



Attendance List: Ken Gregor – Chief Financial Officer
Ben Birgbauer - Treasurer

Title of Meeting: Q1 FY19 Results Call

Hosted By: Ken Gregor

Coordinator Ladies and gentlemen, good day, and welcome to the Jaguar Land Rover Fiscal 2019 Quarter 1 Results Conference call. We have with us today, Mr. Ken Gregor, Chief Financial Officer Jaguar Land Rover, and Mr. Ben Birgbauer, Group Treasurer at Jaguar Land Rover.

As a reminder, all participant lists will be in listen-only mode and 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 very much. Good afternoon to everyone who has taken the time to join us on the call for bond holders of Jaguar Land Rover talking about our first quarter financial results. Our normal format is I'll run through the presentation as quick as I can and then we'll have some time for Q&A afterwards. Hopefully, you have the presentation in front of you.

I'll refer to some of the page numbers. If you turn to Page four, a few highlights for us. We continue to press on with the introduction of new models, particularly excited by the I-PACE, the Range Rover plug-in hybrids, and we're also ramping up sales of the E-PACE and building on the first full year of the Velar which we launched last year. So, we have all those things to build on which is good.

From a business point of view, there are various projects that we continue with. Slovakia has been something that we've been talking about for three years or so now and that will commence production at the end of this year where the Discovery will be relocated from Solihull to Slovakia. Also, we celebrate our Land Rover 70th anniversary this year which is nice.

Moving on to Slide 5 with some of the key metrics, it was a tough quarter, short answer, five billion of revenue and we have a loss before tax of £264 million. Really, there are three key reasons for that loss in the quarter.

One is the impact of the duty change in China that was announced at the end of May and implemented on the 1st of July. We took the decision, in common with other competitors to adjust prices downwards in the market as soon as the duty change was announced and before the lower duty actually came into effect, and that had a cost



for us which together with the cost of delaying some wholesale coming into the market, was in the region of £100 million in the quarter.

The next factor overall we wholesaled fewer vehicles than we retailed in the quarter, which was necessary in order to allow dealer stocks to reduce somewhat as we had gone out of the year with somewhat higher level of dealer stocks than we would consider to be ideal. That difference was in the order of about 11,000 units and just an illustrated calculation here if we had been able to retail the wholesales at the same rate we retailed, that's worth roughly £100 million.

We also had some wholesale timing effect connected to the '19 model year recertification of vehicles to comply with WLTP. That's mainly a timing change to allow testing and paperwork to complete, but it did require us to delay some wholesales by, about 3,000 units.

Then the third big factor that, unfortunately, we saw in the quarter, not a cash item this one, in the short-term, but a balance sheet item, but also running through our income statement was revaluation of foreign currency, payables, and debt, and other working capital balances that, again, was in the order of an absolute impact of £100 million in the quarter and almost twice that from a year-on-year perspective, because in the same quarter a year ago we actually had a positive re-val. But, this quarter we saw a weaker Sterling as a result of Brexit fears in the UK. For example, Sterling went from \$1.40 on the 31st of March to close to \$1.30 on the 30th of June. It's that order of magnitude, quite a big move.

Also from a year-on-year perspective we have the continued growth of depreciation and amortisation coming through at us due to the investment in new models and that's from a year-on-year perspective worth £99 million for D&A, so the first three items really impacting us and causing us to go from what could have been a profit to this £264 million loss. I guess the other point, I'd say, we called out some metrics for the EBIT margin and the EBITDA margin following from those adjustments.

Talking to slide 6, in the quarter from a retail volume point of view they were up 6%, up about 8,000 units year-on-year, up across the board apart from in Europe where we saw volumes somewhat lower, we think continuing diesel demonization impacts we're seeing in Europe, but actually retail volume up in the quarter which was good to see.

As I described, the wholesale volume was lower so that our sales to dealers was lower. Given that we did go out of the year with more stock in dealers than we would have wished, this action to allow the dealers to destock is the right approach in the premium business, in particular, in order to make sure that we have stocks in balance with demand and don't cause our dealers undue distress or cause discounting of our vehicles to an excessive degree in the marketplace. So, somewhat



painful to do, but the right thing to do in the circumstances we find ourselves.

Slide 7 by model, what was pleasing in the quarter from a retail volume perspective was to see the growth of E-PACE, 11,000 units in the quarter, and to see the full quarter of Velar that we didn't have last year, 15,000 units, those new vehicles giving us volume growth which was good to see. And I-PACE also launched, but still very much in its early days, so we're very positive about it, but not too many retails in the quarter.

Slide 8 has the bridge between the prior year quarter's profit excluding the one-time effect that we had from the pensions revaluation walking through to the £264 million loss that I just described in Q1 of this year. Basically, the elements that I described are in this chart.

The wholesales were down, as I described, you have the duty impact related to the price change in China being the largest part within the net pricing bar. There were some—year-on-year effects, we have the impact of having launch costs in Slovakia and of having another assembly facility in the shape of Graz which is producing the E-PACE and the I-PACE so that brings cost with it. Commodity costs are somewhat higher, and we had a credit in the warranty cost this time last year that doesn't repeat. So, we're about in equal measure of those three items, the contribution costs about £90 million adverse year-to-year.

Structural cost, in other words, fixed cost, outside of depreciation, amortisation, actually pretty flat, which is good. So, we're clearly working within the business to control the growth of that operating cost, but what we have is that higher depreciation and amortisation which more than explains the growth in the structural cost that we see.

And, on foreign exchange, as well as the re-valuation that we had, we also had the benefit of the roll off of the hedge losses that we had. So, overall, a positive impact of FX on EBIT percentage.

Moving to Slide 9, on CJLR we had retails which were somewhat higher, wholesales were higher also due to the launch of the XEL. So, from a volume point of view good, but overall, the profit in CJLR was lower.

Turning to Slide 10 there are a couple of the key metrics for the China joint venture. What I'd say is it is the case that the same quarter a year ago was heavily flattered by some timing impacts, and also recognition of the local market incentive on a cash basis in the same quarter a year ago. So, the share of profit after tax of £154m or the EBIT margin, in Q1 last year, of 31% was not an ongoing level of margin that we'd expect, and I'm sure we said that at the time.



Taking into account the unfavourable mix effective, XEL launch and the higher variable marketing, also higher fixed marketing and the change in timing of the local market incentive we saw an EBIT margin in the quarter of 13% which is more in the range of the underlying EBIT margin that we've had in the joint venture over the prior few quarters. It's been 16%, 17% underlying EBIT margin. Lower profits which we prefer not so see, but at least some of that lower profit was always going to happen due to the one-off factors in the same quarter a year ago.

The investment was on track in the quarter, circa just over £1 billion worth of overall product investment on Slide 11, broken between the various elements. Slightly higher than the same quarter a year ago, and reiterating that we would expect to see investment in the region of £4.5 billion in the full-year this year per our prior guidance.

In terms of cash flow on Slide 12, I think, the cash flow was an outflow of £1.7 billion. Obviously, the loss didn't help. The investment was on track, and what we did also have was a large negative working capital movement.

A certain part of that, is to be expected in this quarter due to the unwind of the payables and the terms on which we pay our suppliers and the lower production that we have in Q1 compared to the prior Q4. But, it is also the case that we saw inventory grow in the quarter and that's something we're very much tackling to ensure that we get that inventory back out of the system through adjusting production to suit the lower demand levels that we're seeing and basically get that £300 million of inventory adverse back out again. Although, what I would say is some of that comes with launching new models such as E-PACE and I-PACE.

From a liquidity point of view, obviously, lower liquidity at the end of Q1 than we had at the end of Q4, but it is the case that we continue to maintain strong liquidity in order to be able to cope with the ebb and flow of the business cycle including quarter-to-quarter our production scheduling, the seasonality that we have within our business, and to cope with the level of investment spending that we've committed to. So, hence, overall cash of just under £3 billion plus £2 billion of undrawn RCF facility, circa £5 billion of liquidity including the revolving credit facility at the end of Q1, with still the maturity profile of that debt being well spread to mitigate against the refinancing risk for the business being substantial in any one year.

That's the quarter. Turning a bit to the forward view and what we're doing to improve the business results, because we expected Q1 to be relatively weaker, but we clearly don't like the loss that we saw in Q1. Therefore, we are committed, of course, you'd expect us to be, to turning that performance around in the balance of the year.

First to the longer term perspective, the business challenges that we see are the same that we previously see and, of course, we continue to



invest in new products as the main lever to access the potential for growing premium segments and to grow our business through those exciting new products. Profitable volume growth should give us operating leverage to spread our fixed cost over more units, and we also, of course, are driving cost of efficiencies, in particular, material cost and leveraging our future architecture structure to enable that.

Therefore, in the longer term, continue to target EBIT in the 7% to 9% range even though, of course, we're not there right now. As we said, at the end of the year, we would see EBIT over the next couple of years below that long-term target and more in the 4% to 7% range as we build back towards where we want to be.

We have on Slide 16, a really super range of pretty fresh products for us to build on with E-PACE an I-PACE being obviously the freshest and also '18 model year Range Rover and Range Rover Sport to build upon. So, that's really good.

As we look to this year on Slide 17, and think about what we are targeting in the second half of the year, we have quite a few levers at our disposal that we have to pull and make happen in order to drive profitability in the balance of the year. In particular, if I just take through this chart, just spend a moment on it there are some non-recurring items such as the revaluation, such as the one off adjustment prices head of the duty change in China that, in principal don't recur after Q1. So, that's a positive impact compared to Q1.

We do have the I-PACE and the E-PACE '18 model year Range Rover, Range Rover Sport in order to build on in terms of new and refreshed models to give us profitable volume growth in the second half. The lower China duty, in principal, all other things being equal, most of that passed through to customers in the form of lower prices, but some margin rebuild also for us within that.

Seasonal factors is something I talk about fairly regularly, particularly noticeable when we talk quarter by quarter, it's fair to say, but being heavily dependent on the UK for our business, March is a very strong selling season. Our China business has a strong selling season between October and January ahead of the Chinese New Year, and the US model year change is always important for profitable volume growth. That seasonality is important for us in the second half of the year.

Then, one other item is, in principle, the de-stocking that we're doing in the first half of the year, once we get that behind us we'd be wholesaling at the rate we're retailing again and that would give us an improvement versus the Q1 result we saw. It's not all about volume growth, although that is a large part of what we need to make happen in the second half of the year and we'll get the operating leverage benefit of that in the second half of the year.



It's also about cost efficiency and we target more material cost reductions in the second half of the year. So, that would also help us. It's not ever all a one-way street. We do see higher depreciation/amortisation, higher marketing costs in the balance of the year in order to support the higher volume we're targeting. But, all of those things is what we're committed to making happen in order to return to profitability in the balance of the year.

Slide 19 deals with the changing power train mix. This is a question some of you asked us, so we thought we'd just include the data here. So far, year-to-date, we see diesel in the UK and EU accounting for about 85% of our sales.

It's a two-edge thing. On the one hand that is lower than the 90% plus we saw this time last year, so we're definitely seeing the mix changing. There's definitely an effect happening and we do feel that's having an impact on our sales more generally. But, equally, the customers that we do have are valuing the CO2 performance and the as clean as petrol performance of a modern diesel engine with a EU6 calibration. So, that's the proportion of our diesel sales in the longer term.

Then, on the right-hand side of the chart is our global mix. So, globally, yes, Europe's important with Diesel, but actually, most of the rest of the world is petrol, and over time, of course, we do see the continued development of battery, electric, and plug-in hybrids which is why we're investing in those flexible architectures in order to give us the flexibility to be able to react to the changing profile of powertrain demand that we expect to see but can't be precise about how far, when, to exactly what proportion electric and plug-in hybrid sales will reach.

Hence, over the period through 2020, as I show on Slide 20, as we said before, all of our car lines will have an electrified option of one form or another, whether that's a mild hybrid system or plug-in hybrid system, a battery electric vehicle derivative, or standalone vehicle, across all of our cars from 2020.

Turning to Slide 21, nice order book building, really great press reception. We're really looking forward to seeing the development of this vehicle which is a real game changer for Jaguar, also with its super design, very forward-looking design. So, we're excited to see how this develops and, of course, we also have the Waymo deal that we talked about last quarter to look forward to in 2020, 2021.

The Range Rover and Range Rover Sport plug-in hybrids on the next slide for '18 model year also building nicely. They've been very well received. It's early days for those, but pleased with the development and pleased with the visual exterior and interior change we've given Range Rover and Range Rover Sport that gives customers a reason to think about changing their cars right now, which is really important. So, that's nice.



As well as the volume growth, we're incredibly focused on cost efficiency. These were some slides that I shared at our investor day a couple of months ago.

We're focused on cost efficiency across the entire business. Of course, in material cost through sourcing and through designing to should cost, what parts should cost, and we have a team of people working that out for every part using fantastic tools and techniques to be able to do that and give our purchasing team the ammunition when we go and negotiate with suppliers to say no, that's what that part should cost.

Also, leveraging the scale that's developing vehicles on flexible architectures gives us to leverage scale of commodities across those architectures which is really what the left-hand side of this slide is talking to.

Slide 24 on the operating cost side, on manufacturing we used the harbour benchmarking report to help us target efficiencies across all of our facilities. That's kind of normal business for us, to be honest, and we look at making selective investments where we see the payback to enable efficiency to be driven. Equally, at the same time, we have the new facility in Slovakia coming and for the vehicles that will be built there enabling cost efficiency both through the lower labour cost and through the fact that we designed it from the start, the ground up in order to be able to get the smoothest flow of material through the plant, and logistics, and those sorts of things to enable the lowest possible cost.

We don't stop on the industrial side of the business, also on the marketing sales side of the business. We are encouraging our retailers to invest in new, what we call internally, arch facilities because of the kind of arch window that you see on the left and the right-hand side of the show room there.

Dual branded facilities that enable both brands to be sold under one roof, that's increasingly the way across the entire world and we're provoking that to happen in the more traditional markets where historically we've had two separate dealer networks. That gives efficiencies for retailers and ourselves which is positive and it's not just about cost, it's also about creating a more premium retail experience for our customers as part of delivering on our promise of experiences customers' love for life.

On the corporate and admin side on the selling general admin side, very focused on managing those SG&A costs to hold them as flat as possible so that as volume grows we get the positive operating leverage, but we also take action to reduce them such as the pension cost action we took which didn't just give us a one-off benefit in the same quarter a year ago, it also resulted in ongoing reductions in that pension cost.



As well as the short-term cost focus, we have an internal initiative we've not talked about before, so I'll just make you aware of it, called Accelerate, which is very much us thinking not just about the short-term, but also about the medium and longer term levers that we need to pull to address the root causes of why some of our business performance may not be as strong as we would wish it to be and, therefore, very focused around how do we drive profitable volume growth through the sales and marketing, whether it's our dealer coverage or through actions, as I've just said, such as our material cost. Most of that "Should Cost" work is very positive, but it is a bit more future-orientated because we see the benefits of that on the new vehicles that we're engineering now for three and four years out.

Delivering our programs on time. We had one or two challenges in the past on that, so we're very focused on, especially architectures that enable us to have consistency and deliver more products on time and faster.

Quality is very much at the heart of anything we do, so anytime we think about our initiatives, quality is always top of our list. It's the key to giving customers the experiences they love for life. So, we're very focused, as you'd expect on driving quality across our entire vehicle, but also retailer service, capability, and capacity is very much part, again, of the roll-out of those arch facilities to give us a much better platform to deal with customers both front of house and back of house when they bring their vehicles in for service or for a repair, if something should go wrong, that we do it really well.

We're also focused on capital efficiency and as you'd expect, we see ourselves spending £4.5 billion this year, but we also control every penny of that very carefully to make sure every penny goes to where we can really reap value from it in the form of products that our customers will love. We also pay attention to the return on investment as a proportion of revenue, and maximising the efficiency drivers in the form of commonality, architectures, to get the most product for our £4.5 billion.

Really, that's just bringing to a conclusion the slide. Thanks for bearing with me through a slightly longer than normal presentation, but I really wanted to talk about what we were doing to address the headwinds as well as just talk about the headwinds.

In summary, we're very committed to driving competitive results and positive cash flow over the medium to longer term. We do plan to continue to invest £4.5 billion in new products in order to help drive that sustainable, profitable growth. There are very intensive efforts underway to drive cost efficiency and manage investment spending in order to improve cash flow.

As we look forward in the balance of FY '19, we do want to grow our sales this year, year-on-year. As I've given you a sense of, we would



expect to see stronger profitability in the second half of the year partly for the seasonal factors and partly because the other actions that we're taking and partly the non-recurrence of some effects we saw in Q1, and we reiterate the same margin guidance that we gave for the short-term and medium and longer term.

With all of that, yes, a difficult quarter, but we're very focused on driving the business to sustainable profitability over the medium and longer term. With that, I'll pause and happy to try to answer questions as best I can. Thanks, guys.

Coordinator Thank you very much. We will now begin the question and answer session. On the line we have Stephanie Vincent from JP Morgan. You're in the call, please go ahead.

S. Vincent Hi. Thank you very much for taking my questions. I'll keep it to two even though I'd love to ask more. But, on your comments on potential de-stocking in the second quarter, can you give us an idea in terms of magnitude when we're looking at the number of units? I know that you also give the wholesale numbers along with the monthly sales, but it is helpful as we try to model going forward to find that adjustment between what you're reporting in retail and what you're actually wholesaling to dealers.

Then my second question is on Brexit and, obviously, we've gotten the white papers, but from your point of view, what do you foresee in terms of main risks now and I have read some blogs about issues potentially with type approvals once the UK exits the EU in March of next year. Also, just your view about passporting of financing, when it comes to financing cars in Europe. That would be it from me.

K. Gregor Thanks, Stephanie. Let me try and deal with the various points. On the de-stocking, it's a little hard to give a precise figure, but for the second quarter we could see a de-stocking, I'll say up to the same magnitude, but I'm expecting it somewhat lower in the second quarter having got a big chunk done in the first quarter. So, let's put it that way.

But, it does depend on exactly how we see the trend of retail sales progress during the quarter and we are also taking action to cut production in the quarter in order to align stocks with demand as fast as we can. Hence, likely lower magnitude, but in a similar ballpark. Let's put it that way.

On the WLTP, yes, we have '19 model year, all manufactures need to recertify all vehicles sold in the EU and every market in the EU to new real-world driving condition, whole life test protocol, emission standards. We broadly see the CO2 values for every manufacturer will go up as quoted to reflect that different test protocol.



You're right, you will have read about various manufactures, some manufacturers actually having to stop sales of vehicles whilst they complete the test work, and the paper work, and remove certain vehicles from the marketplace. I think you will have read all of that. By and large, we're on track with what we need to do, but the test work has taken time and there's a paperwork backlog with various government agencies in Europe which we're working through, so we expect to be through this in the next couple of months.

Beyond the immediate term. You're right. Brexit raises the uncertainty of what arrangements would persist after Brexit, and I must admit, it's a risk, it's a worry for us. We've argued and lobbied hard all the way up to the Prime Minister in the UK to have a regulatory framework in the UK that mirrors that in the EU for automotive after Brexit in order that basically there's a commonality of regulation because that's the least costly and the most straightforward thing for us, and a level playing field, also.

So, I think we're being heard, but it's clearly outside of our control. So, that's a risk area for us in the future that, broadly, would be probably a cost risk at the margin where we would find that we would have to do more work on testing and certification in future in order to both test in the UK and European markets. But, I hope we don't see that. Time will tell.

And on passporting and financial arrangements, presently we have wholesale financial arrangements and retail financial arrangements provided by Lloyds Bank/Black Horse in the UK and by FCA Bank, a Fiat/Credit Agricole joint venture in Europe, in mainland Europe. So, I think from a financial point of view we don't see any issue there with banks being able to operate in different markets. Whatever happens there I'm not sure that's a particular issue for us from the wholesale or a retail finance point of view going forward. But, a really good question, by the way.

S. Vincent Thank you very much. I appreciate it.

Coordinator The next question comes from the line of Christophe Boulanger from Barclays. Please go ahead.

C. Boulanger Good afternoon. I will have two questions as well. The first one is just to get clarification on your EBIT margin guidance of 4% to 7%. I'd like to understand, is it for this fiscal year as well, or is it for another, for the '19, '21 period is the first question.

The second question is on your sales in the US we've seen a decline there, but we do understand the decline in all sales in the UK, Europe, and China, but I'd like to get more clarification on what's going on there in the US as well. Thanks.



- K. Gregor Thank you. On the EBIT margin guidance it's meant as the range we would expect to be operating in for the next medium term. In other words, the next two or three fiscal years. Effectively, what I'm saying is rebuilding from the sub 4% EBIT margin we had last year towards our EBIT margin target for the long time over those 2 to 3 years. That's the frame we're working in, so just to explain that a bit better.
- On the US, basically, the US position mirrors the same principle that I described earlier. Retail sales growth which was good to see in the quarter, up about 2,500 units to 31,000 units, but also dealing with, on certain models, some prior level of overhang of dealer stock that, frankly, we've just had to face up to stepping back from wholesale in order to allow that level of stock to reduce. Hence, the wholesales to our dealers in the US being lower. So, that—but, as you can see, that's basically mirrored across all of the four major regions.
- So, it's the same driver and if we think about what the driver is, ultimately it's that the level of retail sales growth that we've seen, we've seen relatively more competitive market conditions and, therefore, we've seen retail sales growth somewhat lower than we would have wished to see. As a result, we've been adjusting our production and wholesale plans to react to that lower reality that we see, albeit that we still have retail sales growth. That's good, but lower than we were previously targeting. So, we have to adjust. It's painful to adjust, but it's also the right thing to do.
- C. Boulanger Thank you. Just to follow-up on the guidance, do you expect to be better than last year, than the 3.8%?
- K. Gregor By definition, the floor of 4% that we quoted in our EBIT margin is somewhat slightly better than 3.8%. So, yes that's absolutely what we're targeting is to be better from an EBIT point of view than last year and we're absolutely committed to moving forward from the 3.8% we had last year because that's not a figure that we like at all.
- C. Boulanger Okay. Thank you.
- Coordinator Thank you. We have a further question now and it comes from the line of Charles Watford from PIMCO. Please go ahead.
- C. Watford Hello. First of all, I just want to understand about this de-stocking because a number of your competitors have actually tried to increase their production in this quarter so that they have excess stock around the switchover to WLTP. So, you're de-stocking because you think the market is weaker and you have the model changes or is it to do with WLTP?
- K. Gregor It's the former, not the latter, largely. As I mentioned, there is a small WLTP effect at the margin there, but basically given the detail of the rules which cars can be sold and when they need to have been sold by us to dealers, and then when they can be retailed by, etc., the rules are
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pretty tight about that changeover and from '18 model year to '19 model year. So, yes, maybe some competitors are increasing the '18 model year production ahead because they're worried they won't be ready with '19 model year. That's possibly the case. I can't actually comment on them.

As I've said, we, barring paperwork, etc., and working through the rest of the month, we will be on track ready with the launch of our '19 model year vehicles, therefore we wouldn't have seen the need to significantly change our production plans ahead of that in order to protect against not being ready, if you see what I mean, and therefore, we have one or other issue to work through, but we're more focused on making sure that we have the right level of dealer stock around us.

C. Watford Just on WLTP, so I understand it a bit more, are you saying that at the Q2 results you'll be completely through the paperwork? I think you talked about the recertification process and we should see stock levels and some sort of dealer inventories back to normal.

K. Gregor That's our plan. By and large, yes, that's the case. There may be one or other smaller issues still around us that on certain models or in certain markets, but our internal plan, yes, is to be through that in the next couple of months.

C. Watford Okay. And, when do the sales of that model year have to start or when would they normally start? Would they start in September or would they actually start later?

K. Gregor No, I think they start in September. To be honest, it probably varies, Charlie, market by market and I wouldn't be able to sit and remember the date for every market, but as we ship '19 model years those will start being sold in our showrooms from round that point.

C. Watford That's helpful. Then, the second question I had was on your diesel to petrol shift. In terms within Europe, is there a significant decline in the margins on the diesel? I've seen obviously the numbers in the share shift, but in terms of the actual margins on diesel, have they come down with higher incentives, for example?

K. Gregor Somewhat. That's been a trend that we've seen over the past couple of years, particularly last year which I talked about at the year end. We have had to step up variable marketing support last year in FY '18. It was about a point higher across the entire world than in FY '17. Broadly, we've seen variable market levels continue at that level through the first part of FY '19, stand aside China where we've had to put extra in to deal with this duty price change. It's always slightly difficult to know exactly what's driving the incentive level higher because it can be a variety of things, but in Europe I think what we saw in FY '18 and therefore continuing into FY '19 is a modestly level, not catastrophically higher level, but modestly higher level of variable



marketing and that would be partly with enabling diesel sales to happen to drive that. Perhaps worth about a point of revenue.

- C. Watford Okay. That's helpful. Thanks very much. That's it.
- K. Gregor Thank you.
- Coordinator Thank you. Your next question comes from Pierre Bergeron from Societe Generale. You're live in the call. Please go ahead.
- P. Bergeron Good afternoon, Pierre Bergeron from Societe Generale in Paris. I have two questions, the first one on China. I would like you to give us a little bit more colour on the other work you expect for the coming years or coming months knowing that the new tariff in China has impacted sales. That is my first question. The second question is on your strategy of Jaguar Land Rover in electrification as you know your group is one of the most ambitious in terms of electrification. I would like for you to elaborate a little bit on some margins you expect from battery electric vehicle or plug-in vehicle, and if you expect and if you believe that this margin will be at the same level as the margin you generated over the past two years with the combustion engine, both diesel and gasoline engines. Thank you.
- K. Gregor To be honest, I think we need to see how it develops. We've seen customer hold-off in China through the first quarter, and we still have a situation in which customers are looking at the trade wars between the US and China, and therefore, may be wondering are there further duty changes to come. So to be honest, I think we need to let that settle down a bit before we see and are able to understand whether that causes the running rate of sales to go up, or more likely, to be honest, just that given prices have come down across the board in China, across all import vehicles, across all local vehicles whether actually you don't necessarily see an effect versus what it would have otherwise been. But I think we'll be in a better position to understand how we've seen that settle down or otherwise through this quarter and be able to talk more about it in our next call.
- On the second question on margins on electric vehicles, it is certainly the case as you're kind of question alludes to that battery electric vehicles are expensive in terms of the cost associated in the battery packs in particular and the motors compared to the cost of an engine and a powertrain, and therefore, it is the case and the challenge of although by in large we've priced the I-PACE to be circa 15%ish above the equivalent spec'd F-PACE, which is a similar size vehicle, in principle, the margin of the I-PACE per unit will be somewhat lower than the margins of our average vehicles. However, what the electric vehicles enable us to do is provide a fleet overall that's compliant with the rules and regulations in various markets in which we compete and in particular in China or EU and the US of course. Therefore, those electric vehicles are really important for providing that overall fleet
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compliance and balancing out the vehicles that have higher CO2 footprints.

We are therefore planning in our overall business planning to anticipate that impact and expect that to happen and targeting through the various cost efficiency measures that we're talking about to find over our entire vehicle fleet offsets to our entire material cost and across our entire vehicle range in order to mitigate the impact of the somewhat lower margins that we expect to see on electric vehicles compared to normal vehicles.

P. Bergeron Maybe if I could ask the last question as a follow-up. I notice that the selling price of this, let's say, electrified vehicle is much higher than the selling prices of a combustion engine. Do you believe that the acceptance from clients will follow this significant selling price increase?

K. Gregor Great question. Clearly we've set the price that way in anticipation that we will see demand at that price. Of course, we need to see how customers react to that and accept that or not. We would hope so given the technology that's in the vehicles and the profile of customers for electric vehicles are very much the sort of early adopters into this space that we could see demand for the vehicles at that price, which as I say averages out to be about 15% above the equivalently spec'd F-PACE. So although the price is higher, it's still within the ballpark range of the sort of price of our vehicles. It's not as if it's double the price.

P. Bergeron Okay. Very helpful. Thank you very much.

K. Gregor Thank you.

Coordinator Thank you. The next question comes from the line of Elizaveta Andreeva from Deutsche Bank. You're live in the call. Please go ahead.

E. Andreeva Hello. Thank you for taking my question. I have two if I may. The first one is in regards to your working capital. I apologise if I missed this, but do you expect any material impact for your working capital levels for the full year '19 on the back of your destocking activity in the first half?

K. Gregor Thanks, Elizaveta. I would expect the working capital position to reverse, all other things being equal, in the second half of the year, in particular in the fourth quarter because of the normal seasonal factors that we see in our production and wholesale climbing, which has been somewhat exaggerated in this first quarter because of the destocking, where we've seen a lower production and therefore a bigger unwind in the payables, and we've also seen the growth in inventory that we wouldn't want to be honest. So in the balance of the year, we have to take action to get that inventory out through production reductions and in principle, by assuming that by the time we're into the fourth quarter,



we have production back up to similar levels as we saw in the last fourth quarter, then basically what we get is the payables position rewinds if you like back up to where it was, and therefore, you recover most of that negative impact in the fourth quarter, which by the way, if you look at the profile of our working capital over the last couple of years, that it what we saw.

So although we don't particularly like it, we have big outflows in Q1 and big inflows in Q4, and it is a pattern associated with the seasonality of the business and the profile of the number of production days that are available in the January to March quarter relative to the number of production days in the April to June quarter which are fewer because of Easter generally falling in April to June and holidays in April to June, and also the fact that we pay our suppliers on 45 to 60 day terms, but we collect revenue quite fast from our retailers. What that means is when you build and wholesale cars, you collect cash quite fast, but you pay for it later in the form of the payables to suppliers and that's what you've seen in our last Q4 had a very strong inflow. Then we pay for the cars that we built in Q1, and if we don't build as many cars in Q1, you get lower revenue, and you get what I call this payables unwind.

In principle, assuming we get production back up to the same level which is our intent in the Q4, then in principle these payables wind back up, but it does require the production to get back there. Of course as I already said, we do have to take action to lower production in the meantime in order to get that inventory out so that we don't have the inventory still around us at the balance of the year.

- E. Andreeva Thank you very much. That's very helpful. My second question would be on the raw materials, if you're seeing any significant pressure so far from the rising prices? What's your general expectation for the raw materials that were built in to the 4% to 7% margin outlook for the next couple of years?
- K. Gregor We are assuming that they continue at roundabout present levels for the balance of this year and with some modest increase in the following year. We tend to build into our business planning an assumption that rates generally increase over time modestly on raw materials. We are seeing somewhat higher commodity rates, and that's within our results compared to what we saw last year. It's not huge, it's probably of the order of £20 million in this particular quarter compared to the same quarter a year ago. So I suppose full year it starts to get to a chunky number, but it's perhaps not the biggest of all of the effects that are going on in our overall business results.
- E. Andreeva Thank you very much. That'll be all for me.
- K. Gregor Thank you.
- Coordinator Thank you. The last question comes from Alain Van der Heijden from Kempen and Co Please go ahead. You're live in the call.
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- A. Van der Heijden Thank you. Thank you for this call. Just one question left from my side. You commented on the cash position and the importance to have a strong cash balance in order to be able to deal with cyclicalities and seasonality. What is the level of cash you would still feel comfortable with in terms of minimum cash levels, and how do you see that relative to the high capex spend you expect for the next couple of years that will also most likely lead to negative free cash flow in these couple of years? Thank you.
- K. Gregor Thanks for the question. I think at this point I'll ask Ben Birgbauer, our Group Treasurer, to take that question.
- B. Birgbauer Hi. I think what I'd say is that we ended this quarter with £2.8 billion of cash, but we also have a £1.9 billion undrawn revolving credit facility. We've said previously that we do look at what our competitors maintain in terms of cash balances, and generally that tends to be 12% to 15% of revenue. I think that will continue to be a level of cash balance that we'll look to try to be around. I think what we'll look at doing as we go forward is obviously we do have debt maturities going forward and with the continued high investment, I think it is likely that you will see us in the debt markets from time to time both to refinance maturing debt but also to increase funding to support the investment that we're doing.
- A. van der Heijden Okay. Thank you.
- Coordinator We have no further questions. I will now hand the floor back to Mr. Ken Gregor for closing comments.
- K. Gregor , Thank you, everyone, for taking the time and also for the thoughtful questions today. A tough quarter for us, but we're committed to a stronger second half. I appreciate the support of all of you as investors and bondholders in our business, so thank you.
- Coordinator Thank you. On behalf of Jaguar Land Rover, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
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