

Press release

Munich, November 19, 2020

Knorr-Bremse AG sees revenues, profitability, and cash flow surge in the third quarter of 2020

- Business performance in the first nine months of 2020 very robust despite impact of the pandemic
- Robust profitability levels: EBITDA margin in the first nine months of 2020 of 17.5% compared with 18.5% in the prior-year period
- Free cash flow in Q3 increases almost fourfold versus Q2 2020 to EUR 181.8 million (EUR 47.5 million); at the same time, increased, selective investment in strategic, forward-looking innovation and technology projects
- Order intake up 3.6% and order book up 1.2% on the prior-year level again in Q3 due to strong increase in demand for commercial vehicles
- RVS division records 3.1% increase in the order book on the prior-year level in Q3 and widens EBITDA margin from 20.6% to 21.6%
- CVS division grows much faster than the market in Q3 2020 with order intake up 45.2% on the prior-year level
- Full-year guidance for 2020 confirmed: Revenues of EUR 5,900 million to EUR 6,200, operating EBITDA margin of 16.5% to 17.5%

Munich, November 19, 2020—Knorr-Bremse AG, the global market leader for braking systems and a leading supplier of other rail and commercial vehicle subsystems, today published its results for the first nine months of 2020.

Frank Markus Weber, Chief Financial Officer of Knorr-Bremse AG, commented on the publication of the business results as follows: *“Knorr-Bremse achieved significant improvements in all key figures and margins compared to the second quarter, with EBIT alone rising by more than 12 percent. The Truck division in particular grew at a faster rate than the market, recording a significant increase in demand in Europe and North America since the summer, driven in part by extra shifts at commercial vehicle manufacturers. After a very strong second quarter of 2020, demand in China continued to develop very positively in the third quarter thanks to pull-forward effects. Overall, with stable profit levels, the Rail division is performing at a high level.”*

“Due to the persistently volatile market, we will continue to focus our efforts in the coming months on consistently implementing measures to stabilize earnings and cash flow and to secure the supply chain for our customers. We are taking a very targeted approach in our cost control measures, which will allow us to continue making meaningful investments in the future. One good example of this is our very encouraging cash flow trend in the third quarter despite higher investments and an increased R&D ratio,” Weber added.

Order book remains at high level despite volatile market environment

The market in which the Knorr-Bremse Group operates was influenced by the Covid-19 pandemic in the first nine months of the 2020 fiscal year. In the development during the year, a significant improvement of the third quarter compared to the second quarter can already be seen. In the rail vehicle segment, Europe, China, and India were the markets that saw the greatest erosion in demand. The global commercial vehicle market experienced a noticeable downturn, particularly in the second quarter of 2020, as a result of lockdowns around the world and the related shuttering of commercial vehicle manufacturing facilities. However, ever since the summer, the markets in Europe and North America have witnessed a renewed

surge in demand. In Asia, revenues generated with Chinese commercial vehicle manufacturers in particular were significantly higher than in the previous year.

Order intake of the Knorr-Bremse Group showed in the third quarter 2020 a significant recovery compared with the second quarter, and order intake in this period grew as well by over 3% year-on-year. The order book as of September 30, 2020, at EUR 4,457.7 million, was up 1.2% on the strong prior-year figure of EUR 4,402.9 million. In the first three quarters of 2020 order intake was down 15.5% on the prior-year period, amounting to EUR 4,355.0 million (9M 2019: EUR 5,153.0 million).

In Q3 2020 Knorr-Bremse Group achieved revenues of EUR 1,533.5 million (Q3 2019: EUR 1,711.1 million), a remarkable increase of 7.4 % compared to Q2 2020. Overall, revenues between January and September 2020 were down 13.6% to EUR 4,589.3 million (9M 2019: EUR 5,312.7 million). At constant exchange rates, revenues decreased by 12.5%.

The share of total revenues accounted for by the Group's aftermarket business increased perceptibly to 37.1% (9M 2019: 33.6%).

Knorr-Bremse thus succeeded in demonstrating once again that it has a stable and resilient business model.

High level of profitability and strong cash flow despite Covid-19 pandemic

EBITDA of the third quarter 2020 increased by 9.5 % to EUR 268.7 million compared to the second quarter 2020. In the first nine months of the 2020 fiscal year it came to EUR 804.2 million (9M 2019: EUR 982.2 million), a decrease of 18.1% on the prior year due mainly to volume factors. Thanks to the Covid-19 action programs swiftly implemented in both divisions and revenues from the aftermarket business making up an increased share of total revenues, the EBITDA margin of 17.5% maintained a very satisfactory level (9M 2019: 18.5%).

Knorr-Bremse Group EBIT increased by 12.1 % to EUR 194.6 million compared to the second quarter. In the first nine months of 2020 it declined by 24.4% to EUR 592.1 million (9M 2019: EUR 783.0 million), giving an EBIT margin of 12.9% (9M 2019: 14.7%). The change in this margin is higher than for EBITDA due to increased investment activity, which led to higher depreciation and amortization.

Free cash flow in the first nine months amounted to EUR 168.5 million (9M 2019: EUR 355.3 million). The pandemic-induced drop in revenues and higher cash outflows for capital expenditure impacted on cash flow in the second quarter in particular. In Q3 2020, the measures implemented to stabilize earnings and cash flows continued to take effect and a significantly higher free cash flow of EUR 181.8 million was recorded (Q2 2020: EUR 47.5 million). Due to regular seasonal trends, a strong free cash flow is likewise expected in the fourth quarter of 2020. The cash conversion rate, in other words, free cash flow expressed as a percentage of net income, amounted to 129% in the third quarter, up from 90% (adjusted for extraordinary factors) in the third quarter of 2019 and from 41% in the second quarter of 2020.

Segments

Rail Vehicle Systems (RVS) with solid order book up 3.1% year-on-year in Q3 2020 and with improved profitability

In the third quarter of 2020, the order book of EUR 3,400.5 million (9M 2019: EUR 3,296.9 million), which was 3.1% higher than in the previous year, demonstrated the strong resilience and stability of the RVS division.

Over the entire nine months period between January and September 2020, revenues of the RVS division declined by 8.2% to EUR 2,562.5 million (9M 2019: EUR 2,791.4 million) due to lower revenues generated with rail vehicle manufacturers. In Europe, this was mainly attributable to mass transit (light rail vehicles and metro cars), in North America to the freight business, and in Asia to the business for high-speed trains and locomotives.

At EUR 568.1 million, EBITDA for the entire reporting period (9M 2019: EUR 605.6 million) was down by 6.2% year-on-year, resulting in an improved EBITDA margin of 22.2% (9M 2019: 21.7%). The division benefited from positive mix effects in Europe and a steady improvement in profitability in Asia at a high level. In addition, the cost reduction program implemented to mitigate the effects of the Covid-19 pandemic had a favorable effect on profitability.

Commercial Vehicle Systems (CVS) with a strong order intake of +45.2% and outperforming the markets in Q3 2020 compared with prior year

The 45.2% increase in order intake of the CVS division in the third quarter of 2020 compared to the prior-year quarter is testament to the significantly improved market estimates in Europe and North America.

For the first three quarters 2020 revenues as of the end of September 2020 came in 19.7% short of the prior-year figure, amounting to EUR 2,026.3 million (9M 2019: EUR 2,523.8 million). The decline in revenues was largely attributable to a decrease in truck production rates worldwide and related revenue shortfalls in the OE business, mainly in Europe and North America. Nevertheless, CVS managed to outperform the market, underpinned by growth in the content per vehicle and a stronger aftermarket business. The newly acquired steering systems company R.H. Sheppard added a further EUR 29.4 million to revenues. In the Asia region, the strong momentum in OE revenue growth in China continued compared with the previous year.

The aftermarket share of revenues rose year-on-year to 28.3% (9M 2019: 24.8%).

EBITDA fell by 34.0% on the prior-year figure to EUR 259.8 million (9M 2019: EUR 393.8 million) due to volume factors. At 12.8%, the EBITDA margin was lower year-on-year (9M 2019: 16.3%). The recovery in revenues in the core markets of Europe and North America in the third quarter, along with consistent continuation of the cost control measures implemented, brought about an improvement in profitability compared with the first half of 2020.

Regions

Regional contributions to revenues in the first nine months of the 2020 fiscal year showed a significant increase in business in the Asia-Pacific region. This gives the following regional breakdown of revenues as of the end of September 2020:

- Europe/Africa 45% (9M 2019: 47%)
- Asia/Pacific 33% (9M 2019: 28%)
- North America 20% (9M 2019: 24%)
- South America 1% (9M 2019: 2%)

Large-scale investments in the future – headcount down slightly year-on-year

In the first nine months of 2020, Knorr-Bremse invested around 5.0% of its revenues (9M 2019: 3.7%) or EUR 230.0 million (9M 2019: EUR 195.2 million) in forward-looking research and development projects as well as in intangible assets and property, plant and equipment. The increase is also a reflection of Knorr-Bremse's long-term growth and innovation priorities.

Among other things, investments were made in automated driving, further development of the steering business and electrification.

The average number of employees during the first nine months of 2020 fell by 2.6% to 28,800 (9M 2019: 29,562).

Group confirms full-year guidance for 2020

In view of the strong performance in the past three months and expectations of business performance in the fourth quarter, the Executive Board of Knorr-Bremse AG is confirming its guidance for the 2020 fiscal year. The market is expected to remain volatile, and we are monitoring developments closely. Subject to further significant effects from the Covid-19 pandemic before year-end, the Company expects revenues in the range of EUR 5.9 to EUR 6.2 billion (reported 2019: EUR 6,937 million) and an operating EBITDA margin, meaning before restructuring expenses, of between 16.5 to 17.5% (2019: 18.8%).

The full quarterly statement is available on the website www.knorr-bremse.com.

Explanations and reconciliations to the financial KPIs used can be found in particular on pp. 75 ff. and 102 of the 2019 Annual Report of Knorr-Bremse AG (available at <https://ir.knorr-bremse.com/download/companies/knorrbremse/Annual%20Reports/DE000KBX1006-JA-2019-EQ-E-00.pdf>).

Key figures for the Knorr-Bremse Group:

	January – September			Third Quarter		
	2020	2019	Δ	2020	2019	Δ
	EUR million	EUR million		EUR million	EUR million	
Order intake	4,355.0	5,153.0	-15.5%	1,627.9	1,571.8	+3.6%
Order book (September 30)	4,457.7	4,402.9	+1.2%	4,457.7	4,402.9	+1.2%
Revenues	4,589.3	5,312.7	-13.6%	1,533.5	1,711.1	-10.4%
EBITDA	804.2	982.2	-18.1%	268.7	313.3	-14.2%
<i>EBITDA margin</i>	17.5%	18.5%	-1.0ppt	17.5%	18.3%	-0.8ppt
EBIT	592.1	783.0	-24.4%	194.6	249.8	-22.1%
<i>EBIT margin</i>	12.9%	14.7%	-1.8ppt	12.7%	14.6%	-1.9ppt
Free cash flow	168.5	355.3	-52.6%	181.8	165.5	+9.9%
Capital expenditure (before IFRS 16 and acquisitions)	230.0	195.2	+17.8%	82.1	71.9	+14.2%
R&D costs in % of revenues	6.4%	5.8%	+0.6ppt	6.5%	6.1%	+0.3ppt
Earnings per share (in EUR)	2.29	2.69	-0.40	0.82	0.56	+0.26

Key figures for the Knorr-Bremse Group's divisions:

	Nine Months			Third Quarter		
	2020	2019	Δ	2020	2019	Δ
	EUR million	EUR million		EUR million	EUR million	
RVS division						
Revenues	2,562.5	2,791.4	-8.2%	821.7	915.4	-10.2%
EBITDA	568.1	605.6	-6.2%	177.9	188.6	-5.7%
EBITDA margin	22.2%	21.7%	+0.5ppt	21.6%	20.6%	+1.0ppt
CVS division						
Revenues	2,026.3	2,523.8	-19.7%	711.6	797.1	-10.7%
EBITDA	259.8	393.8	-34.0%	101.6	129.6	-21.6%
EBITDA margin	12.8%	15.6%	-2.8ppt	14.3%	16.3%	-2.0ppt

About Knorr-Bremse

Knorr-Bremse (ISIN: DE000KBX1006, ticker symbol: KBX) is the global market leader for braking systems and a leading supplier of other safety-critical rail and commercial vehicle systems. Knorr-Bremse's products make a decisive contribution to greater safety and energy efficiency on rail tracks and roads around the world. About 29,000 employees at over 100 sites in more than 30 countries use their competence and motivation to satisfy customers worldwide with products and services. In 2019, Knorr-Bremse's two divisions together generated revenues of EUR 6.9 billion. For more than 115 years the company has been the industry innovator, driving innovation in mobility and transportation technologies with an edge in connected system solutions. Knorr-Bremse is one of Germany's most successful industrial companies and profits from the key global megatrends: Urbanization, sustainability, digitalization and automated driving.

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