



Attendance List: Ken Gregor – Chief Financial Officer
Ben Birgbauer – Group Treasurer
Qing Pan – Executive Director, Jaguar Land Rover China

Title of Meeting: Q3 Results Call

Hosted By: Ken Gregor

Coordinator Ladies and gentlemen, good day, and welcome to the Jaguar Land Rover Fiscal 2019 Quarter 3 Earnings Conference Call. We have with us today Mr. Ken Gregor, Chief Financial Officer, Jaguar Land Rover; Mr. Ben Birgbauer, Group Treasurer, Jaguar Land Rover; and Mr. Qing Pan, Executive Director, Jaguar Land Rover China. 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. Ken Gregor. Thank you and over to you, sir.

K. Gregor Thank you and good afternoon to everyone joining us on the Q3 results call for bond holders of Jaguar Land Rover. A tough quarter for us but I'll take you through the figures. I'll hope you've all no doubt caught up with that over the last 24 hours. So I will actually move through the slide presentation relatively quickly in order that we have time for Q&A.

Just starting on the page 3 of the presentation, despite the tough financial situation, we do continue to move forward with our product and investment plans. We've launched the all new Evoque with hybrid options also available. We announced that we will be replacing the Defender so we're looking forward to that. We've announced that we're going to be producing electric drive units, a very important part of our future plans in our engine manufacturing centre and we've also announced that we're going to set up a battery assembly centre in the UK, not to make batteries but to assemble the batteries themselves into modules and packs for our cars.

In terms of on the cost side, and Project Charge, I'll talk more about it on the call. We've announced that we're going to reduce the size of our workforce by a further 4,500 people as part of right-sizing the organisation for the lower volumes that we are experiencing versus that which we planned.

Just moving on, a big headline in the quarter is we took a £3.1 billion impairment of the net asset value of the business, reducing the carrying value of capitalised investments. As background to that, obviously the business is facing challenging periods as a result of the headwinds the



overall industry is facing and significant market pressures as well as technological and regulatory headwinds.

And of course at the same time we're continuing to invest in electrification and other technologies. Given the volume and demand position that we face, and the associated impact on our profits and cash flow, we have concluded that the carrying value of capitalised investments should be written down, resulting in that £3.1 billion pre-tax exceptional charge. That's necessary but just something we have faced up to.

Clearly we continue to take decisive action across the business, including Project Charge and Accelerate, to make the business fit for the future, reducing cost, improving cash flows to deliver sustainable profitable growth.

Just a couple of other notes about the impairment. That will take the loss for the quarter to £3.4 billion. I'll talk about the underlying position in a minute. It reduces the net worth from what would have been £9.1 billion to £6.2 billion. Clearly it's not a cash charge, so no change on the cash flow. And all other things being equal, we'll reduce the growth in depreciation and amortisation which otherwise is expected to continue to grow. It will reduce that growth by about £300 million per annum going forward.

Turning from the impairment through to the rest of the results, we have a loss before exceptional items of £273 million in the quarter. Primarily, that's as a result of weak China sales. We also had some one-off costs relating to destocking foreign exchange revaluation and some quality-related costs on top of that. Those things drove the loss in the quarter to £273 million and the associated reduction compared to the profit we had this time a year ago.

Moving on, the China joint venture was also affected by the reduction in our volumes in China. That resulted in a loss after tax in the joint venture compared to the profit we had this time a year ago, really driven by the wholesale volume in the joint venture being about half the level we had last year, partly because of the production downtime we took in order to enable supply to be balanced with demand and address the inventory we found ourselves with in dealer showrooms around China.

On volumes, slide 7 shows the development overall down 6% and within that, actually relatively positive development in the US, the UK, Europe, and overseas overall. The US actually up over 20% for us in the quarter, the UK up 18%; both driven by our new products and other actions we're taking in the marketplace. Europe flat but not a bad result in the face of the diesel challenges that we faced there. Overseas down a bit with mixed conditions in various markets overall. Reasonably



pleased with the development across those four markets but China down 20,000 units which was round about 47% reduction year-on-year.

By model as well, on slide 8, the model development is shows that our new models continue to provide the platform for growth for the business. E-PACE, I-PACE adding volume, the refresh of the Range Rover and the Range Rover Sport at '18 model year providing year-on-year growth in the third quarter.

On the other side, market issues in China really impacting the Evoque and the Discovery Sport volume as well as the run-out of the old model Evoque before we start with the new model in the next months. We included January here, so the January sales are down 11%. Broadly a similar pattern to what I've just described. China volume's been down 40%, driving the overall reduction of 11% year on year.

Just a little bit more texture here in terms of slide 10, which is the bridge between the result a year ago and the result we just had before the exceptional item. The volume and net pricing together reducing year-on-year the profit by £180 million. Actually more than all of that is explained by the reduction in China, offset by the improvements in the other regions that I just described.

On contribution costs, overall material the manufacturing costs were slightly favourable. However, we had a quality-related cost, a reserve adjustment in our warranty costs in the quarter that was round about £65 million. And year-on-year that drove a movement of £89 million.

In the structural cost element, we see the continued growth in depreciation amortisation. We had the non-recurrence of a tax rebate from Q3 last year. But the other item is the movement out of the balance sheet of labour and overhead previously in inventory associated with a 9,000 unit reduction in company inventory. So a positive movement in our inventory balance which was too high at the end of September and we've started to reduce. We'll see more of that reduction in the fourth quarter. It's good for cash flow but has a negative effect on the income statement here.

And on the foreign exchange side, overall flat. Although what I'd say is within the quarter we had approximately £100 million negative revaluation of sterling, mostly connected with Brexit fears and some negative revaluation of commodity hedges connected with reductions in the prices of aluminium and copper. Year-on-year that had a bigger effect because we had favourable revaluation in the same quarter a year ago. So there's quite a lot going on there within that quarter. I'm happy to take more questions on it later in the Q&A.

We also included the quarter-to-quarter bridge. You broadly see the same things going on here. You see the positive effect of volume and



mix actually quarter-to-quarter, which is a good development. However, you do see some of the same factors of the destocking, labour and overhead and inventory movement. You see the depreciation and amortisation continuing to grow and you see the unfavourable FX and commodity revaluations running through quarter-on quarter. Obviously slightly different numbers because it's coming off a different base but just to try and give a sense of what's happening in terms of running quarters.

The cash flow was another cash outflow of £361 million. The positive item on here is that we had an inflow on working capital. And within that inflow on working capital was just under £250 million movement on inventory from the reduction of the 9,000 units I'd talked about. And just sort of added whilst I'm on this slide, I'm expecting to see another and larger inflow on inventory in the fourth quarter based on all the production reductions that we've implemented relative to the wholesale volume we expect to achieve.

That payable's negative movement in Q3 I expect to reverse in Q4 mostly. So I do expect to, with all of that, actually see positive cash flow in Q4 with the intent of also driving positive profit in Q4 before the exceptional item I'll talk about in a minute.

On slide 13, we expect investment spending in the full year to be on track for our lower target of £4 billion. We've spent roughly £1 billion in Q3 so we're basically on track to reduce our spending compared to what we planned by £0.5 billion.

Slide 14 talks to the continuing strong liquidity position we maintain to help us weather this particular challenging period and to spread maturities that we have through time to help reduce the refinancing risk. That's the quarter results. And clearly a really difficult quarter, a very big headline loss with the impairment and underlying that £273 million loss before that impairment. We're clearly taking action to transform and turn the business around.

Slide 16 just summarises a bit what our focus is going to be on this call. Overall, our planning assumption is that demand remains relatively muted, and although we would clearly wish to see a big jump in our volume compared to what we're presently achieving, we're not planning on that basis. We're planning on the basis that we would expect to see growth led by our new products but relatively modest growth. And in that environment we're clear that we need to resize our cost base to adapt to the lower volume base that we are experiencing relative to that which we planned before.

In this call we're going to talk about our plans to rejuvenate sales and hence I'm really pleased to have our executive director for China, Qin Pan, on the call. And we're going to talk about Project Charge and



where we are in the development of that cost investment and working capital project.

Taking sales first, new product of course big driver for us. Really pleased to have a new Evoque. It's a fantastic replacement for what was a real white space for products for us and the first edition of the Evoque that really helped transform the business from 2011. And therefore we're optimistic and confident that this new car has got the potential to really help us move forward again in 2019 and beyond.

The Jaguar I-PACE is proving out our technological capability in the development of electric cars and also the order bank and the sales are developing nicely. Slide 19 talks to the plans that we have to continue to refresh and renew our model range, including beyond the new Evoque, the new Defender, and more new models in the pipeline that we look forward to telling you about in the future.

And with that, I'm going to stop talking for a while and I'll hand over to Qing to give you some perspective on some of the challenges in China and of course what we're doing about those challenges. Qing.

Qing Pan

Thank you very much, Ken. It's Qing Pan from JLR China, good evening, ladies and gentlemen.

On slide 20, which you can see, the economic situation in China still remains challenging. The private sector remains under pressure and this is crucial because the private sector provides 80% of urban employment.

Other key indicators during the second half of the 2018, we saw both the PMI and the Shanghai Composite Index dropping significantly. These are important as the general economic situation does affect consumer confidence.

On slide 21 we see in 2018, the overall car market saw an overall negative trend which was the lowest since 1990. The premium market continued to grow but at a much slower rate of around 8%, the lowest since 2004. Underlying demand in the premium market during 2018 is even weaker than this, as it has been driven by higher incentives. The growth of the premium market is predominantly driven by accessing the lower segment with larger discounts. JLR discounts throughout 2018 in China were higher than the competition but during the second half of the year we saw significantly higher incentives from our competitors, unlike JLR whose incentive levels remain relatively unchanged. We fully recognise in this most competitive market the focus on dealer profitability over pure volume is essential to sustainable growth.

Moving on to slide 22, JLR has been present in China for only nine years, therefore the dealer network is less mature in many ways versus



our longer-standing competitors. Due to the weaker economic performance over the last year we saw first a greater decline in demand in the tier 3, 4, and 5 cities where JLR is also represented with 40% of our dealers in those less-developed cities.

During the last quarter, also some tier 2 cities also felt the impact of the economic slowdown. JLR is more also concentrated on a smaller number of dealer investor groups. Many dealers have been affected but the smaller groups if they face financial difficulties and an immediate impact as a result of their smaller scale.

And lastly, as we are relatively young in China, almost 40% of our dealers are less than three-years-old. It is a natural requirement to continue to focus on the improvements and to speak of building the business by focusing on local sales, which I will cover later. Our focus, therefore, is to ensure we have a fully balanced, capable, and profitable network.

On the slide 23, despite the short-term issues, the longer-term opportunities remain for potential growth. We remain optimistic about China and the potential for JLR in this market. In the premium market 2.8 million units were sold during 2018. Overall market demands will continue grow with forecast annual demand to increase to about 35 million units by 2025. If the car park per 1,000 inhabitants will mature to a more developed country level, total car park might increase 3 to 4 times.

Importantly for JLR, this means by 2025 we will see a total core premium market of around 3.9 million cars with a further 3.3 million near premium market, providing an upgrade opportunity. The longer-term outlook remains positive for premium brands such as ours.

With slide 24, during 2018 we saw other significant issues that we took action to address. Supply and demand was out of balance but JLR took immediate action to reduce its stock. In addition, the ability of the dealer to become self-sustained and profitable was a major issue. Therefore last year, we started already to improve the dealer local sales, which we can see already positive results within every chart, 82% the local sales during last year. This gives the dealers a solid local after sales business opportunity.

As an additional remark, if we look into January in more detail, we can see that January overall, although it is just one month, but positive as it was almost as strong as December, which December often is the highest month in the year. Eighty-two percent of our dealers followed our sales policy; we are confident those dealers should be able to improve their profitability directly as a result. Also the transaction prices that are at the top end of our portfolio improved in the first half of January due to the actions taken on the local registration of high control in the pipeline.



Behind these positive results we implemented a series of new measures in January, for instance, the solution system updates. And we moved the incentives away from being focused from wholesale to retail, which creates a cooperative strategy with our dealers, and providing the right support to enable the dealers to be profitable. And second, also very important, is that we had a very clear sales strategy model by model. Each and every model has a different sales profile and also we are very much focused on the key cities to implement this strategy.

Furthermore, we have simplified the dealer commercial policy. We're focusing very much on profitability data and the sales quality. And also the communication between members of dealers and the dealer groups has been professionalised with scorecards, pipeline reports, and forecasts. Our 2019 target for the dealers' stock will be around 1.5 months, ensuring we consistently keep the right balance between supply and demand. We expect the sales to further stabilise in the coming months.

Moving on to slide 25. In line with the January actions, we would like to also advise that we have already launched a comprehensive turnaround strategy in China called Project Dragon to drive challenge at a rapid pace. This turnaround strategy focuses on three phases, stabilisation, regaining confidence, and sustainable growth. With Dragon, our main focus are short-term actions for this year, but many will continue into the future.

So on the product side we have broadly the same global portfolio and we are extremely proud of the 13 models we currently have and with more to come. Since localisation of some of our products over the past five years, we have paid a lot of attention to local requirements such as a more digital connectivity put into the local cars. We also have the long wheel base XEL and XFL specifically made for China. In order to position ourselves closer to the Chinese consumer, we cooperate also with many local brands. For example, Alibaba and Baidu for connectivity and performance driving.

Overall, we're addressing the structural issues such as network and organisational efficiencies, and at the same time continue to build our brand. In addition to the local research and development that started 2 years ago, we will continue to drive also local sourcing strategies to enhance the competitiveness of our global cost base.

Let me just summarise our approach. JLR has started a comprehensive turnaround plan for China. January we have already seen a positive start and the strategy will continue for the future. China will remain an important market for JLR globally.

And now I would like to hand back to Ken. Thank you.



K. Gregor

Thank you, Qing. Just to round up the marketing sales view, I think it's worth reminding ourselves that we did have encouraging performance in the US, the UK, and in Europe, which I already talked to.

Turning from the sales side into the cost, working capital, and investment side, just an update on Project Charge which we set up in order to drive improvements in all those things with a good governance structure around it. Last time we announced we'd given ourselves some targets to work towards. Good thing is we're well on track in terms of delivery overall of those targets on the investment side.

We gave ourselves the target to reduce investment spending by £0.5 billion per annum in each of FY19 and FY20 and we've delivered the first parts of that in Q3. We set ourselves the task to reduce inventory by £0.5 billion versus the end of September. We delivered over £200 million of that in Q3. And on the cost side, which takes a bit longer to feed in, we delivered round about £40 million in Q3 with obviously more to go.

As summarised on the following slide, which talks to the various elements and some examples of what we are doing, on the investment side actually we have re-established our plans on investment to get to that £4 billion figure or below in each of FY19 and FY20. So I'm very confident of the balance that the £700 million of the investment side of the challenge. We've done that really through non-product and non-core investment reduction and cancellation, including some real estate projects but just across the entire aspect of our investment profile as well as in engineering.

On the inventory side, in Q4 we will have a further reduction of inventory bigger than that, which we saw in Q3. So I'm confident that we will meet or beat the inventory reduction target that we set ourselves to get our inventory back down to where we wanted it to be by the end of the fiscal year. We've done that through really quite aggressive action on the production side with adjusting our production schedules at each of our manufacturing plants, including taking downtime, reducing shifts, and obviously the same thing at our engine manufacturing plant.

On the cost side, it takes a bit longer to feed in but we announced back in January a further 4,500 reduction in our workforce to bring the total size down by 6,000 people compared to what it was in the middle of last year. That drives up to £400 billion of employee cost reduction that we'll see in FY20 compared to FY19. I should note that there will be a one-off restructuring charge in Q4 related to the voluntary redundancy program that we announced of the order of £200 million. Obviously the number is to be confirmed but of that order.

So that people and organisation action is obviously a large part of the cost reduction that we're seeking to achieve across the two years.



We're moving forward on our product costs, and obviously material cost is the biggest cost line on the income statement. We're making progress there. And, across all of the rest of the business we're driving cost efficiencies and improvements in order to reduce the cost base to fit with the lower volume environment compared to what we planned.

Just a note on Brexit. Not a long discussion because it's very uncertain, but because of that uncertainty we put some further downtime into April in our production plans, including pulling ahead a week's holiday into April and also having an additional five days of planned downtime, and also some additional production buffer stock in order to guard against any border disruption that may occur; obviously we hope it doesn't. And so that gives us a nice buffer to be able to deal with that.

Just looking ahead. I think it's fair to say as we look ahead to the market environment, slide 30, definitely remains challenging in various places. China, the overall market's being flattened down, and I'd expect to see it continuing to be challenging. I think the UK's definitely got risks around Brexit for sure, and we heard from the Governor of the Bank of England on that, just yesterday. And, we see challenges in the US and Europe. So absolutely we see challenges but of course the positive thing for us is we have a young product range. We have the new Evoque and later in the year we have the new Defender to build on.

We've updated our guidance for the fiscal year. Overall in FY19, given what's now behind us across the three quarters, and although we're targeting Q4 to be a stronger quarter, the overall picture in FY19 will see sales lower than in FY18. We'll see an EBIT margin overall for the year that's marginally negative with the PBT negative. Investment spending will be in the region of £4 billion or a bit below. Free cash flow, I expect Q4 to be positive. But clearly with £2.7 billion of negative cash flow behind us, the full year will be negative.

In FY20 to FY22, we're targeting volume growth on the back of our new products, but modest growth. We're aiming to return to profitability with a range of 3% to 6% EBIT over the FY20 to FY22 period. We want to keep investment spending at £4 billion or below. I do expect cash flow to be negative in FY20. However, we're targeting positive thereafter.

Beyond that, of course, a little bit further out, we want to get back to the sort of returns that the premium business deserves and demands but clearly we have to build towards that.

That's really the end of the presentation aspect. We now have some time for Q&A. We've scheduled an investor day, by the way, for Wednesday the 5th of June, and you're very welcome to join us at that event for a deeper dive on the business and discussion with various of my colleagues on some of the other aspects of the business.



At which point I'm going to hand back to the operator to deal with Q&A.

Coordinator Thank you very much. We will now begin the question and answer session. Please stand by for your first question.

We have your first question. This is from Rodolphe Ranouil from Pictet.

R. Ranouil Yes. Hi, Ken, and good afternoon, and thank you for this presentation. I have two questions really. One has been hovering about the bond market for a while on your bonds. Would you contemplate using secured debt in order to refinance your upcoming maturities? That's my first question.

And second question is what is the game plan for JLR at the moment in terms of regaining the trust of the bond market as a whole, considering that some of your bonds in euros yield as much as some Turkish bank holdcos?

K. Gregor Thanks for the question. Let me ask our treasurer, Ben Birgbauer, to respond.

B. Birgbauer Okay. I think on the first question it's the case that our strategy has been to fund with unsecured debt and we aren't considering a change in that general strategy of funding with unsecured debt is the answer to that question.

I think on the second question in terms of regaining confidence of the bond market, for sure we recognise that our bonds are trading at a discount, and we're not any happier about that than you are. And I think the answer to that question is fundamentally around Project Charge and some of the plans that Ken described in the presentation for improving the business. I think what we need to see in the business is some better results than we've seen in the past few quarters and we feel that as much as you do.

R. Ranouil Yes, one follow-up question. If you're contemplating using secured debt, would you set limitations on the amount of security? Would that be allowed in your bank loans? What would be the treatment for the existing exceptionals?

B. Birgbauer I guess I'm wondering if you misheard what I said because I actually said we aren't considering a change in the strategy of funding with unsecured debt.

R. Ranouil I'm terribly sorry. I didn't hear that. Thank you very much for the clarification. Thank you.

K. Gregor Thank you. Thanks.



- Coordinator Thank you. Your next question is from Richard Smith, Muzinich.
- R. Smith Hi there. Thanks for taking my question. I guess as a very kind of broad brief one, if Project Charge doesn't yield, cover the anticipated gains, what's the plan B?
- And in that context, what are your thinkings around dividends being paid up to Tata or cash even coming the other way in order to bolster liquidity? Have any of those conversations taken place yet?
- K. Gregor Yes. I'll ask Ben again to take the liquidity question please.
- B. Birgbauer Okay, well look, I mean on dividends I think that many of you will know our historical policy has been to pay a £150 million dividend a year. However, last year we communicated a new strategy and a dividend policy. We didn't really have an actual policy in the business for what dividends would be previously. We actually adopted a new policy for dividends to have a 25% dividend pay-out ratio going forward.
- With that change in the policy, the dividend increased to £225 million, which was paid last June. At this point in time, the policy is, as we said, 25% dividend pay-out ratio. So if we follow the policy, it is the case that with the profitability or lack of that we're seeing this year there would not be any dividend. I caution to say that in the end of the day because it's always the board's decision on dividends every year. But what I can say is that the policy the board adopted is as I described, and unless the policy is changed the dividend this year would actually be nil.
- K. Gregor And on your first question, this is our plan. We are really focused on continuing to build and develop the product portfolio that we have. We have strong brands. We have a range of fresh product, and we have other exciting products in the pipeline that we really want to maximise the benefit of and the financial returns from.
- But also of course investing in the future of the car industry in terms of electrification, plug-in hybrids, those bring cost but they also bring opportunity when we execute it well. And therefore we're really focused on driving the cost improvements in the business in order to help fund the product investment that we wish to make because that product investment is our lifeblood for the future.
- So it's a mark of the seriousness by which we take it. We have a really strong governance structure in place in Project Charge. We've been fast to take action on the inventory, the working capital side, the investment reduction side. We've announced a resizing of our workforce and therefore we're well progressed, and we're going to continue.
- R. Smith Okay, thank you.



- Coordinator Thank you. The next question is from Giles Haworth, Insight Investment.
- G. Haworth Yes, hello there. So my questions are really around pricing. Obviously the US, UK, and EU performed very strongly in the quarter, but I was wondering if you could tell me what the incentive trends were and what level of discounting was perhaps required to get there.
- And then also, obviously on China we've seen that discounting's been higher there. But can you give us a sense of how much of that is due to an unrealistically high starting price? If you were to benchmark JLR's product on a like-to-like with the Germans, how would it look? Thank you very much.
- K. Gregor Good questions. Thank you. Overall in the quarter, the overall global average of what I call variable marketing across the region's average, just under 7% of revenue, which is up from 6.6% of revenue in the same quarter a year ago. So we've continued to see a trend upwards. That includes sorry, I'm really believe it or not I'm reading the numbers the wrong way around. Sorry. The trend is roughly flat year-on-year, slightly down with product mix driving that trend. Sorry about that.
- I'm going to hand over to Qing. I was actually looking at the China numbers because the China numbers are up year-on-year from about 4% to about 6%. And perhaps I'll hand over to Qin to talk about the China situation.
- Q. Pan Yes. Thank you. I think it is an interesting question because, as I mentioned on the second chart, I think that last year's growth in the premium market area was largely driven by the high discount by every OEM. I think it is fundamental, and is important to understand the situation. The second one is it seems silly to not believe, accept, the market, that means you need to match certain conditions. This type of high discount is not really helping. Therefore we are paying a lot of attention this year to balance the supply with demand so that we get the discounting situation under control.
- And also related to the specific product, I think that we are facing very different situations. In some of the top line products, I think we have a very clean sort of discount situation, but in the mainstream sedan segment, for instance, which you are referring to our German competitors, I think across the industry the discount is very high. That means for certain areas it could be 15% to 20%. For JLR it's around about there, and some of the segment may be slightly higher.
- But again, I think this is also in the communication with the dealer groups. Nobody is seeing that as a positive and healthy trend which can continue longer term.
- G. Haworth Okay. Thanks. Thanks very much. Can I have just one more follow-up?



- K. Gregor Go for it, Giles.
- G. Haworth Thanks very much. One item I've noticed seems to be a recurring theme in complaints on JLR products is software issues. In a number of the consumer quality surveys it seems to be one that keeps popping up. What can JLR do to improve the quality there? And it seems to be something that is actually sort of being flagged by certain reports as a reason not to buy your products and I wonder if these kind of issues are perhaps somewhat linked to the issues you had in China.
- K. Gregor I think, Qing, I'll ask you to start with that from a China perspective please.
- Q. Pan Sure. I think that the China product quality-related issues or experience we have, some of those mentioned areas is not only related to JLR but of course but to the industry, including a lot of the newcomers to the car industry. As you know China has a very strong development in that area. I think that everybody's suffering from the electronics in that sense.
- But in addition to that, I think what I would like to address is that the locally-built products in China in general are very positively received in China. For instance, in the J. D. Power report, Range Rover is ranked 7th.
- And on top of that, I can really report from the China perspective we're doing a lot locally in China so that we can react to issues raised by customers quickly. And I think I have local R&D teams formed for this after sales activity so that we provide top solutions beside the rest of the standard processes.
- Ken, maybe if you will like to add?
- K. Gregor Probably not much to add because the global picture is mirrored in China, and I suppose vice versa. Clearly internally we're very focused on investing in our core capability in engineering and in electrical engineering, electronic engineering, software engineering in order to build our capability and ensure that we give ourselves the best chance at delivering the best quality to our customers, which as you rightly point out we haven't always done in the past but we're absolutely committed to addressing going forward.
- G. Haworth Well thanks very much.
- Coordinator Thank you. Your next question is from James Maxwell, from Janus Henderson.
- K. Gregor Hi, James.
- J. Maxwell Hi there. Thanks for taking the question. Quite a bit's been asked but if I could just get a little bit more on China first. Could you confirm, where you said you wanted to get to one-and-a-half months of dealer



inventory, I think at the end of this financial year. Where does it currently stand at the end of January? That's the first question.

The second, could you comment a bit more about how you see the brand positioning of Jaguar in particular in China? I think it's three of your five local models there. But from what I read in here, my understanding is the perception of Jaguar is that the brand awareness is quite low. I'm picking up on the point made by Giles. We're hearing quite a lot of commentary about warranty issues or reliability issues in China.

And more broadly, third, to the extent you have any data that supports that those claims are unfounded, it'd be very handy for you to be able to send that because I don't have access to J. D. Power. But there's clearly an issue here given that you've once again had to take additional warranty costs. So could you comment just about the brand position and how that's going to change without really new product there?

And then finally one for you, Ben. Just on this funding issue, your plan has you burning cash this year, has you burning cash next year. You have some liquidity but you have bond maturities. To what extent is your plans for financing that gap totally formulated here? I'm presuming that if you're choosing to carry on investing at the rate you are then you must have an idea of where the money's coming from. So perhaps you could comment more about that. Thank you.

Qing Pan

Alright. Related to your first question of the China inventory, you're right that the overall target for 2019 should be less than 1.5 months. And at the current moment, the balance of the supply and demand is one of the key elements in our strategy of turning it around because it is very important for the dealer and dealer profitabilities.

And at the end of January that depends on the levels, but on average they are still higher than the 1.5 months at around about a two-month level. But we did see a very positive trend, month on month of reducing it and we're confident also for the upcoming months that trend will continue.

To your second questions related to the Jaguar brand, this is a very good question. And as I mentioned before, actually JLR in China is only nine-years-old. In comparison to some of the general OEMs, for instance, they have been in the market for 30 years. I think with the growing car parks, and I think this is the second one, that we will see a better brand awareness. The second one is there's a clear defined strategy which we launched last year in Jaguar specifically for the slogan "Choose to Stand Out", and there will be more of the campaigns following that slogan and addressing the specifics of Jaguar.

And the third one is that China is a very noisy market in terms of the competitiveness of the market, it's already one of the most competitive environments from a marketing perspective. So in this market,



certainly, that's where we're requested to continue to invest in the Jaguar brand. But year-over-year, because we do track the so-called brand awareness study, we see that our brand is moving in the right direction.

But the brand building, as everybody probably is fully aware, is a long-term aspect. I think that in the short-term that we need to be resolute on the Jaguar brand and we need to also commit to this specific market, but the trend so far has been positive. But you're right, in comparison to the long-standing competitors that our brand awareness is not as strong.

B. Birgbauer Okay, James, in answering your question around what's our funding plans going forward, I think what I'd just recap is, one, we did have £4.4 billion of liquidity at the end of December, £2.5 billion of cash, £1.9 billion undrawn revolving credit facility. Yes, we have had a big cash burn through the first three quarters of this year but, as Ken mentioned earlier, we do expect positive cash flow in the fourth quarter. And we do actually expect a lower level of cash outflow next year.

We are reasonably confident about growing our receivable financing facility that we have for some additional funding. And, we are looking at some other things that I think I don't want to talk about more specifically now other than to say they would range from, for example, some leasing of specific new capital assets. In addition to that, we are looking at export credit agency financing as a couple of examples of other things we're looking at right now.

J. Maxwell Okay. Thank you. Thanks.

Coordinator Thank you. Your next question is from Sam Zakria, Diameter Capital. Please go ahead.

S. Zakria Hi, guys. Thanks for the call. I know secured debt's not a focus right now, but could you just update us on what your current secured capacity is?

B. Birgbauer Well in our bond documentation, which is also mirrored in our revolving credit facility, the documentation basically provides for £1.7 billion of secured financing against principal manufacturing facilities or 15% of tangible net assets. That number would actually be over £2 billion, even after the impairment.

S. Zakria Got it. That's really helpful. And in the event you were to raise secured debt, would you have to secure your revolvers as well?

B. Birgbauer Well the answer is that the negative pledge that I just described for the bond is the same as for the loans, so our loans would allow the same amount of secured financing as the bonds. But I will emphasise again, we are not considering a change in our strategy of financing with unsecured debt.



Why I am saying that is I think in the last few years we did see a couple of our competitors, who have been in China for longer, in past periods have experienced exactly the same phenomenon like we are having at the current moment. I think that these are all areas we are very sure that we need to improve. The same applied to the other OEMs which did the turnaround before. I think this is the factor one.

The factor two is also very much depending on the overall market development. As you might know, in December the overall market, really depending on the source of the data, the total market was declining between 18% and the 21% in December. I think it very much depends how the market overall is going and I think JLR is cautiously optimistic for the 2019 calendar year. And I think that the uncertainties is, one, the trade tension with the US, and the second one is how quickly the Chinese government will introduce stimulus programs. I think the first potential timing of the issuing of the new policy could be March at the timing of the Parliament/Congress. I think those are the two factors.

M. Boam

Okay. If I look back in time and your profitability, the last time you did £4 billion of EBITDA was 2016 I believe. Since then your revenues have grown but your EBITDA per unit has continually declined. I just wonder how you expect to get back to being free cash flow positive if you are going to be spending £4 billion on capex. I know it comes down post 2022 given that you need to get back to £4 billion of EBITDA, and essentially you're selling or you're making significantly less money on every unit that you sell than you have historically.

K. Gregor

Yes, again fair question. I mean that's why we've launched Project Charge and Accelerate because one way or another our volume development hasn't met the trajectory that we expected. And also, as you rightly say, the per unit margins we've been achieving have been weaker than we previously enjoyed. Part of that has been the product mix effect of launching smaller vehicles with lower margins than the average. And part of that has been a market mix effect of China weakening so significantly, as we've seen, where the margins were stronger.

So in terms of moving forward, we have a range of further product actions in the pipeline in the fullness of time, a new Evoque, a new Defender, a couple more products that we haven't yet talked about, as well as refreshes and replacements for our model range over the next two to three years that give us a good opportunity to rebuild and grow our volume through the medium of those new products.

All the work that Qing has talked about, rebuilding our business in China, which has been a large part of the negative movement that we've experienced over the past year. And in terms of the cost side of the business, clearly we have to reduce the cost side of the business and help make sure that that contributes to growing the EBITDA, as you say, of the business going forward.



- M. Boam Okay. In terms of when you come back to the capital markets in whatever form it may be, when do you envisage needing to access additional funding? I think you've said that you'd like to keep a cash buffer of around, is it 10% to 12%, of sales?
- B. Birgbauer Well I think what I'd say is that we've probably said 12% to 15% of revenue is a target that we'd like to have over the long-term. I don't think that means we need to have that amount all the time, but it is our long-term target. That's before the undrawn revolving credit facility which stands at £1.9 billion. As we've said, we do expect positive cash flow in the fourth quarter. That percentage, by the way, was I think about 8.5% at the end of December and we do expect that percentage to be higher at the end of the fourth quarter because of the positive cash flow that we expect to see in the quarter.
- M. Boam But I mean can you sort of—I mean when do you think, based on your budgets, that you will need to be back in the marketplace?
- B. Birgbauer Look, I'm not going to forecast when we'll come back to the debt markets. I think that right now, I think, given debt markets generally and the discount that our bonds are presently trading at, I think that right now we would probably look at other places to fund, as I described earlier on the call, rather than come back to the bond market.
- I think we'd probably look to come back to the bond market when we saw better conditions. That's not a change for us. We've always funded when conditions were good for us and not funded when they were weaker, and so we'll look at coming back to the market when we think conditions support it.
- M. Boam Okay. I mean I guess all I'd say is the company is, as you commented yourself, in quite a difficult situation at the moment. I guess there are funds available to you on a secured basis, but you're telling bond holders categorically that you won't access secured funding.
- B. Birgbauer Well, yes. I mean I think that I've told you that we aren't considering a change in that strategy. That is true.
- M. Boam Okay. Okay, thank you very much.
- K. Gregor Thank you.
- Coordinator Thank you. Ladies and gentlemen, due to time constraints, no further questions can be taken. I now hand the floor back to Mr. Ken Gregor for closing comments. Thank you.
- K. Gregor Okay, I just want to say thanks to everyone. This is obviously a really difficult quarter. We're not happy with the present results we're experiencing and all the challenges that brings for us, but obviously also for you, our bondholders, who support us. We're committed to turning the business around, to taking the steps we need to, and we'll



take more steps as required in order to return ourselves to sustainable profitable growth.

And in the meantime, I just also want to say thank you so much to Qing for joining us. It's late in China right now, but I hope that helped give everyone on the call just a little bit of extra perspective on our business in China, some of the challenges but also what we're doing about turning that around. Thank you.

Coordinator

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