup purchasing parts. They are then export out of India into our other SMT plants.

So -- and India, we will continue to expand India as our cost hub, producing trucks for all brands, whether it's freightliner, whether it's Mercedes and whether it's FUSO all by advancing in India. So you sometimes see when you are here in the line, you see 4 different brands coming down the line, 4 different markets. So very good, very promising production facility for the future of our business.

In Japan, we focus restructuring on retail was neglected for many years, and we see good and big potential here, especially in the high-margin aftermarket business to improve our margins.

Autonomous, I will talk later. And then overall, in all those markets, even in India, in the United States, fixed -- working on fixed costs, was and is always important to keep the good level of profitability.

Brings us to our 2 problem childs, one, Latin America. In Latin America, it was important, first, to regain our market position. And we did that very successfully. We are back to 30% market share. And other, in the past, not in the mid- and lower segments, but in exports in Brazil called the Extra Heavy segment. That segment at the moment is growing the most, and we have a really good and healthy position. So really good product there. We did that, first, to get the position now we have to work on the cost. Why? We imported a lot of the parts, which is, in Brazil, due to tariffs and due to the rate of exchange. Not necessarily good for your margin, but it was important that we don't let the market slip further. So that was for us the first stop. Now we work on the cost. It takes always a little bit long in trucking. Why? Because to have that long longevity, which for truck is important, 1 million miles, 1 million kilometers, which a truck has to endure, it takes longer to test and to get the truck right, and therefore, the localization of its parts take their time. The moment we have it, we are well underway. We are within our own set time line. I am very confident, given the market position, given the product, given what we do in the variable cost side, given what we do on the production and the fixed cost side in Brazil, we come back to orange and green level in Brazil.



Leaves us Europe. We work on the variable cost, started 2 years ago. As I said, it takes in trucking always some time because longer developments cycles to get the reliability of the product done. We expect GBP 250 million of annual savings starting next year and then ramping up in the years to come.

We have the new Actros in the market next year. We started in October. We have ramped up full availability next year. Great results from the customer, both on the margin side and on the acceptance side. Why? High fuel efficiency, better safety packages, right on the money, technology leadership, good truck. I'm really positive, excited about the availabilities that we have here.

We have to push on the sales. We have a very complex sales structure in Europe. We will work on that, streamline that, get us closer to the customer, make the customer more successful. It's our #1 rallying cry here in Europe.

This leaves us the personnel cost. We just finished the program STREAM, 2,000 people left Mercedes truck. It's not yet enough. We have to work more on that. It helps certainly that we got various vehicles council in Germany on a general program for Daimler. We will piggyback on that, and we'll see some more impacts in the next couple of years. All packages, in total, should bring back Mercedes-Benz Trucks Europe into benchmark level.

If I translate that in return on sales, we are around 6% this year. We have the headwinds, especially in the market, especially from North America, costs us money. We push back. When you look at the sales push, you say, okay, the market goes back now. It's the hope that those guys regain market share.

Two very important steps for us to be confident on that: First, a new product in Europe; secondly, we couldn't deliver all the demand for our product in North America this year due to constraints on the powertrain side, which we certainly have as a lowered market next year. Not, so those -- so as orders will come in, we see it now September, October in North America, our share of order intake was 60%. And I have the feeling that November comes -- is in the same ballpark. I certainly don't know the order intake from our competitors, but I know our order intake, and that's very promising. So we gained back some of those shares so that's some of the pushback.

Then the variable costs start to kick in. We want -- we see the fixed costs. Some are trailing impact from our STREAM program. So that brings us to a margin of 3% to 5% for 2020. Despite those headwinds, then we see it between 2020 and 2022, the market is relatively flat. Certainly inflation, higher investments for electric and CO2-free driving will have a burden on the margin. But then our measures that we all started already will kick in. So for 2022, we see a margin from higher than 7%. Overall, cash conversion rate has and will remain at 0.9% over that cycle.

What is our strategy? To keep the cash conversion rate at 0.9%, we have to focus more on the heavy-duty side, and we do that. That means the focus on our products -- projects will be on the heavy-duty segment.

Then the -- this decade, the 2010 to '19 years, was the year of the powertrain. Now you differentiate it through fuel efficiency, and that's mainly engine and transmission-related stuff. The next 10 years, I see the big differentiator in electronics. Now that's the interaction, how you combine the logistic systems, our customers bringing them into the truck, let them work with the truck. The truck being basically the computer, the iPad for the driver, have that interaction, and plus all the safety systems, plus the predictive systems, plus the predictive maintenance systems. That all brings a huge burden and challenge on the electric system. So electronics and software are important for us. It's important that this is the next big game of commonality that we don't have to invent everything 3x around the globe that they can do plug and play. What we already do, we have the leading safety systems here in Europe, and it was now plug-and-play for the Freightliner Cascadia truck in North America. And now we have -- we lead the market in North America now in safety systems as well, and it cost us relatively little. The burden of developing was in Europe. The benefit from the market in the North America and that you see on the results a little bit, too.

Then on the sustainability, we have to work on batt and fuel cell, and I'll talk about that in a second, a little bit more and then comes autonomous.

When we look about CO2, we have a European regulation in place that requires from us between the 2020 and 2025, that's the first time when penalties will be needed from roughly -- and I do that, I could talk hours about that, and I want to make it very short. It's -- and then by 2030, you



have really strict and severe penalties. So you really have to reach those targets. And that means we have to reduce fuel efficiency -- increase fuel efficiency by about 2.7%, reduce CO2 emissions about by 2.7%.

If I look back until 1996, and we are leader in fuel efficiency, that means that is what the big, best and biggest brains of the entire globe are able to do is over a period of 20 years have an average of 1.1%. There is absolutely no hope that we can increase that further. Because if we could, we would have already done it and we'd have owned the market. So to have that 1.1% is a realistic thing going forward. So we will have a significant gap in 2030. And that gap needs to be closed by 0 emission vehicles.

And that is electric truck. An electric truck can be powered by 2 things: Either by battery, where you get the electricity from the grid into a battery; or by H2, where the energy is in H2 and you produce the electricity in the truck itself. Important whether fuel cell or battery electric, it's both in an electric truck. There's a lot of common parts: E-motor, e-axle, energy management and so on, all the same. The big difference is how you produce your energy. Which of the 2 will ultimately remain -- prevail? I don't know. And honestly, I don't care. And most likely, both, because we have different use cases in trucking. We have a technical problem at the moment. Battery is ahead of fuel cell by 2030, I would say, both in the high level.

We have an infrastructure problem. We have to increase electric grid if all trucks would be charged through the electric grid. But we need a green H2 distribution all over Europe, which is a really big undertaking as well. I would say, here in this, electric has a little bit of advantage, but both have a huge challenge ahead of it.

And then the last but not least, is the cost, how the costs are developing. Trucking is a TCO space business. That means you can't afford to go with a more costly technology. You have to take the best one. And here, the bed is completely open. When you have the open bed, how do you have to respond? Both. And so we will push forward both things. With [bed] we can piggyback on what the passenger car industry already had done, so that is fairly good. With the fuel cell, we take what Daimler, and Daimler has a huge experience in that and put that in our trucks.

There was just last week, I drove the first fuel cell (inaudible) in Japan. It is always fun to drive those electric trucks. You have more the feel you are in a scooter than in the trucks. So if the cost wouldn't be the problem, I would say, we would all love to run those trucks. But costs are important. So -- but I'm positive here that we'll find the right mix for the future.

Brings us to autonomous, autonomous hub-to-hub on North American highways. We acquired Torc, a very vibrant, fast-moving, highly experienced group of tech engineers out of the mountains of Virginia who, since 15 years, work on autonomous. Huge experience. Allowed us several weeks after closing have the first freightliner on North American highways and reclocking every week our miles, learning and we had some really amazing runs on highways without any interference of the drivers going off the highway, going back on the highway, going through construction sites on the highway, having traffic jams, overtaking vehicles, all at the speed of 60 miles per hour. So really amazing what those trucks already can do, but it's a long way. Yes. It's always the first honeymoon, the first 90%, 95% autonomous is always easy. The devil is in the detail. And that's the last 5%, which may take years.

But I think we have the right setup with the Mercedes test car guys that support and help us with automotive, with security systems on the 1 side and then have the entrepreneurial innovator spirit of the start-up of Torc, I think an ideal combination to push that forward in close cooperation with our good customer base in North America.

The summary. Our strengths are certainly our strong market positions and a very good cash conversion rate. We are below benchmark in Europe and Latin America and Asia. We have to keep our funding discipline high, especially with those requests from fuel cell bus and autonomous. That means we have to reduce our complexity we have in our classic portfolio. And we have a lot of instruments in place to keep up with any market volatility, and the downturn has proven so far that those instruments we have work and we are able to pull them very easily.

We have a clear plan to restore our performance. We want to continue with our leadership in heavy duty. We have to push some sales in Europe. And we definitely, that's the most important one, we have to work on our cost reduction, variable costs in Europe and the fixed cost.

And we have clear future strategic priorities in the heavy-duty segment is a clear focus. We have sustainability and a clear commitment to that and very, very good talks with politics and lawmakers. The moment you have a good product out on the road, you have a complete different way how

you can talk and have a higher creditability. And I see that every day with our eCitaro, that our electric city bus complete different way, how you talk to cities since we have the product as when you just tell them about future potential pipe dreams. It's real. And we'll have, pretty soon, an entire range of electric vehicles available.

And then the hub-to-hub autonomous case, if we make possible that we can get rid of the driver on long distance in countries like the United States, that's a huge profit pool. And if anyone can tap into it, then it's Daimler trucks. Thank you.

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

Well, hello, everybody in the room, on the screen. Really excited to be here today, first time with Daimler in front of you. Looking forward to challenges ahead in the Q&A.

Well, as Björn said before, I mean, I'm standing here with a dual hat. So first, it's being responsible within the management Board of Daimler for the Daimler Mobility. Actually, that means there's an executive team into place, which is running that. I mean, under the lead of Franz Reiner. So what did I do over the last couple of months? Well, first try to understand the business and learn about it. And thanks to the team to be so patient with me when I raised so many stupid questions.

Well, then we worked -- so what's this, the strategy for Daimler Mobility moving forward? What are the challenges? What are the headwinds? What are we going to do? What are we going to focus upon? How do we generate value? So that's what I want to talk about, I mean, in the first part before then turning later to the other part of my role, which is heading finance for the group.

Well, so what is -- first, what is the role of Daimler Mobility? Well, you see it's somehow in the name. I'm sure some -- many of you will remember, well, we call the Daimler Financial Services before, and now it's called Daimler Mobility. I mean, what does it mean? Actually, not only in the role, but actually, it's already happening as we speak. It delivers more than just cash to the buyers of our products. I mean, to afford to buy or lease the car. So it's a full range of mobility services going from the financing and the leasing up to more flexible ownership plus solutions. So that's what we want to represent with the change in the name.

Second, you see here in the purpose, we move you. Well, the move, I just explained before, so the full suite of mobility services. But the second part is the you, which means that the business is really focused on the customer, not on how do we do things, but really what is the value for the customer.

But obviously, we want Daimler Mobility also to deliver value for the group. So what is value for the group of Daimler Mobility? Well the first, I would say the foremost, that is not totally new. So we'll keep the good things. We'll explore them further. It is to facilitate the sales of our products: The cars, the vans, the trucks, the buses. Well, that sounds obvious. But actually it's every other, every second product coming off the chain is supported by Daimler Mobility.

And even more than that is if you look into the statistics, you can see that each and every leasing captive buyer is replacing its car at 2x the speed the cash buyer does. So it actually generates demand for innovative, new products we're offering, you heard before, from Ola and Martin.

Well, what you can measure as well is the juncture with the customer is not only a onetime event, thanks to the financing and the leasing activity. It's the journey. And it makes the customers stay with you much more than with a cash buyer. So customer retention and loyalty is higher. So if you measure the brand loyalty, it sits above -- or roughly at least 10% above the cash buyer. So I think that is an integral part, therefore, of the group in terms of support to the group for the sales of our products.

Well, as said before, I mean we don't want to stop there. It should go beyond. That's why we're investing. I will come back to that in terms of fleet management but also mobility services. That has some impact in terms of dilution and cash burn. But we're doing that in order to create value for the group also in the future.

Despite that, however, I mean Daimler Mobility is delivering today solid profits, it's passing dividends and provides upside opportunities in terms of the investments we're doing today, turning into accretive valuations for the assets we're developing there.

So that's the value to the group. The value for the customer is very clearly, well actually I would say you can have mobility service solutions from the minute to the years. So how do we set up Daimler Mobility to serve these customer -- these various customer needs? Well, let's take customer A, I mean, what's kind of a conventional, however, still most innovative, I mean, financing or leasing or insurance solution. That's what you see here, I mean, as the Type A customer, so going for leasing or financing or insurance solution. The foundation of that is clearly what you see on the bottom of the page, a very strong knowledge and expertise in that field, which serves not only that part of the business, but all of the others as well, as this is the foundation on which you then can set fleet management and mobility services.

So fleet management, well, chiefly around the Athlon acquisition we have been doing a couple of years ago, I think is an interesting area of the business. As more and more fleets coming up, I do believe also in the context of higher CO2 regulation in the context of more flexible ownership solution. Entering into that provides opportunities, from rental to subscription to including also fleet operations.

And then the third part of it is the mobility services at the fingertip, which means, basically, here we're talking the ride hailing, the flexible car ownership and we'll zoom on that a bit in a second.

So where are we in terms of the current situation of business? And well, we opted to give you quite a lot of transparency here, I mean, what it is. And so we talk a lot about mobility services. And it sounds like, I mean, there's only huge investment. In other words, it's a very solid business. What is it? EUR 160 billion of our portfolio, all in all, by the end of the third quarter. 2019, we target a 17% return on equity including a one-off, so call it an underlying, which is more around the 12%.

Now how does it break down in the 3 pillars I explained before? So #1, the financing, leasing and insurance business is the vast majority of it. I think the EUR 153 billion number you see here on the chart clearly illustrates that.

How do we run that? A conservative and prudent risk management. I think that makes it that -- the credit losses we are incurring are very low. We have low net credit losses in terms of expected credit losses, and the actual ones are sitting, I mean, quite below of that.

Here, you see as well the penetration rate in terms of 50%. That's kind of a ceiling we set ourselves. And we want to keep that ceiling also moving forward. But that represents, I mean, the role I explained at the beginning in terms of the support to the business. And it's generating solid and sustainable, less volatile profits from the portfolio, which is around 17% return on equity. So if you have some more cyclicity, maybe even on the industrial side, the financing and the leasing business should provide pretty stable profit contributions.

Let's have a look now at the fleet management shortly. Well, that is the -- around the Athlon acquisition. The integration of that is basically finished. Where is the portfolio? Now it sits at EUR 7 billion. One of the objectives at the beginning was to increase the share of captive in the fleet of Athlon. So as we speak, I would say that has been accomplished. About 40% of the acquisition share is products coming from the group. And if you look at the portfolio, the number is not too far from there, slightly sitting below that. And we'll keep going in that direction, obviously.

Return on equity in that field is still at the low end, the lower single digit. Well, the integration, main cost of some costs, some impact also from PPE accounting and for like, but clearly, we'll not leave it there, and I will explain to you in a second.

And last is the mobility solutions. Well, what's the situation over there, when we do know, it's a very highly competitive environment. Sometimes maybe a bit flooded with capital from all types of sources. So it's a tough bottoming to be. However, there is growth potential in it. And I think the key thing, if you want to play in there, then you also need to be ready to play. And so that's what we're doing. That's why, I mean, we are in an investment phase over here. 2019, probably you don't see it on the face of it, as there's this onetime gain from the creation of the NOW family with BMW. In terms of the underlying, we are talking a significant 3-digit amount we are spending in 2019 on the subject matter. However, we want to share the burden, hence, a partnership with BMW on the NOW family, and we're also open in terms of partnerships in this field moving forward.



So what are the headwinds on the Daimler Mobility side and one we need to be conscious of? I would say, #1, the regulation -- the regulator is calling for higher equity needs. So we have to put more equity chiefly into the financing part of the business. And obviously, that weighs on the return on equity. So even if the profitability level, I mean, is stable, that weighs on return on equity.

What else? Probably moving forward, I think this is not totally certain, but we want to be ready also for a situation where there is slightly higher or normalization of credit risk and some further margin pressure. And maybe the growth rate in 2020 or so on the portfolio is a little bit lower than what we thought before. So we had to adjust in line, obviously, with the expectation on the industrial side of things.

In the fleet management, yes, we want to grow further. That means we need to put some further investment into it. But when, well, maybe we shouldn't call it necessarily headwinds, since it's a bit too pessimistic, that perspective. So here comes my CFO, I have apologies for that.

And on the digital side, obviously, we need to be ready to invest and find the good balance between really playing in that league, being among the lead players. However, I mean, balancing out the investments and sharing investments with partners.

What are the measures we are doing? So #1, in the financing, leasing and insurance side, to cater for the headwind, I explained on the higher equity demands it needs and maybe some of the margin pressure. I mean, we might see there is no way out to increase the efficiency a higher level of digitalization, optimization. And I think it's not only us who are going to benefit from that, but it's also the customer who is going to benefit from it, which means basically in terms of electronic and digital contracting, in terms of, I mean, automated digital credit approval and who wants to read maybe 150 pages of contractual documentation and get that in paper and the like. So I think the acceleration in terms of the digitalization here is going to help the customer experience on the one side as well as helping us to increase the efficiency here. The second point in the financing and the leasing, as you could clearly hear from Ola before and also from Martin, I think the long term -- mid- to long-term perspective has clearly called for further growth. With a penetration rate of 50%, that means that the portfolio of Daimler Mobility in the financing, the leasing part of the business, I mean, should keep growing. While you saw the numbers, we are EUR 153 billion, all in all, EUR 160 billion by now. So we clearly have the intention to grow further, with the same level of discipline that we're doing today, with the same penetration rate level, I mean, I mentioned before. So that will keep growing. However, probably we also need to look at the entirety of the funding structure of the company and change the mix in the funding here moving forward, which means we would grow under proportionally the funding side, if I may say, and that calls basically for ABS transactions, which could be on-balance sheet or off-balance sheet in order to manage the funding from a group perspective.

On the fleet management, while I said already before, keep growing but on a selective pace, push of the captive, i.e. the group products, I mean, into it, and at the same time increase the profitability. Well, so I would say once now the integration efforts may not -- are behind us, also mean the more technical PPA impacts are going away. And the underlying efficiency being improved, for which we have a clear plan, we should bring that to a double-digit return on equity as well.

And then on the Daimler Mobility side, well as I said, yes we're in an investment phase. What are we doing? We have a look into the portfolio. We screened the portfolio against what really makes sense for us to having that inside the group portfolio, point #1. Point #2, is there a clear path for each and every [knocker] then in the portfolio, I mean, making it to a profitability and an upside potential mainly in the future? And third, I mean, do we need to do that ourselves or are we doing it in partnership? That sounds utterly theoretical. So now let's have a look briefly into what is the portfolio of Daimler Mobility.

While you can see clearly, I mean, the vast majority of it is around what we put together into the GV with BMW within the NOW family, which composes the ride hailing, the car sharing, the parking and the charging. And -- well, I think I talked also under the control of our colleagues from Munich here by saying that for each and every of the activities within the NOW family, we define a clear path, which is a good balance between tapping -- I mean growth potential with this business is run right now at a GME of around EUR 3.5 billion in 2019. So it's not nothing. And we'll carry on investing into it. However, at the same time, as I emphasized, finding a way towards profitability, supporting a mid- to long-term valuation. And I think globally, that's a trend which we see that, I mean, the emphasis is not shifting away completely, but is balancing between top line growth and bottom line result in that spot.

On top of that, we have other interesting assets in there, Blacklane, Bolt, Via. We recently created a JV in the ride hailing and the premium ride hailing also in China. You've seen in the car sharing, peer-to-peer car sharing on Turo. I mean, that's not entering in each and every of these.

And so that is the portfolio. So again, we are ready to invest. But we are also ready to divest from some of them. More recently, we divested I mean a share -- I mean, in FlixBus, the leading long distance, I mean, bus operations. And so -- for the ones who follow closely the Q3, you could see that we could get a decent capital gain on it.

And when we have some further captive where you see in Mercedes Pay,

which is very closely supporting, obviously, what you can enjoy as a Mercedes customer in the car in terms of -- in the digital payment solutions.

So what does it mean in terms of profitability, where we are today, and where is it going? 2019, if you take the underlying, i.e., ex the one-off gain, we're around 12%. Then you see the equity requirements imposed by the regulator providing a headwind. Again, I mean if the underlying profitability or EBIT generation is stable, obviously, the denominator, I mean growing, that weights on the return on equity, so that is pretty obvious, I would say. But we're trying to compensate that with the efficiency efforts and also with the support of some volume moving forward. In terms of the size of the bars, you see it on the chart, the improvement of profitability and the fleet management and the decrease in dilution from the mobility services will help us to exceed 12% return on equity by 2020. And now for the entire portfolio of Daimler Mobility, thanks to the parameters I explained, we see 40% as a return on equity target is a good level.

So what does it mean? In summary, I started with a role, the support to the sales of our products and the full-service offerings, I mean from the minute to the years. So I think that is very well set up in the structure with the 3 pillars. I mean you could see we are ready to invest not only in the fleet management, but also into the mobility services, I mean, further, but we have a very clear focus on the profitability, on prioritization of the investments and creating profits, I mean, today and in the future. The size, you could see on the chart before, that will translate into dividends. So any equity requirement is coming off the dividend, but that should be a net cash dividend being contributed to the group, and the investments which are providing losses today should generate upside potential in terms of its valuation, I mean for the future. So I think that's it for Daimler Mobility. And Ola, I hand back to you for the group picture.

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

Thank you, Harald. And we're coming to the final chapter of this presentation, where we'll talk about the role of the group. I will share this presentation with Harald, so I will start a little bit about what does Daimler AG as a holding company do, and what is the financial framework that we apply in this new company structure.

If you look at this picture, it's governance, obviously, governance, legal, compliance, those things, capital allocation framework, performance management, setting targets, measuring those targets, and some of the central people development, not all of the central people development. So if those are the tasks of the AG. Who's in it? And what are we going to do? First this thing, and this goes, as you have seen in all the presentations for the divisions. The rightsizing of the company is also the rightsizing of Daimler AG as a holding company. So the same program that we're applying in cars, trucks, mobility is also going to be applied to the headquarters.

So what is it? You could see when we introduced the new company structure in what we call PROJECT FUTURE that we had about 6,000 people in the Daimler AG. Some people ask, what are those guys doing? What is it? What's in there? And you really need to split it into 2 pieces. 2,000 of them is what we would call governance. Here, you have some of the central finance functions. Treasury is a good example of that, doesn't make sense to perhaps have 3 different treasury departments. We have 1. We have 1 access to the capital market through the AG. Here is also the whole legal, compliance and integrity organization that works with the divisions, but it sits in the central. You have some of the central HR functions and so on. The right side of it is what we called shared services. That's about 4,000 people. These are service centers that service all of the divisions. It could be IT. Part of IT, where you have IT operations, where we also decided historically, it doesn't make sense to split it up into different pieces, but it's more economical to keep it together. So you really have the 2. Should we stick at 6,000? In my view, probably not. We need to make it leaner. In the governance -- on the governance side of the business, we need to look at what are we really doing there? And what are we doing in the divisions? Are there overlaps, redundancies, complicated decision-making processes that lead to more stuff? The answer is probably yes. Let's streamline those processes and take the number down.

If their function is sitting at the top that actually would be more effective if they were sitting in the division, let's move them down into division where the business sits. So we're going to go through the same process with Daimler AG that we're going through with the divisions, really turning over every stone here and looking at how we can make this organization slimmer.

Financial framework, Harald, before I wrap it up afterwards, please?

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

So we're dancing a bit forth and back here. Well, financial framework -- maybe to give you a few more elements after the implementation of the new structure, I mean everything you heard before, I mean is happening at the level of Mercedes-Benz, Daimler Truck and Daimler Mobility AG. And as we (inaudible) pointed out before, I mean therefore, I mean the role now of Daimler is very clearly set. And one of these roles is to be the sole and the exclusive access to the capital market, which means in terms of equity and in terms of debt. That applies, I mean for Daimler, but it also applies, obviously, to its elements, i.e., the divisions. And I can say loud and clear here, we have no intention to change that.

What does it mean? We manage the funding and we manage liquidity at the group level and we optimize it, and we share in that benefit, obviously, for the benefit of the respective businesses. In Mercedes, Truck and Mobility. I also would like to give you -- and when I say, I mean we optimize, it means we manage 1 balance sheet, I mean for the group. Even so each and every of the entity has its own balance sheet, but in terms of looking at the balance sheet, we look at the consolidated balance sheet. What I'd like to share as well with you is, I mean what is our thinking now is we are after November 1 when the new set up I mean went live. I mean what is the capital structure we're putting into place for the respective entity? Well, for Mercedes, and the Daimler -- Mercedes-Benz AG and Daimler Truck AG, clearly, discussed a bit forth and back, but we think the right starting point is a net debt 0 for these businesses. And for Daimler Mobility, well, that got created already before, you could see it from the numbers. That is established with a EUR 14 billion, EUR 15 billion of equity.

What does it mean if we start the 2 entities at a net debt free? Well, it means that we have a lot of focus on the net liquidity in the business at Mercedes and the truck level I mean moving forward. So that puts a little -- quite some emphasis on the right capital allocation within the businesses.

There's another message in here which is we do believe that the investments in the business can be -- have to be funded by the cash generated. Otherwise, probably, the 2 entities would need to lock -- knock at the door and say, I need cash. So that is the message. So strong emphasis on net liquidity in the business and cash generation.

What else to say on that? Performance management, setting the targets and measuring, I think that sounds pretty obvious. And we had it on the chart already before, but -- and how do we think in terms of -- I mean the KPIs, I mean to look at? Well, I would say, for Mercedes and Truck, that means we look on the EBIT performance side. Clearly, we look at the margin evolution, we look at the SG&A evolution, we look at the R&D evolution, but on top, now much more emphasis, I mean on the cash flow, hence, on the investment level. And I think you heard that already in the presentations before in terms of the emphasis on investment, investment cap, investment coming down over time on both on Trucks as well as on the Mercedes side, but also on the working capital. And the way to look at that is, on the CeBIT, eye on the cash flow before interest and tax, as we optimize, I mean the funding of the group, as I said before, at the group level as well as the tax position of the group, and we're doing that with the center of competence at the group level. Obviously, for the DMO business, the return on equity is a prevailing perspective in terms of managing the good cost base of the business. We're also looking into benchmark cost income ratio.

So that's what I would say. Last point, maybe here, I mean how to make sure the profits generated gets channeled up, therefore, profit and loss transfer agreement have been put into place, so the profits generated in the entities will be basically automatically soaked up by that agreement. In the case of DMO, it means any equity increase would be netted against it.

Let's talk about the balance sheet. I understand Q2, Q3, created a lot of attention on the balance sheet, and are we able -- what is happening to the cash flow in the year? And where's the net cash sitting by the end, the net cash on the industrial side, sitting on by the end of 2019? Well, I think you could see, with the quarter 3, we moved the right direction, continue to work hard on that to meet the double-digit, i.e., the EUR 10 billion by the end of the year again.



Why do I emphasize the EUR 10 billion? Well, I think we need to reckon we are going through a period of lower-margin, as we could see on the charts before. And let's have a cash flow perspective in a second here. So in that situation, I think it is important while we are still in a phase of heavy and large investments, even so capped, but high-investment level in an environment on the macro side, which suggests to be somehow volatile. And also some execution in which we could see in 2019, from a risk perspective, where you could have some swings to have a solid net cash position for a company of the size and the industrial dimension like Daimler. So I do consider that running the company at EUR 10 billion north is the right thing to do.

Second key point, it's absolutely our intention, I mean to protect a single A rating. I think everybody knows, competitive funding is important for the business, in particular for these financing and the leasing business, to run that ship at the EUR 160 billion and further growing. So that's why we are really committed, I mean to protect that. There are challenges, obviously. So what can we do to secure that when, first and foremost, it is to deliver, I mean the performance, the numbers that we have been showing here before. That's clearly the entry point, but second, I do consider that having the solid balance sheet, hence, again, I mean the EUR 10 billion is a very important pillar from the perspective of the credit agencies. I hope the people in the room support that perspective. And beyond that, retaining a prudent financial policy, I think, is another key pillar. What does it mean in terms of leverage? Clearly, the debt coverage ratio should be in the right spot for the industrial side of the business, and we're very, very aware of the metric being applied here, cash flow minus dividend over debt. As well as on the DMO side, the clear expectation that the leverage sits below [12] in terms of debt-to-equity. And I think we well respect that. So clearly, we are very focused on that, and the emphasis on the capital allocation is, obviously, a key pillar in that respect.

So what are the key elements of capital allocation? As such, well, we already spent some time on CapEx and investment caps and prioritization, but very quickly from my side here, and what did we do over the last couple of weeks and a few months now. Well, we set the cash conversion objectives for the business. We defined what fits into that in terms of -- I mean the investment level, hence, I mean on the CapEx side. And I think that, as such, somehow is a change in approach as it requires, I mean that you make up your mind in terms of prioritization, I mean but beyond that, it means that I think we need to run that on a, I would call the dynamic basis. Knowing about that cap, I always need to keep a protection moving forward as things could go different than my expectation. And if really want to make sure I can hit that, i.e., to manage my portfolio of activities in a different manner. So that is, I think, what is behind here on the prioritization and the cap on the investment side.

Another element on the KPIs. We are using discounted cash value added, I think, which is a perfectly sensible economic metric, but we need to add to it the cash profile and the IIR to it to make sure that we're not only looking at a number -- at completion over time, but also in terms of the phasing of the cash. So that's decided for the investments coming in front of us.

On the R&D in the project side, I would say literally, similar thing. 2 elements, maybe, I would amend here. Probably, we need to differentiate more the risk nature in the projects, not apply the same hurdle rate to each and every of these, and obviously, look at the sensitivities, I mean depending on the sensitivities, whether we still feel good about going ahead or not going ahead. So that's for the approval side. And then in terms of the implementation side of things, I do feel that we could have a bit of a longer-term perspective in terms of the risk management. So what's coming up as a risk in a year or 2 ahead of us and how can we make sure that we avoid them from happening to make sure that we can stay on course with what we thought we were doing.

On M&A, I cut that short. I think we have no appetite for large-scale, number one. Number two, we have a preference for partnerships, and why no appetite? I think we have -- we are in good markets. We have the products, we have the people. If we protect what I said before in terms of the financial means, the financial framework, then we also have the financial means to do. Again, that does not exclude, obviously, partnerships. But we're also looking into the existing portfolio. I talked a little bit about it when touching base on Daimler Mobility, but we're doing it across the company as well right now to make sure that we also have a prioritization in our M&A portfolio.

Well, bear with me, I can already see the number of questions coming up on dividend here. Just to give you my view on that, we have clearly articulated in dividend policy, which is 40% on reported net profit.

During the Q3 call, and I said and I repeat it here, I do believe, however, that, I mean that should be supported by the cash flow generated. Otherwise, I mean we would pay it from the balance sheet. And we should also take into account when thinking about the dividend, about the cash to be



generated in the short and the medium term, that it makes sense, and that it is consistent with the EUR 10 billion net cash number I mentioned on the chart before.

Funding. Well, that is the group picture in terms of the funding. So EUR 160 billion of funding portfolio instruments, about EUR 145 billion sits on the on the mobility side. Obviously, the difference to the EUR 160 billion on the asset side is the equity, in between, a EUR 15 billion is sitting on the industrial side of things. Well, I said before, we were going to keep growing with the asset side of things and then the Daimler Mobility to support the business in terms of our growth. That obviously means that, I mean the bubble size of -- on the right-hand side, will expand, probably we should have shown that. However, the share, I mean we want to change and expand the rating independent share, i.e., by the ABS and deposits to our share, which is higher than the one we're having today, called that 30% rather than 17%. So keep growing on the asset side, some might be on balance in terms of the ABS, some might also be off balance.

Well, let me come now to the KPIs. You saw all of the numbers on the charts before. Maybe a few messages, however, I'd like to complement here. I think as a management team, we are conscious that the numbers we're printing here, in terms of return on sales for 2020 and '22, are somehow disappointing. That is clear. The emphasis we have been doing over the last weeks and months was, however, to do a frank assessment of the situation, where we are as we heard it, what are the incremental headwinds coming up, but then much more, what are we doing against it to protect the numbers which are on the chart. We had lengthy debates internally whether we would -- should provide you the level of transparency we have been giving to you today in terms of the bridges. I think it's pretty exceptional in an industry, but this is actually what we are committed to do. So I think more important than the numbers you see here is the commitment to execute the plan which is on the box. And that's the message we want to convey here today.

Second point, I hope you appreciate the emphasis in terms of cash generation. And the step-up in cash conversion. I think a good record, I mean historically, already on the Trucks. But now, with the actions set on Mercedes, you see it coming up from 0.4%, Mercedes and Benz together, to 0.8%, and we see that as a sustainable cash conversion ratio. So this is not boosted in '20 or '22 by one-off, I mean working capital measures calling for billions or so. We see that as sustainable cash conversion ratios.

For the avoidance of doubt, I mean the cash conversion ratio, I mean we show here, number one is the CeBIT, cash flow before interest and tax over EBIT. Number two, it is underlying. Underlying, I mean cash conversion ratio. Please refer to the footnote here. And I think I'm stating the obvious that when you look about -- I mean when you think about the underlying, however, we have I mean provisioned for some risk in 2019, I mean disclosed items in Q2. At a point, they will lead to a cash out. I cannot tell you today -- I shouldn't do that. I cannot tell you today, in the phasing and the implementation of that, I mean that's why we show the -- as an underlying, but I think you need to bear that in mind.

And why do I say that? As -- I mean obviously, when we talk about a EUR 10 billion net cash position, well, at the end, we need to factor in everything. I mean not just the underlying but also provision consumption utilization when it comes to, and obviously, dividend as well. But I think by that, you have a very clear visibility where is it where we want to drive the business in terms of the performance level and our commitment to deliver that performance level; how should it translate into cash generation on the basis of CeBIT, then obviously, you need to take any interest and the tax off that number; and then one -- some of the exceptionals, which might -- which will happen at a point in time, with the EUR 10 billion mark on the other side. I hope that gives you a very clear metric in terms of -- I mean how we think in terms of the financial framework for the group.

And then, yes, to put cash flow emphasis into reality, into the pocket. Well, we had discussions, Ola and I think Kaeser also shared that with members in the Supervisory Board, that we want to include the free cash flow into our incentive system for the avoidance of doubt. Also on this slide, it doesn't mean that we want to fill up our pockets by adding cash flow to EBIT. Now what was EBIT before in our incentive system, probably yet to be finally decided, but what was EBIT before it gets divided into an EBIT element and into a free cash flow element. That's what is the current status of discussion, again, still formally to be decided by the Board and probably even by the General Assembly, but I would assume you wouldn't mind that.

Ola, over to you.



Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

So coming to an end of today's presentation before we go into Q&A. I, again, just want to sum up some of the things that you've heard today. Yes, we believe that we're in a growth business. Yes, we believe that we have a strategy, the products, the brands to defend our positions in this market. We are very aware of the current situation and the challenges that are ahead, and we have started taking action and need to take more action to address these issues. We think we can be competitive if we look into that longer term, 2030. And of course, I think Harald made it very clear in his statements just now, we have to be precise in performance management, both on the EBIT side and on the cash side.

Slightly ahead of time, at least we kept that commitment for now and look forward to taking questions. Björn?

QUESTIONS AND ANSWERS

Björn Scheib - Daimler AG - Head of IR & VP

Harald, Martin, thank you very much. Ola, thank you so much for the presentation. As you can see, this is a Capital Market Day which is very crisp, very focused, no lengthy slides, no broad set of product pictures. We also keep this Q&A session pretty crisp for 1 hour, okay? This is something that I say right from the beginning, therefore, understood. Please give your name and the institution that you're going to represent before raising your question. Limit yourself to 1, maximum 2, to give this large crowd in this room the opportunity to ask any questions. With this, we're going to start with Tim, then we take Arndt and then we take George.

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

Yes, Tim Rokossa Deutsche Bank. First of all, thank you for this very comprehensive review. I think even you've given us a lot more numbers as well as the market targets and then possibly the cash flow elements, a lot of things that we asked for. That's certainly appreciated. But now I'm looking specifically at Ola and Martin. We were sitting at the annual press conference and the full year results presentation in February this year, and we spoke about 7% to 9% margin for Trucks by 2021 and you spoke about 8% to 10% margin for [Benz Cars] by 2021. We spoke about all the problems that you have alluded to today are CO₂, possible tariffs, trade tensions and the things. What has really caused you to now look at numbers which are basically half of that level? And Harald, you already said that you realize this is disappointing, it surely is to the investor community, but when you took over, Ola, was the situation so much worse than you would have realized in the previous reporting that you already had? Were there any incremental issues? Or what will happen on that side? And then secondly, Harald, more to you because I can already see that there's different interpretations in my inbox and various emails. When you talk about cash flow convert, we use your EBIT number, we multiply that by the conversion target, and that is a cash flow before interest and taxes, so not free cash flow. Is that correct?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

So I -- perhaps I'll start with cars and then I'll pass on to Martin and then we'll go on. If you look at original plans to new expectation that we're presenting today, and it was in my presentation, originally, what we had invested for was a higher level of revenues. In '18 and '19, these didn't materialize. So you almost have like a parallel shift down of the revenue line during that time. On top, in this, depending if you take the number with or without the tariffs, that was a new decision that came in August. Will it go away if it goes away? Of course, we'll take it out again. So you have had those 2 as the main factors. And what we have done in the last 2 to 3 months or maybe even 6 months is we have gone through the whole company with a fine-toothed comb, looked at every single bit, looked at every risk, every opportunity. These are the numbers that we present for the future, for the next 3 years. So yes, they're lower than perhaps we had seen at the beginning of the year, but if you're looking for 2 big differences between the original plan, if you call it that, what's in this expectation, you will find most of it on the revenue line.



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

Well, and in terms of cash conversion rate to avoid any misunderstanding, number one, I mean the numbers we're showing were by the new segments, Mercedes-Benz and Daimler trucking buses. So we're talking the industrial side, right? Second, it's the CeBIT over the EBIT, so it's a cash flow before interest and tax over the EBIT. And again, why did we choose to take that? Within the funding and the group capital setup I explained before, the intercompany funding remains at a group level. The tax management remains at a group level, so I think you spending time, us spending time to explain intercompany allocation, which at the end of the day is a conso item, is probably a bit useless and would not help the overhead reduction. So that's why I think it gives the more business perspective.

Third, as I said before, piece, it's the underlying. I don't need to repeat the footnotes. You heard it. You can read it.

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

Well, can I just follow-up on the margin side there. Let's assume the revenue line is lower, that's all fine. I get that things change, right? And it's the past, let's move on with that, but why are you happy with the margin targets of that level for the Mercedes and (inaudible)? If we do deduct the Chinese and equity results, we're talking about levels which are far below your peers. And you talk a lot about benchmarking any of that. Isn't it -- doesn't it make a lot more sense to set yourself some more ambitious target which really also motivate your troops to cut down on costs and address the cost base?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

I think lack of motivation is not our biggest problem at this stage. We have made an assessment of what we think we can do in the next 3 years. I'm not saying that we're satisfied with it. That should not be the message of this presentation. But we have made a frank and fair assessment of where we stand today and what we think we can do in the next 3 years. So that's what we're presenting today. Does that mean that we will never try to achieve better performance scores? No. But today, we'll focus on these next 3 years.

Björn Scheib - Daimler AG - Head of IR & VP

Next one will be Arndt then George and then José.

Martin Daum - Daimler AG - Head of the Daimler Trucks & Buses Divisions and Member of the Board of Management

Maybe (inaudible). Yes, trucks is always smaller child here. I don't see it -- I mean, there are 2 things. Number one, we say here larger than 7%, so there's not so much of a difference. There are 2 differences, indeed, for this year. Number one, we realized during the course of 2019 that our measures from Mercedes-Benz Trucks in Europe are not enough. We thought they were. When we look also to benchmark the sales from our competitors in Europe and our own results, we clearly had to state it was not enough, which we have realized earlier, we would have potentially targeted higher numbers. So we had to redo those outcomes, and we are working on that. Secondly, for this year's performance, the downtrend in the U.S., which is significant for our total result came earlier than we expected. We saw it in the first half of 2020, there comes the normalization of the market, that happens basically overnight in summer. If you would have asked me in July, I would have said we are sold out until the end of the year. Yes, but we have so many large customers. When they ask you to push out the orders into next year, we certainly follow them, and that left significant reduced productions in the fourth quarter, and that was adjustment. The adjustment was not that big. We are still in [most] 75% of our business in plan that lead us, Europe and Brazil, we had to give it a second push.

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

It's Arndt Ellinghorst from Evercore. Ola, I want to ask you if you're happy and done with your current management team, especially in the divisions? And the reason I'm asking that question is because we are where we are today because it's decisions that have been supported, obviously, by the

previous management team, but also by many people made very important decisions that are still in their roles. And it's such a huge deviation versus peers and versus your own expectation. Normally you see bigger changes and especially when a new management team comes in, so I just want to ask you, do you feel you're done? You have the right team in place, coming to your point, Harald, of committed execution to turn down and around. And the second question I have is on vertical integration, make or buy. We know that Mercedes, the small in-house than some of its peers. We've discussed it in the past. It hasn't been part of the presentation today. So are there areas of opportunities that you could tackle regarding vertical integration, Mercedes employees 20% more people than BMW? So are these areas you can tackle. You're not talking about it because you need decisions. We want to keep the docket for day-to-day. How do you think about that vertical integration?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

If we start with your first question, we have a strong team, and we think that we can execute this plan with this team. We obviously had a string of very good years, '14, '15, '16, '17, where we're in the 9 percentage arena. We also put a lot of investment into place. Now the revenue line didn't quite materialize as we had thought. And perhaps the transformation came towards us in a little bit quicker speed than we had originally anticipated. So you adapt and shift to the situation, but they had the team in place to execute this plan. In terms of vertical integration, we have been working on this quietly and steadily in the background for a long time. To make a big shift, obviously, it's not easy, especially if you want to do it in Germany. Does that mean we would never tackle that? No, it doesn't. We will look and see where there are opportunities, but they have to be opportunities then where there's a payback, where you just don't create a big upheaval for a short period of time. We spend a lot of money, and then you have a very long payback. So gradual vertical integration adoption? Yes. We don't have a bigger thing that I could announce today, if we had, we would do that, but we will look at all opportunities.

Björn Scheib - Daimler AG - Head of IR & VP

Next one is George, then José, then Patrick.

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

George Galliers, Goldman Sachs, and thank you for your current detailed presentation. The first question I had was just with respect to these targets are obviously being viewed as sort of resetting the benchmark, but within them, you are still assuming that the car market grows by 1.6% next year when there are other commentators in the market suggesting a flat environment. Is the 4% target for Mercedes achievable in a flat market environment for next year? And can you give any kind of idea of the sensitivity to that margin based on 100 basis points lower development in the end market passenger cars?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

If the growth comes less than what we had planned, we have put ourselves in a position to be able to grow in our assumption right around where we think the premium side of the market will grow. If we lose some of that growth, that would put more pressure on the cost side. How quickly we could react to that, I can't give you a precise number to that at this stage, but that would hurt us.

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

And then just to follow-up on the investment cycle for ICE powertrain. You've been very transparent in saying that it will continue through to 2023. Just so we can understand that better, does that mean that in 2023 you may sign off the new powertrain development programs, both on the gas and the diesel side? Or will all programs for future powertrains been approved by 2023 with no further programs sort of approved during that time frame?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

If you look at our powertrain portfolio as it stands today, we really have everything from top to bottom, 12 cylinder to small 4 cylinder. That is a family, and if you count all the variance around it, you have dozens and dozens of variants. That whole family, and the core of it is 4 engines, 2 gasoline engines, 2 diesel engines, 4-cylinder and 6-cylinder engine, finishes off, if you will, in terms of its introduction by the end of next year. So we have the whole set. That whole set needs to be EU sub -- made EU 7 ready, and if there are intelligent CO2 reductions that pay off, you can do that as well. If you look at 2025 and beyond, we have already said that we will have a significant amount of combustion and it's already in 2030. You would not redevelop that whole portfolio. You would then start looking at, okay, in a new world towards 2030, I need less. And the powertrain programs that we would kick off would then be a gradual consolidation of the portfolio. So you have what you have already developed, you already invested, take EU, goes down. By definition, you then start lowering your capital investment in this area because if there would be no CO2 and no electrification, in the old business model, you would continue doing all of those things on the left-hand side. So that's what we have said, that current large family, hence, the cycle around 2023, 2025 and beyond, slimming up.

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

And if I can just slip in a final question. Just with respect to the working capital and the efforts to make improvements there. One thing you mentioned is looking at payment terms and also capital market facilities, I presume, in relation to your receivables. I think the receivables in the Industrial business is about EUR 12.5 billion today. What opportunity do you see through receivable factoring or other capital market measures to bring that down and get the cash through the door earlier?

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

Well, I mean, as Ola said, I mean, it's pretty basic, what we were saying here. I mean you know that, and coming a bit from other industry where I observe other payment terms, practices, obviously, supply chain in these days is not in super good financial health and shape. So just grabbing into the popular and then probably it might be a bit difficult, hence, you can have facilities based on undisputable, I mean goods services being delivered, goods received which are then bankable. So I think at this stage, I mean it's not something we will put into place I mean tomorrow morning.

But compared to where we are today in terms of the permanent payment terms, compared to industry and other industries, I have to say here, for me, there is clearly a potential. But then you need a facility to put that into place given the overall economic context.

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

It's Jose at JPMorgan, and thank you for the detailed profit bridge, and I think, very interesting. Two questions, please. On trucks, Europe. Can you recap what are the key actions to improve the cost base? And how do you think about market share having lost a couple of percentage points of market share there? How do you think of market share in the heavy segment in Europe going forward? And second, on Mercedes-Benz outlook, battery cost savings are a very deep pocket. How do you think about -- what are the key targets, the key initiatives in this category? When do the costs savings start to kick in? Is it more end of the time plan that you published here? And is it linked to the product cycle as well with the renewal of the S class, which has, I guess, the main impact in '21?

Martin Daum - Daimler AG - Head of the Daimler Trucks & Buses Divisions and Member of the Board of Management

For the question on the truck side. On the one side, we started 2 years ago, that program which we called STREAM. That netted in about 2,000 people leaving our company. The full impact of those monies will come in, in the next years. And we have -- we will continue, and we see further potential. We are in the good situation that the baby boomers are now coming into retirement age. And if we control attrition, I see big changes. And on the other side, we have a perfect benchmark inside our own truck group business in North American operation. So we go now function by function and compare. And then you are in the classic 5x why. Why do we need more people because of that? Why do we need that, blah, blah,

blah. And then you continue down after you ask 5x why, you find the source and then you eliminate the source. And I'm pretty positive that we will really get further.

We already started this. We see a lot of positives.

Another positive one on the fixed cost side was that in the past, we capitalized our R&D for our main product, the Actros. We don't do that anymore. So we have the full expense of the R&D and the capitalization and the depreciation associated with it runs out in the next -- that is in the very short near future, which gives us an immediate automatic fixed cost boost. We basically paid twice. We paid for the sins in the past or the investments in the past, sorry, and what we continue to do today. So I'm very positive on that fixed cost side.

So on the market share side, we have key ideas. One is our new product. Everything else that we talk when we achieved it, but we definitely don't like the situation in Europe. And you have the best truck and you're convinced that you get the feedback that you have the best truck in the market, and you have not the best market share that's not working.

I know the feeling from the United States, how it feels when you have the best truck and the best market share. I want to recreate that feeling in Europe.

Björn Scheib - Daimler AG - Head of IR & VP

The next one is Patrick.

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

Maybe a live part of the question. So you asked, when does what kick in? On the material cost side, you have a combination of 2 factors. Of course, you're addressing the products that you have in the market now, the regular commercial savings, but also in terms of the technical continuous improvement. So that's a gradual one.

New products is the other side of that coin. You mentioned the S class. The S class comes in its first full year in 2021. And of course, a product like that is important. So you then have set yourself a cost target that a -- and a margin target on that vehicle that should support your profitable growth. So that particular vehicle will be important for us in 2021 and 2022.

The things that are more associated with the CapEx side, as you see, the first, ceiling. It's like a ceiling, and then we're going to take it down.

So on a cash side, once you start taking down, you see it immediately. On the EBIT side, the depreciation that is associated with it, that has a little bit of a lag. But that shouldn't stop you from doing it because it will then help you 2 or 3 years later.

On the personnel cost side, especially in Germany, that's the most difficult thing to tackle because of the labor laws. So there, you have a lag. You start now, and then you, step-by-step, go through this type of program, but you don't get the full effect until the end of 2022.

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

Patrick Hummel, UBS. Maybe some high-end market questions. First one, I just wanted to clarify and verify your bridge for EBIT and free cash flow. Adding up what you said about the divisions, you end up roughly in 2022 with something between EUR 10 billion and EUR 11 billion of EBIT and applying your cash conversion ratios for the divisions and subtracting the tax, which suggests a free cash flow order of magnitude of EUR 5 billion, which would be, I think, the best you've ever generated.



So as much as people might be a little bit disappointed about margin targets, that would be a pretty upbeat message on free cash flow. I just want to verify if that order of magnitude, the EUR 5 billion, makes sense to you? In particular, in light of what Ola said, namely that the peak in complexity is actually ahead.

And if I can also clarify, if in that EBIT number, if you have included any implementation costs for the restructuring for reducing the headcount, reducing personnel costs by EUR 1 billion.

And my second point if I may, please, on trucks. And Martin, you said it yourself, the financial performance of trucks over the past few years has been fairly disappointing in light of the opportunities that the truck cycle in the key markets created. It sounds like you guys have taken the decision to keep trucks in the group as a 100% owned company. So I wonder why you think that's the better alternative rather than putting Martin and his team into the spotlight with a separately listed stock with all the upside of great performance and all the downside of nonperformance.

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

Well, Patrick, thanks for the simulation. Well, what we wanted to show you today, I think, is the underlying margin evolution as we see it. As I said, is we established a road map and that we want to execute it. With the cash conversion rates, that should lead you to the respective CF bits. And I think you're right then to deduct, I mean, interest and tax. Maybe we'll get into numbers, as you say. And yes, I mean, if we can make these underlying long-term numbers, I think that would be actually good news, even if the profitability is back, to Tim's point, is disappointing, yes.

And when -- we are focused now in the next 2 to 3 years here in that session. I think there will be other opportunities to talk about the future. But I mean, if you're able, I mean, to make that underlying, that would be a good one.

Limitation, please. Again, restructuring is not included in the numbers. Second, again, remind on the footnote, utilization of provision, i.e., cash out related to the provision for disclosed items is not included in the number, as we would consider them more as exceptional as a one-off item. And here, we want to show you the perspective more of the underlying.

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

On the truck.

Martin Daum - Daimler AG - Head of the Daimler Trucks & Buses Divisions and Member of the Board of Management

On the truck side, first of all, we are absolutely not afraid of the capital market, yes, because you -- it's a pretty solid performance and it's disappointed. There could be more, which is upside potential, but on the other side, with our cash generation and what we have in store, I'm not afraid of the future at all. There are absolutely no plans as we stated several times, because why should we? It's a very -- I mean, we are a very valuable part of the Daimler Co. And the rest, you have to ask my majority shareholder, the Head of my Supervisory Board, what his plans are.

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

Thank you for that task. And now I'm going to try to score a goal from 25 meters. We have no plans to change the capital structure of Daimler. As we said with the introduction of PROJECT FUTURE, we're going into a phase of transformation. And one of the reasons why we did PROJECT FUTURE is to create ourselves strategic flexibility. So we have strategic flexibility, but we have no plans.

Björn Scheib - Daimler AG - Head of IR & VP

So the next one then would be Kai, Mike, and then we move here to the right side. As one can see, it's more or less half an hour already from the Q&A session, and we had 5 people asking. So therefore, please limit yourself to 1 or 2 questions and keep them short, please.

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

I'll keep it brief. Kai Mueller from Bank of America Merrill Lynch. First one on your R&D and CapEx spending that you outlined. You obviously want to reduce them over time, work more in the cooperation and with other peers. When we think about your EV platforms, both on the truck side and on your car side, would you be thinking yourself becoming a leader and getting someone onboard to share the cost burden? Or would you even join up with someone who already has a platform in order to get the synergies in the future? And I think that sort of brings me to the second point. You're already cooperating very closely with BMW on the NOW (sic) [YOUR NOW] JV. You mentioned you're looking at other partners possibly. Is that a business you believe in the long run should be a stand-alone business? Or should this be always be part of your group within the mobility arm of Daimler Mobility?

Ola Källenius - *Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division*

Maybe I -- should I start with the platform? Platform thing is first. If you want to get 2 OEMs together and do a full-scale platform sharing, there are so many elements that actually so many stars have to align for that to be possible. So that's usually for 2 OEMs that are not integrated in the same group, relatively difficult.

On a component and system levels, it's more possible. So as we sit here today, we don't have a full-fledged architecture sharing with any other OEM. Footnote to that. As you know, smart, we're putting on a GLE platform. So I think there, we're doing it. And on the commercial van side, our entry offering into our commercial van side, Citan, is a joint architecture and platform with Renault. So those are exceptions to that rule.

We still consider ourselves to be a leader. And as we presented at the Frankfurt Auto Show, we're entering in, in the 2021 time frame with our first fully dedicated electric platform for larger vehicles in our portfolio.

You saw a vision car in Frankfurt. That gives you kind of a flavor of where the direction is going there.

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

Well, and on the NOW family, well, today, it's already 50-50. I mean, what does it mean? None of the 2 are really, I mean, managed or runs the business operationally, right? So it's a separate legal entity for, I mean, the ride aiding, the car sharing, the park, the charge and the reach. And I think it's important, I mean, to have a link. So that's why we're happy to be a shareholder. Let's not speculate where we will be in some time from now, but to understand how the business is running, how it develops in the context of ownership, plus we also need to bear in mind one way or another, the autonomous driving, how that's going to develop. So I think, therefore, I mean, it is an important element to be inside the group.

But again, I mean, to scale it further, we are also open to partnerships.

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

It's Mike, and then we move here to the right side.

Michael Dean - *Bloomberg Intelligence - Analyst*

It's Mike Dean from Bloomberg Intelligence. I just had a question on your EBIT margin bridge for Mercedes. If you look out for the bit for 2022, the biggest chunk is volume and pricing. Could you give us some more detail on what are the components, the key drivers for this uplift in 2022, given the outlook for global auto markets is rather depressed?



Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

If you want to be detailed, it's volume structure and pricing. So 2020 being a crossover year for the S class, where we have relatively low share of S class, and then we go into full production of the S class in 2021 and 2022, you have a structural piece of that, which is not just the actual number in terms of units sold. And at the same time, in that particular market, the S class has a dominant position. So when it goes down, the market goes down, then it goes back up again.

We also have a whole set of new EVs. And we don't suspect -- we don't expect the EVs to be 100% substitution against our current portfolio. So as we roll out the whole family of EVs, we're also looking at some incremental growth from that in particular. And you can take those 2 effects and add then a normal growth scenario to that, and that's how you get to the number.

Henning Cosman - HSBC, Research Division - Analyst

Henning from HSBC. I was actually going to ask the same question about the last 3 buckets of that 2022 EBIT bridge. So without being cynical, it looks like you want to make more cost with a better price/mix, producing them for less with fewer people. So I just wanted to ask you if you could just discuss the dynamics within that, the puts and takes a little bit. Because seeing the EV share also that you want to achieve it, it really looks like that's the biggest swing to go from a negative to a positive contribution margin. And if you could just discuss the dynamic, what gives you the confidence that you can go to that very positive contribution margin that's required to deliver that very positive swing?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

Well, I just talked about kind of what where the revenue side of it, it's on a question before. We're very confident in terms of the substance of the products that they can be competitive in the market. So that's what carries some of that belief.

On the material cost side, you're working on both at the same time. So your shaving on your products that you already have in the market, and you're trying to reach a better cost position on the ones that you're going to launch fully new. So a combination of these things is what lead to that number.

On the fixed cost side, personnel costs, as I mentioned, you have to start rightsizing the company and move the number of people down. But it's not just about the personnel cost. You tackle everything there. You tackle every SG&A category that you can go after.

So this is hard work in terms of cost management. That's what we're going to have to do over the next 3 years to make the fixed cost structure come in a better balance with the revenue structure with the revenue line that we're expecting. This is not one silver bullet here. It's a lot of hard work in every category.

Gautam Narayan - RBC Capital Markets, Research Division - Assistant VP

Tom Narayan, RBC. The 2 numbers that really struck me for 2020, the 9% EV penetration and the 4% margin number of Mercedes in 2020. Obviously, the 2 are interrelated. The question is, to get to the 9% penetration, that's obviously what you would need to hit their CO2 target. Mathematically, it would seem like you would know the breakout between 48-volt plug-in hybrid and BEV. I was wondering if you could share any kind of detail on that? I know it's maybe difficult for competitive reasons, but it would help us with modeling. And then understanding the next point, which is the above-4% margin at 2020. Obviously, the 2 are correlated. What's inside that 4% margin, especially on the cost side related to EVs? Is it component costs? Have you factored in pricing and what you expect to be able to push through to the consumer to achieve those margins?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

Good question. Let's start with the EV -- the xEV penetration. I'm just going to give you rough numbers because one thing that you can't quite control, and I mentioned it in my presentation, is what the customer actually decides to do. You influence it, but you are not 100% control over it.

But to give you the rough numbers, 48-volt, doubling it, from roughly 200,000 to 400,000. Plug-in hybrids, trebling it from a little bit below 50,000 to maybe in the 150,000 range, maybe a little bit below that. EVs, this year, we do 20-ish thousand smarts, give or take \$0.01. And we're just in the launch of the EQC, so that's a few thousand because of just starting to ramp up. And the full year of EQC gives us then 40,000 to 50,000, maybe. So now you can -- I can start working with your spreadsheet to put those things in. What's the biggest part? The biggest burden is the variable cost. Then you make an assumption on how much you can pass on to the customer in terms of pricing. I'm not going to sit here and reveal our pricing position -- forward-looking pricing positions for obvious reasons.

We are a little bit conservative, though, in terms of the ability to pass on the whole thing here. Because traditionally, customers have not been willing to pay too much for CO2. Everybody wants it, and it's kind of a feel good thing and for us, a compliance thing. But in terms of pricing willingness there, we have experienced in the past some hesitation, and that's what we built out into our model.

Björn Scheib - Daimler AG - Head of IR & VP

Then we've got Daniel, then thereafter, we've got Michael and then Adam.

Daniel Schwarz - Crédit Suisse AG, Research Division - Research Analyst

Daniel Schwarz, Credit Suisse. So one more question on the EUR 1 billion cost of personnel savings in Mercedes. What's your level of confidence as you only starting negotiation with the workers' council, as I understand, and you have the job guarantees until 2029 in place? And second question, to Harald Wilhelm. Airbus did do share buybacks in the past. If you deliver on your cash conversion targets, is that an option for you in the long-term for Daimler as well?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

So I'll start with the personnel cost, perhaps. On the different cost categories that we're talking, one -- talking about the one with the most inertia. And so certainly, the one that is the most challenging is the personnel cost thing.

There are lot of things that you can do without the labor side. But needless to say, you need the labor side for a lot of things. We have started these discussions with them. And we believe that they -- as we are absolutely convinced that we need to have a financially sound longer-term future for this company. So we expect to conclude those discussions with programs that we can deliver that number. But it is the one with the most inertia, it's the one that requires the hardest work, especially in Germany.

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

And on your question on share buyback. Our priority for the next 3 years is improve the margin, deliver these plans, bring in the cash generation, the cash conversion up. At the same time, I mean, securing EUR 10 billion of the net cash. So I don't think share buyback is on the agenda for this period of time. And I had no point to speculate about any time beyond that.

Michael Raab - Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research

All right. Mike Raab, Kepler Cheuvreux. I have 1 question for each of you right over here.

Björn Scheib - Daimler AG - Head of IR & VP

We said 2.

Michael Raab - *Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research*

Sorry, limited to 2. Now on the previous margin targets of yours. I'm sorry, I have to come back to that. I fully understand that the plan that you've been introducing today covers a 3-year time horizon. And I really appreciate giving a bit more granularity on what seems to be a very crucial period for the car industry. But the old targets of yours, have they been simply scrapped or just postponed to beyond that period? And if so, would you be willing to commit to a set to a certain time frame of which you think you are able to return to those corridors again? And then secondly, again, on the CF bit definition. For me as an ex-accountant, if I look at an indirectly derived cash flow statement, where would I position myself? Would that be a cash flow from operations before interest and tax? Or would it really be a free cash flow before interest and tax?

Ola Källenius - *Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division*

So if we start with the first question, we decided to put a very clear focus on the short to midterm, which is from now until 2022. And those are the numbers that we have presented. And that's what we're going to deliver, want to deliver for those next 3 years. So to have a debate beyond that is not something that we want to do today.

Harald Christiaan Hendrikse - *Morgan Stanley, Research Division - MD*

Well, I feel I will repeat myself a bit, but -- or Björn, maybe you need to help me. But I mean, clearly, the cash conversion we show is a cash flow before interest and tax. So we're not coming from free cash flow and then take the interest and the tax, I mean, off again. I mean, it is in the operating cash flow, if you start on the EBIT base, depreciation, amortization, investments, delta working capital, here you are.

Michael Raab - *Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research*

All right. So it's essentially free cash flow?

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

And just to clarify only one thing. All the refinancing cost on the financial services is in the cost position of the financial services, not that anybody of you comes across it says now EUR 160 billion in refinancing costs. This is not meant so specifically.

So it's Adam, then it's Thieu and then Roland, and then Harald.

Adam Brian John Hull - *MainFirst Bank AG, Research Division - MD*

Adam Hull, MainFirst. And on mobility services, and thanks very much for giving us some more breakdown. That I think is very useful book value business, I think, of EUR 15 billion. Could you just tell us a little bit as to how you're going to calculate that dividend for that business, I think, is the EBIT, EUR 2 billion, EUR 2.5 billion, something like that. How does that work? And is it right to add that to the group free cash flow? In the sense, the other 2 parts you've already gone through on the cash conversion. And then secondly, maybe you could go through -- help us a little bit on that bridge to 2022. Within that, you're showing a clear reduction in the losses in the mobility business. Is that a breakeven? Or is that still in losses? And maybe you could give us that PPA number you mentioned on the acquisition because clearly, in a sense, that is a one-off that fades down within that?

Harald Christiaan Hendrikse - *Morgan Stanley, Research Division - MD*

Yes. Thanks for the question. Any other issues in terms of level of granularity?

I feel a bit like giving you that and ending up without the arm. No, I mean, I think -- frankly, I think we need to stop at a point in time. I mean, it's already quite a lot of what we gave you here today. But I mean, anyhow, I will try to answer your questions.

So how should we think -- you know roughly about the EBIT level being achieved in DMO, take that after interest and tax. And then any step-up in equity related to growth, meeting the equity requirements. And we -- let's say, roughly, we're talking, in terms of equity ratio, in the DMO business, we're talking 9% or so. So any growth would need to be supported by 9% of equity, which would be netted off the profit contribution coming from DMO.

In terms of allocating the dividend into the group free cash flow, I think, so far, we communicate in terms of free cash flow, industrial. And therefore, obviously, I mean, that would not sit inside. If you then want to have a look at the free cash flow all in, you would need to add it in terms of cash generation as an entirety. I suggest we give more color when it comes to 2020 guidance.

Next question, on the margin walk. Yes, actually, there's a significant reduction in the investment and in the running losses, cash consumption in the mobility services, but I will not lay out any time line here today for when that is going to happen.

Björn Scheib - Daimler AG - Head of IR & VP

It's you, Roland, then Harald.

Unidentified Analyst

Great. It's (inaudible) from Citadel. I think just first and foremost, we should all commend you, guys, for being so open, honest and frank about the realities of your business. I think this industry suffers from delivering bad news, embracing it and then moving on with it. So thank you for that.

Just have a question, and I'm kind of maybe foreshadowing what your investor discussions will be going forward. Beyond 2020, from 4% to 6%, it's clear that, let's say, maintain the margins in your control, capturing sales and product momentum in your control to get to 6%. But what does this business look like in maybe a stable environment or a mild downturn? I think that's something that we're going to try to address together because I'm trying to get my head around -- and I'm not trying to talk about a GFC. I'm trying to talk about an environment where maybe between 2020 and 2022, we get 3% to 5% volume declines, and we get some down mixing in the business. What does your business look like? And maybe what are the levers you can pull that would make this picture look different?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

It's very similar to the question that I think was previously asked here. What's the protection for a downside? Clearly, you would have to go deeper into cost. Depending on how steep that decline would be on the revenue side and how quickly you can react, you would have to see what the balance of that is. But the honest answer is that's a threat.

Unidentified Analyst

Just a follow-up, Ola. Sorry. Just the levers are outside of this plan, would you say you can target fixed costs more? Or is it...

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

You can definitely target capital expenditure more, but you can also target your fixed and variable costs.



Unidentified Analyst

So maybe you don't protect the margin, but you can protect the cash with CapEx and R&D adjustments.

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

In such a scenario, it's easier to predict the cash and (inaudible)

Unidentified Analyst

Roland Boss from Hermes. Two quick questions. One is about the emission regulations. Did you set some emission targets beyond 2020? And the second part. Ola, you mentioned earlier about rightsizing the business to just transition. What measure will you put in place to do that in a socially responsible way without impacting of the employee morale?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

So if we're talking about -- should I start with CO2? Yes. CO2, I showed you what the path to 2020 could look like. If you project that forward into 2021, the piece that was super credits and phase in would have to be addressed with technical. So xEV share, 48-volt share and so on. So those are those first 2 years.

But of course, we have a CO2 plan that goes from every year. I mean, we model and look at all the way out to 2030. To have that discussion here, it doesn't make sense because you have so many volatilities in terms of how the market will react. But of course, we model it all the way out to 2030.

In terms of personnel reduction. As soon as we have completed an agreement with the labor side, we will make that known. But we've always been a company that have done adjustments, when we do adjustments, in a socially responsible way.

Harald Christiaan Hendrikse - Morgan Stanley, Research Division - MD

Yes. It's Harald at Morgan Stanley. Just going back to the targets again, and you've had the same question again and again and I suspect you're going to get it over the next few weeks regarding the long-term targets. But the key problem with Daimler has been now for a number of years that the targets haven't been achieved at all the time. We've had negative surprises at least once a year. And now you're talking about -- you've taken a really good look at the business, going through with a fine tooth comb. To what degree do you now feel like you've, in these targets, allowed for every booby trap that historically we've had? I really want to understand the level of confidence you have now. Have you put some buffers into this? Or is this just simply a realistic assessment of where you think you might be? And if the revenue does miss once again, we're back to where we started. Can you just talk to your level of confidence?

And then on the CapEx side, ditto the same thing, really. You show some sort of reduction in CapEx in 2021, '22 relative to what I would see today, incredibly high investment levels. Can the business sustain these levels? Or how much upside is there in terms of free cash flow? Or how much downside on CapEx? Can you not cut CapEx more strongly, just in case your scenario isn't quite as rosy as the assumptions are today?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

We have made a fair and frank assessment of the business as we see it today. And those are the numbers that we have presented today.

On the CapEx side. Of course, it's the easiest thing in the world, is to reduce your CapEx side. You can do more. But in a balanced way, we're keeping our eye on 2025 and 2030 at the same time. So we want to win in the short to mid-term, but we certainly want to win in the mid to long-term as well. So we're constantly balancing this.

As was the previous question here before, what if there is a downturn and something happens to the market and so on? Can you go lower on CapEx? Yes, you can go lower on CapEx. And perhaps if you end up in a situation like that, we would have to go lower on CapEx. But what we tried to display today a balanced way between getting back on track in the short to mid-term, but keeping an eye on our position in the lot.

Björn Scheib - Daimler AG - Head of IR & VP

Next one would be Angus, then it's Saul. I'll take you and then Steve and then probably -- and we are done after that.

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

Angus Tweedie from Citigroup. The first one's on mobility. In your 2020 EBIT bridge, are you calling out a drag from market risk? Is that softening residual values that you're seeing? Or can you talk about that aspect of the bridge? And then secondly, looking at your 2021 CapEx guidance you've given us, would it be fair to assume about 30% of that relates to electric vehicles? Or is that a too low number?

Harald Christiaan Hendrikse - Morgan Stanley, Research Division - MD

So on the mobility, I mean, like I said, we anticipate some higher market risk and some risk from -- on the margin from a more competitive environment. That's not a reality which we see right now in 2019, rather, I mean, the opposite on the margin side, as you could see in the Q3 numbers and I mean, reasonably stable, I would say, on the net credit losses.

But we -- as we want to give, I mean, a fair and balanced picture, that's what we anticipate and take actions therefore. I mean, in case it occurs, that with the efficiencies measures I've been talking about before, we're well prepared for that.

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

In terms of the -- in the chart that we show today, we made a conscious decision not to itemize the different things in the CapEx. But of course, as you could see, how the xEV rate was going up. So a significant piece of our investment goes into new technologies, and the biggest piece of that are technologies associated to electrification.

Björn Scheib - Daimler AG - Head of IR & VP

Saul, then Steve.

Unidentified Analyst

Saul Rubin at Wellington. Harald, you made an interesting commentary about how you're trying to look at the business differently than the past management team in the sense that you're trying to put in place process you're looking forward 2, 3 years out and try to foresee risks and challenges that aren't sort of encompassed within the plan that you may not have done in the past. So I'm just wondering, outside of the obvious recession, low volumes, et cetera, what are you thinking about -- what do you think are the biggest challenges or potential risks that aren't encompassed within the plan as it is today?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

I would like to start making one statement. It's not like we haven't looked at risks in areas of our business cases in the past. Of course, we have. Just that the situation that we're in now requires a heightened level of sensitivity towards that. That would be the best description. There are the unknown unknowns. So let's not try to invent something that we don't know.

But one thing I think is pivotal for the whole auto industry is how is the EV adoption rate going to play out and how fast it's going to be in different markets. That is -- there is a level of uncertainty around that. Of course, we have the flexibility in our business system to flex between combustion and EV. And we have the EVs that we're bringing into the market. We're building in the same assembly plants that we build our combustion vehicles, and in most cases, on the same line as well. But if the EV adoption does not happen, and it's necessary for it to happen to meet CO2 targets, I would say that's an uncertainty for the whole industry that is unknown at this stage.

Björn Scheib - Daimler AG - Head of IR & VP

So next, that would be Stephanie, then Stephen.

Unidentified Analyst

Stephanie (inaudible), JPMorgan. Just with the change in powertrain and EV penetration, how do you view the gross issuance needs at the financial services business over the next couple of years? And then also just your view, given the uncertainty of what you feel like minimum gross liquidity is both in industrial and financial services.

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

Okay. So yes, well, I mean, with a move to more electrical powertrain, I think the financing and the leasing business offered by DMOs is going to be a key supporter to it. Overall, we will retain the penetration rate of 50%. And we need to see, I mean, how the share works out. And certainly, we'll continue to do a prudent risk assessment here in terms of all of the parameters, I mean credit risk but also residual value risk, whether it sits in DMO, whether it sits in the industrial side of thing, it doesn't matter from a group perspective, obviously. I think too early now to speculate on that, but you see our management approach it in terms of risk management.

In terms of -- in the gross liquidity, I don't think we split that out in terms of the -- no, we don't split it out.

As I said before, the funding, I mean, happens at the group level. And therefore, I mean, we will make sure that at each and every moment in time, the respective businesses, be it industrial, be it financial, be it DMO, is provided with a sufficient level of liquidity at any moment in time.

Björn Scheib - Daimler AG - Head of IR & VP

So Stephen?

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

Steve Reitman, Societe Generale. Obviously, we live in quite difficult markets and conditions and there a lot of things one can't control like tariffs or where the Chinese market is going. But looking at the things within your own control, what I think one of the big disappointments for 2019 and was expected to be maybe a swing factor in 2020 was things, for example, like the GLE and the problems you had with the launch of the SUVs in -- from the United States.



So looking at that, when you analyze the problems there, issues with suppliers and own goals that you've done yourselves, what gives you confidence that you could have fixed this and so you have the ability to execute your plans for 2022, which obviously relies on very strong execution of your forward-model plan?

And second question is about your going forward again with electrification and your electric-first strategy. It's been talked about at some -- it's been speculated maybe in the press that your penetration that you expected to (inaudible) battery electric vehicles maybe a bit lower than the originally planned, and you're looking more for maybe plug-in hybrids and 48-volts to get you to your CO2 targets. Is that part of the reason why that bucket of [electrification] cost has risen and thus impacting your margin assessments for 2022?

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

To start with your first question, for years on end, and we do about 7 launches a year. It was like just the machine clicking and you don't even notice it. It's like you get a report in the board, we've launched this new vehicle up gone. We were caught out a little bit or quite a bit in the launch of the GLE, which is a margin-important vehicle, of course. With some of our suppliers not being ready to keep our pace.

Of course, we have done a thorough study of that, what happened, what didn't go so well to put actions in place to make the system more robust going into the future. So can you guarantee that you will never have a problem? Of course, you can't guarantee that, but an organization is a learning animal and you move forward.

With regard to the EVs, I cannot confirm the speculation that you're referring to. We have said as an ambition by 2030 to have 50% xEV. Of that 50%, the larger piece, we believe, will be EVs.

It's a crystal ball. Can you know that 100%? No, you can't. But once you start driving cost down of EVs, total cost of ownership moves closer to what we have been used to on the combustion vehicles in the past. And regulation will play a role here, of course, as well, that might push buying behavior in that area.

I would say I'm cautiously bullish on EVs. And that is why for architectures, it's 25 and beyond, when we start thinking the car, we think electric first.

Björn Scheib - Daimler AG - Head of IR & VP

So ladies and gentlemen, thank you very much for your questions. Before we round it up, I would love to give Ola the opportunity to give his closing remarks.

Ola Källenius - Daimler AG - Chairman of the Management Board, CEO & Head of Mercedes-Benz Cars Division

So again, I would like to thank you for coming to our Capital Markets Day here today. We have perhaps some hard truth, but I think we also have some great perspectives for this company. And I can only repeat what I have said. We have the brands, we have the technology, we have the product, we have the people. We have a cost task. We're going to tackle this cost task. We have an investment task, we're going to tackle that investment task. But if I look towards '25-'30, can we capture what we believe is a growth business? Yes, we can. And we're going to do everything we can to implement the short-term measures, but at the same time, lay a strategic foundation for being successful in the longer term.

Looking forward to seeing you again soon. Thank you very much.

Björn Scheib - Daimler AG - Head of IR & VP

So also, a very warm goodbye to all our listeners on the Internet. Thank you, everybody, for joining today. Thank you to the management team to give these presentations and take all your questions. Hope to see you soon. And as always, I [always stay] at your disposal.



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

