

Title of Meeting: Fiscal 2017 Quarter 4 Results Call;

Hosted By: Ben Birgbauer

Coordinator Ladies and gentleman, good day, and welcome to the Jaguar Land Rover Fiscal 2017 Quarter 4 and Full Year Earnings conference call. We have with us today Mr. Ben Birgbauer, Group Treasurer, Jaguar Land Rover.

As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Ben Birgbauer. Thank you. Over to you, sir.

B. Birgbauer Okay. Thank you, everybody who's called in to join. I think what I first just like to say is, I wanted to send my apologies on behalf of Ken Gregor our CFO, who can't be here today because he has had a bereavement, so you have to make do with me as a solo act I'm afraid. But anyways, I'll do my very best to answer your questions. We tried to do something a little bit different in terms of format this time, where we actually had a webcast about an hour ago, running through the presentation and we did distribute the presentation in good time. So, the intention was, I was not going to run through the presentation this time, but rather was just going to take questions and provide answers, which I hope works for everybody. So that's my brief introduction and with that I think we can go ahead and take the first question.

Coordinator Thank you very much. We will now begin the question and answer session.

We have our first question from the line of the Deepak from IDSD. Please go ahead.

Deepak Good evening. Thanks for taking my question. I have two questions. My first question is, sequentially GDP USD has remained more or less flat, since it's been flat on a sequential basis if I take the average of Q4 and Q3, and JLR volumes and revenues have gone up substantially on a sequential basis. Why then would our Forex losses be declining sequentially? Would that mean we have had better GDP USD hedging rates this quarter, or how should I look at it?

B. Birgbauer Well, actually, the pound/dollar exchange rate saw the pound appreciating in the quarter, so when we ended the prior quarter Q3 on 31st December, we were at 1.2285 and we were actually at 1.2461 at

the end of March, so there was some appreciation in the pound, which would reduce the hedging losses somewhat.

Deepak Okay. So, would it be on a quarterly, I mean should we look at it on average rate or on a quarter ending rate?

B. Birgbauer Well, you're quite right. And I was going to make that clarification, that it will be within the quarter, but on average I think that overall there was a slightly stronger pound and particularly in March, which is always a heavier month in terms of sales, so I think that is probably the explanation. I mean, I would make the point that it's a bit of zero sum game, because we always say the underlying exposure goes the other way. So with a somewhat stronger pound we get somewhat reduced hedging losses, but we also get less favourable operating performance. So I think probably the message for the quarter just ended and for the year, for that matter, in the bridge that we provided in the presentation is that FX as an absolute amount combined with some commodity derivatives as well was about 10 million positive in the bridge. So broadly neutral when you consider operating exchange and hedges and revaluation.

Deepak Okay, thanks. Secondly, it has been a strong performance on a sequential basis apart from the FX. So, how would you attribute this? Is it purely operating leverage or the leverage that we got on a sequential basis with higher volumes, or is there any other factor that has contributed to higher profitability? I know, seasonally Q4 is always stronger, but anything apart from that, that's changed since last quarter?

B. Birgbauer No, I think, its volume and mix and that does give some operating leverage. I think that is the main answer.

Deepak Okay. So the mix in terms of country mix has remained broadly similar and product mix also remain similar?

B. Birgbauer Yes, I think in the quarter it was more volume than it was mix.

Deepak Right. Okay. And in terms of the discounts or the incentive level, they have remained high as compared to the last quarter or has anything changed? That's all I want to understand.

B. Birgbauer Just one second. I am just calling something up. So yes, we didn't include it in the presentation, but I am just looking at our internal analysis for the quarter-on-quarter and it was largely volume that was the significant driver and it actually was the case that exchange and commodities combined was favourable quarter-on-quarter. We had some favourable commodity hedge revaluation because commodity prices have strengthened.

Deepak Okay. That's above the line, the commodity hedges?

- B. Birgbauer No, that's a good question. So the realized commodities are above the line, but I was talking about revaluation in terms of PBT so if the question was on margins that wouldn't so much explain the margins.
- Deepak Okay. Thank you.
- Coordinator Thank you. And your next question comes from the line of Binay Singh from Morgan Stanley. Please go ahead.
- B. Singh Hi thanks for the opportunity. I have two questions. Firstly, we have given some kind of a guidance on JLR margins in this presentation where we are talking about 8%-10% margin range, so I have some questions on that but firstly, the Forex side, do you think Forex, assuming current rates remain, will be favourable for you in FY '18 versus FY '17?
- B. Birgbauer Binay, there is a slide on hedging in the appendix of the presentation that we set up that you might find interesting to look at. I think that what I would say is, broadly exchange is likely to be a zero sum game in FY'18, at least through the first three quarters. So we obviously have operating exchange good news, which is offsetting the bad news on hedges. We're fairly well hedged in the year, but it would be true that when we get to the 4th quarter we would start seeing the amount of hedging losses that are in hedging reserve maturing in the 4th quarter reducing somewhat. So there would be the opportunity potentially for a little bit more good news to flow through, but that's the exchange rate at the end of March, so it does very much depend on what exchange rates are. So as we sit here today, exchange rates of the pound is somewhat stronger obviously, and that potentially actually means that hedging loss is reduced, but at the same time operating exchange reacts unfavourably to the stronger pound as well. So, I think hedging is broadly a zero sum game.
- B. Singh Okay thanks that is helpful, because, I guess that is why you are saying that the margin in financial year '18 will be similar to margins in financial year '17. Is that the guidance that you are trying to give?
- B. Birgbauer No, I definitely did not give that guidance. I think I would say as you know, we have never given next year's specific guidance on margins and I kind of could joke with you that I am probably not going to start on this call either.
- B. Singh The only reason I say that is because in the JLR presentation there is a line which says that expect margin pressure in financial year similar to what we have seen in financial year '17. The JLR presentation slide talks about 8% to 10% margin range and then the second line talks about margins being similar to the pressure we have seen in FY '17.
- B. Birgbauer You're trying to interpret those words possibly in a more specific way than intended, I guess I would say. But I think all I would say is this, there is positive factors and there are unfavourable factors for the next year and I think that we're not specifically giving any guidance other

than to acknowledge the positive factors and the unfavourable factors. The positive factors are that we have some exciting new products coming out this year that, hopefully, are well received in the marketplace. And I think the unfavourable factors are that we did see increased incentive levels in FY '17 required by the market and we don't necessarily see any let up in that for this coming year. And I think the other thing running through the results in the last year that I think may be more apparent than in prior years is that you do have significant launch and growth costs running through the numbers, because we are growing so fast, and I think there will continue to be launch and growth costs running through the business as well. So how those play out in the year, I think, we're not going to give you a specific guidance on it. But, we wanted to at least be transparent in terms of what factors we see influencing it.

B. Singh

No, that's very helpful. My second question is on diesel. You know, there is a lot of noise and in fact a trend also playing out in Europe, that we are seeing the share of diesel come down and we know that Land Rover diesel percentage is one of the highest among OEMs. So, some questions with regard to that. What percentage of SUVs in countries like UK are diesel? So is Land Rover standing so tall on diesel predominantly because of SUV mix?

Secondly, if the market moves away from diesel to gasoline, to EV then how is JLR prepared?

And lastly, linked to the same, are we already seeing discounts on diesels rising sharply in markets in Europe?

B. Birgbauer

Some of those questions I don't have the exact answers with me. Diesel mix is relatively high in Europe and in the UK that is true. I think worldwide our diesel mix is somewhere around 50% overall.

I think that in terms of diesel demand, it would be the case that we are seeing some reduced demand for diesels in Europe. It's gradual I'd say, rather than anything else, but we are seeing some reduced demand. It does start getting into more of an operational question and to really do justice to your question somebody from our operation team would be able to give a more accurate answer. But in general, we do have some flexibility to switch from diesel to petrol in the short run and I think that in maybe the medium term and in longer term there are also issues with that with respect to compliance with CO² requirements and I'd just say that the response to that is really as highlighted in the presentation today. We do have mild hybrids and battery electric vehicles coming and we may need to sell more of those, if there is a bigger move away from diesel over time. So I think that is really how we would respond.

I have not heard any feedback, one way or the other as to whether we have seen any pricing impact on diesel. So, I just don't have an answer for you on that. What I do know is regards to some gradual shift in diesel versus petrol mix.

B. Singh Great, thanks a lot. Thanks for the detailed answers.

Coordinator Thank you ladies and gentleman. We have another question, which comes from the line of Ashish Nigam from Axis Capital. Please go ahead.

A. Nigam Hi, thanks. Just a quick question on the employee cost for the quarter. I mean if I look at from both from a year-on year perspective and sequentially, it has remained pretty flat despite an increase in volume. What has led to this?

B. Birgbauer That actually I don't have, I am sorry, I don't have an answer for you on that question. And I think that I am probably going to need to say this, you should probably revert separately to the TML team and you can follow-up on that question separately. I am sorry, I don't have a specific answer for that.

A. Nigam Sure! Okay. Secondly, I think you mentioned in the analysts meet the number of operational exchange benefit which you had in the quarter versus the hedge losses, can you just repeat both the numbers?

B. Birgbauer For the quarter year over year?

A. Nigam Yes, for the quarter.

B. Birgbauer For the quarter year over year the operational exchange was about £325 million and the FX hedging affect was about the same magnitude. They were pretty much neutral on a net basis. There was then other things like revaluation of current assets and current liabilities, which was somewhat favourable and revaluation of unrealised FX hedges, which were somewhat unfavourable as well as some favourable revaluation of dollar debt and commodity hedges.

A. Nigam Okay, thank you.

Coordinator Thank you and our next question comes from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh Hi, Sir, this is Saurabh. I have two questions. One is on this EBIT guidance of 8% to 10%, does this include the China JV profit?

B. Birgbauer We are defining EBIT to include our share of the China JV profits.

Saurabh So that 8% to 10% will henceforth include JLR's share of the China JV profits?

B. Birgbauer Yes, and in fact the numbers we reported for EBIT this quarter and year included that.

Saurabh Okay. And the second question is essentially on the variable marketing expenses, in your opinion since you have a lot of new launches lined

up, one would assume that after the launch variable marketing expenses will come down. So should these trend down in going into FY18 or how should we think about these?

B. Birgbauer

I am not sure, if that's the right way to think about it. If anything, I can say newer models and principles should require less variable marketing. So variable marketing would be defined as incentives to support sales. I think the fixed marketing effects things like advertising that is something to consider when you launch a vehicle, so it's a part of the launch costs of launching a vehicle and we need to advertise and tell people about it. So that's higher, but I think the number we called out in the profit bridge or waterfall year over year, that was variable marketing not fixed marketing, and I think that is more of a function of the marketplace. So, for example, in US, in particular competitive conditions have become greater and we're seeing the competition increasing their incentive levels and to a certain extent we are having to respond to that.

Saurabh

Okay. One last question on your free cash flow. So basically the expectation for FY18 should be have over £4 billion of investment spending lined up, so you should essentially be near breakeven for FY18?

B. Birgbauer

Well, I am going to be a broken record on that one. We have given guidance that we expect spending to be over £4 billion in FY18 and that includes investment in the Slovakia plant as well as the fact we probably underran our guidance a bit in FY17, but we don't think that spending is going away, some of it is just retiming, so that's part of the guidance.

I think what I would say is that as we increase our spending, it becomes more challenging to cover that out of cash flow from operations, but on the other hand the business is growing, which should provide additional cash flow from operations. I think what I would say is, we target to cover our cash flow, cover our spending from cash from operations, but as we are spending it, the high levels we're presently spending, it's possible that we could see some negative cash flow in some years. So we think it's possible, but we haven't specifically given guidance one way or the other, other than to say our target is to cover investment spending, but it is possible we may not.

Okay?

Saurabh

Yes, I am fine. Thank you.

Coordinator

Thank you. And your next question is from the line of M. Please go ahead.

M

Hello, thanks for the opportunity. I have got one question. On the model side, your Range Rover model has seen a very sharp jump in this quarter. So from an average of 12,000 volumes per quarter we see that the volumes have jumped close to 30,000, so has been there anything

which has led to this sharp jump in volumes in this quarter, or do we see that similar type of growth can continue?

B. Birgbauer To be honest, I don't have an answer for you. I think the sales vary month to month and quarter to quarter. I don't have a specific reason why sales were up on that model in the quarter, I'm afraid. I wouldn't want to get into a forecast of specific model sales volumes. I think that overall, we think we have a strong model line-up that we hope to continue to be well received in the marketplace with existing models and augmented by the new models we are bringing out to continue to grow. So I am sorry, that's probably not completely answering your question, but I just actually don't have a specific answer for that question.

M Okay. Lastly, for the £4 billion of Investment in FY18, can you just highlight broadly how much will be for the Slovakia plant and will it be completed by FY18 or we can see slightly more also?

B. Birgbauer Well, I'll first say, we didn't say £4 billion, we said £4 billion plus, but what I would say is that we previously said the Slovakia plant was a billion pound plus investment and I would say that a substantial amount of that investment is expected to happen in this fiscal year ending 31st March 2018, so that is a significant driver. What we call job 1, when we start producing vehicles for sale from Slovakia, the target for that is by the end of calendar year 2018. So there will still be some further investment in calendar year 2018, but a substantial amount of the investment through 31st March 2018 would be happening.

M Okay, understood. Thanks.

B. Birgbauer This call was scheduled to run from 9:30 India time to 10 o'clock India time and we are now at 10.00 o'clock. So we can take have one more question.

Coordinator Next question comes from the line of Arun Tandon. Please go ahead.

A. Tandon Hi, good evening. Thanks for the opportunity. I just wanted some more clarity on your capex. Previously you had guided for a capex range of 14% to 16% of sales near term and which would over time graduate to 10% to 12% of sales. Do you still hold that?

B. Birgbauer That's probably a bit more specific than I think than we might have necessarily been. I think it has been the case that we have been spending in the low to mid-teens in recent years and I think that may continue, and I think what happens longer term depends on investment opportunities. I think one of the reasons that we have been investing the way we have is because we've seen opportunities to grow and so we have been investing significantly to do so, and I think that what spending is longer term will ultimately depend on what we see in the way of growth opportunities. So I think I wouldn't want to say anything more than that about longer term spending.

- A. Tandon Okay. I have another question, before the China JV became operational, you also mentioned that JLR would be receiving some royalty income from the JV. So have JLR started receiving that? And where would that be accounted for?
- B. Birgbauer Yes, no we have been receiving it all along and that piece of it has always been recorded in EBITDA, so that's always been there.
- A. Tandon Okay. And if you can provide me what would be the percentage royalty that we will be getting from the JV?
- M Particularly, we get 3% of the sales, which are the value of the imported components.
- A Tandon Okay, okay. Thanks a lot. All the best.
- Coordinator Thank you. Our next question comes from the line of Binay Singh from Morgan Stanley. Please go ahead.
- B. Birgbauer Binay, are you going for doubles? And operator, I think, I need to say that this will be the last question because then I need to go catch a plane?
- B. Singh I have two questions. Firstly, on the Velar, what is the customer profile for this model? What kind of initial response do JLR see for that model? So that is my first question.
- B. Birgbauer Yes, I mean I think, gosh, that would be a better question for Ralph probably than me. I think, Binay, I am just going to respond, it competes with similar SUVs from some of our main competitors and I think the initial reception has been incredibly strong in terms of interest and we are very positive about the vehicle, which is just a fantastic design. So we will have to see how it does once it goes on sale, but I think we are very positive about it.
- B. Singh Okay, thanks for that. And secondly, I know just slightly more month specific, in April we saw a very sharp slowdown in UK sales for JLR, and the industry fared much better than JLR, so was there anything beyond taxation change that led to the sharp drop?
- B. Birgbauer I think my caution would just be a month does not make a quarter or a year, so don't read too much into one month would be my caution. I think there is, you're not the only person who has asked that question and I think that we have talked to the marketing and sales function in JLR and I think there are differences depending on what segment in the market you're in. So, for example, SUV body styles did actually see a greater, let's say, a greater impact in terms of people trying to buy their cars before the new tax came in to affect in March and then a drop off in sales in April because of that, and SUV segments were hit harder than the sedan segments, so I think that is one partial explanation. And there are some other technical things as well, like for example if you

went and looked a year ago, there were some things that actually some sales that should have happened in March year ago wound up happening in April that flattered April a bit, so it is that kind of thing. So I think, I wouldn't want to say more than that and I think I just cautioned don't read too much into one month.

B. Singh

Great. That's very helpful. Thanks for your time.

B. Birgbauer

Okay. Thank you very much. I think with that I actually need to say, I need to go catch my flight. So thank you for everybody who did dial in and I hope I managed to answer your questions and feel free to follow-up as required later. So thanks again. Take care.

Coordinator

Thank you, On behalf of Jaguar Land Rover that concludes this conference. Thank you for joining and you may now disconnect your line.

[END OF CALL]