Dowlais Capital Markets Day

Chris Dyett, Head of Investor Relations Before we get going, just a couple of housekeeping points. Firstly, when you ask your question, if you could give us your name and institution, shouldn't be too hard for most people to remember. The second thing if you could maximise your questions to three so we can get around as many people as possible. And the third thing, and the most important thing, is today is just focusing on Dowlais, not Melrose. So if you can limit your questions to this business, on the 2nd of March Melrose will have its full year results and we're happy to answer any questions you have at that time. Now, Rory just caught my eye there, so the first question goes to you. Off you go.

Rory Smith, UBS Thank you. Rory Smith from UBS. My first question is for Liam, and it's a short one. Please, could you comment on how you see the board dynamic taking shape with Geoff and Simon on there.

Liam Butterworth, Dowlais CEO Sure. That's a great question. So Roberto, myself and Diego and the entire team, we have a great relationship with the Melrose team and specifically with Simon and Geoff, one of the reasons why that relationship is so strong these days, they've let us get on with doing what needs to be done with the business and provided great support, guidance and advice on what needs to be done as they move to the board. We were obviously very, very happy that Simon and Geoff were coming on the board and they will continue to provide support and guidance and critically key expertise around M&A. In addition, obviously, Simon Mackenzie Smith, again, we've known him for quite some time and we're very delighted that Simon's going to be the chair and he's already providing a lot of challenge to us in terms of what we want to do with the business going forward and then the rest of the board we're very confident that we'll have a nice broad range of skills and expertise on the board by the end of January, if not mid-February, where we're very happy with in terms of the progress we're making.

Chris Dyett, Head of Investor Relations Have you got a follow up?

Rory Smith, UBS I do have one for Roberto, perhaps on eDrive. You've shown that mechanical eDrive components are at or will be at target margins when volumes recover, but eDrive in its totality is not, albeit it has healthy contribution margins. Is there a difference between a three in one eDrive system and a two in one eDrive system on contribution margin? And how do you see the discretionary investment piece phasing over time? Thank you. Yeah.

Roberto Fioroni, Dowlais CFO So the answer, the difference between a two in one and three in one contribution margin, in both the two in one and the three in one, we increase the bought in content. So that is margin dilutive, but it's just purchasing with a bit of a cost plus. In terms of, and as I said in my presentation, in my section. Both. You know, all product segments are at very healthy contribution margins, exactly where we would expect them. eDrive specifically is where a lot of our engineering investment is going to the range of fifty, sixty million pounds a year. And that requires scale to obviously absorb now. Another thing I do want to key out, or point out sorry, is IFRS would allow us to capitalise that that engineering investment. We're expensing it so that we, you know, we just take it all straight away and we monitor it. Does that answer the question?

Rory Smith, UBS How does that engineering piece go over time? Or is that going to be relatively constant?

Roberto Fioroni, Dowlais CFO I don't expect it to increase too much.

Rory Smith, UBS Great. Thank you.

Chris Dyett, Head of Investor Relations Liam, do you want to add anything to that?

Liam Butterworth, Dowlais CEO Yeah. Maybe I can just add a couple of points. So the way we think about the eDrive market is when we go to a full system, clearly there's a lot of bought in content and the market for the full systems is incredibly competitive where it is today with OEMs probably in-sourcing around 80% of the volume today. So the 20% that's in the market clearly, as you can imagine, is very competitive. We're in a fantastic position where we don't need to book that business to support future growth. So we're being very selective, and we think that the amount of engineering investment that we're making of around fifty to sixty million a year is appropriate for where we need to go with that portfolio and whether that's a full system or components. And we've got that flexibility to adapt.

Rory Smith, UBS Very clear. Thank you.

Chris Dyett, Head of Investor Relations Okay. And you have the microphone.

Ben Watson, JP Morgan Thanks. Ben Watson, JP Morgan. Thanks very much, guys. Good presentation. Just two questions, please. One, is there any clarity or quantification of the standalone central costs that will come through, please? And secondly, simply being an independent company, when will we know a bit more about the incentivization package and the targets and the ltip metrics that will motivate your team, please?

Chris Dyett, Head of Investor Relations Probably one for Roberto and one for Liam.

Liam Butterworth, Dowlais CEO I'll take the incentivization package. It will be a standard PLC style incentivization package, something that we're currently finalising with Simon and the board. And obviously when we get the comp committee in place it will be confirmed, but it will be a regular PLC style package.

Roberto Fioroni, Dowlais CFO And from a standalone PLC cost perspective, for modelling purposes about thirty million pounds. But in full disclosure, ten of those are today sitting with Melrose. So you give Dowlais 30, but you take approximately ten out of Melrose, RemainCo. Thank you.

Chris Dyett, Head of Investor Relations Thanks Ben. Come to a question in the front row. Just here in front of me.

Sanjay Bhagwani, Citi Hi. This is Sanjay Bhagwani from Citi. And thank you for taking my question as well. I've got three. My first one is going back to the CPV. So let's say for a moment, if we keep the eDrive system that is a two in one or three in one system, aside. If I were to talk about the content per vehicle of the rest of the things that is including the Edrive components, how would that fare in a traditional combustion engine car? What is it in a battery electric car? So that is my first question.

Chris Dyett, Head of Investor Relations Liam one for you, I think.

Liam Butterworth, Dowlais CEO I think just trying to do the math in my head.

Chris Dyett, Head of Investor Relations It's higher, is the answer.

Liam Butterworth, Dowlais CEO So I think the chart that we showed is, it's £600 per vehicle, which is sideshafts, and all of the all-wheel drive so eDrive components. And that's the part of the portfolio that's completely agnostic, whether it's internal combustion engine or eDrive. Does that answer your question? Because I'm not sure I can.

Sanjay Bhagwani, Citi No, I think so. So I think you're alluding to, so just to confirm. So let's say in a combustion engine car, what goes is ICE specific, that is 400 plus agnostic which is 600. Right. So content per vehicle. Combustion engine car is thousand. And then battery electric car excluding eDrive systems. It's 600. Is that the right way to read this?

Liam Butterworth, Dowlais CEO Partially. I don't want to give you a wrong answer. I don't want to shoot a number to you now. It's something we can get back to you on because we broke it down by what's agnostic, what goes away, and what the additional opportunity is. If you need it slicing in different ways, I'm sure it's something we can follow up and give you some more accurate numbers.

Sanjay Bhagwani, Citi Sure. Sure. Thank you. So maybe coming on the eDrive system, it's a bit complex to understand what value comes from you versus the partners, because let's say if you break it down to inverter, e-motor and gearbox. So what I understood is gear box is met with your competencies. You do it yourself, probably large part of the e-motor as well. But how is your strategy on let's say, inverter? Is that something you are basically designing yourself and then getting it produced by the partners?

Liam Butterworth, Dowlais CEO Yeah, sure. So I'm speaking on the guidance of our CTO down there, so we want to think about it in three core blocks. First of all, you've got the hard parts, which is the gearbox or the differential and the park lock break. That is core, it's our bread and butter of GKN Automotive. What we supply we already manufacture in all wheel drive and that will be more or less the same. It's the same process, the same design capability. The second thing is the motor. The motors that we use are our own design with our own intellectual property. Up until recently, we've been buying components for the motor from a partner. We're actually going to start gradually industrialising the motor ourself, so obviously it generates, it will generate more margin as we vertically integrate. Longer term, we would produce the motor completely ourselves, again as and when the volumes come. In terms of the third piece, the inverter, that's something that we will never produce in-house. We're not an electronics company. So our strategy has been around designing the building materials, owning the software, which is why we set up the software centre in Bangalore. And then we go and we'll go to a contract manufacturing basis. So basically, would go to a partner and go build to print. And that's what we're doing on the next generation program that's being launched next year. The three in one for the German OEM, it's a bill to print solution and then above that is all of the software that you need to make the whole system work, and that's our own software and our own capability. So we're not investing millions of pounds in industrial capacity for these systems because the market is so competitive at the moment. We've got the flexibility to invest gradually when it makes sense.

Sanjay Bhagwani, Citi Yeah, that that totally makes sense. And yeah. One final question on the inflationary headwind. So what I understood is that you're able to pass on quite, quite a lot of inflationary headwinds already this year. And if I understood, this inflation was driven by metal prices which are already in the contract. So this is basically your kind of contractual pass through. But if I maybe please correct me if I'm wrong. And yeah, so for the next year, if you see the inflation coming from energy and excess wages, right? So are these also in the contract and to achieve your double-digit margin target, what sort of pass through you are assuming let's say because inflation is still going to be sticky, right? So that's, that's my question.

Roberto Fioroni, Dowlais CFO You're right. The mix of inflation is changing, 22 versus 23, Going on 22, we saw inflation, I would say, in a couple of different types of direct material on steel and scrap. Those are the ones we had previously indexed and contractual. But then we also saw towards the end of the year energy surcharges also starting to creep in, plus our own energy usage. That was not contractual. Okay. So I would say that the commercial team did a very good job at renegotiating and passing some of that inflation to our customers. And the rest, as I mentioned, we took care of via cost reductions completely offsetting the inflationary headwinds, and that's in both businesses. Next year, as you rightfully say, there's a bit of a shift. We're seeing less direct material inflation on steel or on scrap and we're seeing more around energy continuing. There's also a carryover effect as it went up in the second half of this year, sorry in 2022, as well as labour inflation kicking in slightly. You know, to answer your question, how much do we plan to offset, our commitment in our internal targets is to completely offset it again. So that's what we're banking on. Some of that we will ask customers to participate in, just like we did this year, 2022 sorry last year. And in some of it is also by pushing back on our supply base in terms of the labour inflation, what we've seen is, you know, we're going around looking at different ways of making sure that it's not sustained. So are there are some lump sums that we can contribute with instead of just bumping up the wages and that will have to offset with internal productivity.

Sanjay Bhagwani, Citi Thank you, sir. If I understood it correctly, large part of it you'll get a pass through? Are you assuming a pass through from the OEMs? And then you also offset it with the productivity gains. Is that the conclusion?

Roberto Fioroni, Dowlais CFO Yes. That's correct.

Sanjay Bhagwani, Citi Thank you. That's very helpful.

Liam Butterworth, Dowlais CEO Can I maybe just add a couple of points to that, because it's been incredibly challenging and complex to execute the inflation recovery this year. It's not just been a case of sending out a price increase letter. We've had sixty, seventy, eighty negotiations going on in parallel where across our portfolio we break down the commodity or the inflationary impact by part number, whether it's labour, energy, or steel. And we've had a tremendous amount of success with our customers passing that through just because of the rigour that we've we've entered into negotiations, and that's with both the auto on the powder metallurgy businesses and customers have been listening to us because of the amount of preparation and also because basically they need us. They can't build cars without GKN. So when we've got very good relationships with our customers as we as we went through in the presentation.

Sanjay Bhagwani, Citi Thank you. That's very helpful.

Chris Dyett, Head of Investor Relations And we'll make sure we come back and answer your question.

Tom Narayan, RBC Hi, yes, Tom Narayan, RBC. Thanks for taking the questions. The first one is, you know, if I look at your EBIT margins, then I look at your EBITDA margins. There's obviously a widespread and we're seeing that for a lot of automotive suppliers now because there's a lot of investment, right, in electrification. So the question is, do you consider D&A something that could come down longer term as perhaps, you know, your business kind of matures and at that point, could operating margins actually exceed your double-digit target?

Chris Dyett, Head of Investor Relations Probably one for Roberto I think.

Roberto Fioroni, Dowlais CFO So before exceeding let's get to them. Right. On Capex, you know, we do look at Capex to depreciation ratios and I would say I would expect that to be between the 1 and the 1.2 in the mid-term. As to your point, we invest in electrification and short term as I said, we're not standing still with you know, we're taking as much control into our own hands around the macroeconomic uncertainty. So we're still shifting labour from high cost to best cost countries as we invest. I'd expect Capex to be in the short term, slightly higher than that ratio I've just given. But for it to go below one on a continuous and sustainable basis, I wouldn't plan for that in the, in the mid-term.

Tom Narayan, RBC Okay. Another topic, I think you kind of brushed on it with Rory's question. But, you know, one big topic we're hearing in the open among the auto OEM, your customers is in-sourcing a lot of the eDrive components, right? Inverters, E motors. Just wondering if you could kind of talk to that. Is your strategy to kind of find niches within the ecosystem? Do you not agree with that whole thesis that the OEMs will ever actually insource these things? You know, how do you view that whole dynamic?

Liam Butterworth, Dowlais CEO Yeah, sure. So I think what we've seen so I think when we had the last Capital Markets Day and it was last year or the year before, we assumed it would be around a 50:50 ratio of insourcing versus outsourcing. It's clear that it's gone much more from what we see to around 80% in-house. And I think there's a couple of reasons for that from the OEMs. One is probably the biggest issue, especially in Europe, is they're basically redeploying all of their workforce from producing internal combustion engines to eDrive units. And the second thing is they want to have more control over the eDrive system itself and develop that capability in-house. As such, we're seeing more opportunity for components, whether that's gearboxes, whether that's electric power, brake differentials. And you saw in one of the slides some of the components where we've been successful. So our strategy is flexible in that will supply components or a full system and that could be to the OEM or even through to a tier two.

Tom Narayan, RBC Okay.

Liam Butterworth, Dowlais CEO Now, where that will land in the future, it's anybody's guess. But I would say I think it will still end up probably around 50:50, because when the whole industry goes to EV, at some point there'll be 90 million vehicles produced a year with these units. The OEMs will not. They'll want capacities for all of that. So we'll push them out.

Tom Narayan, RBC It's usually what the OEMs do. They try to in-source it and they invariably give it back to the suppliers. And then the last one I have is on M&A. You know, you have disclosed some businesses that you're exposed to, maybe stuff that could eventually go away. Would you ever consider divesting these assets?

Liam Butterworth, Dowlais CEO I think. Of course, it all depends on whether it creates shareholder value to divest them and what's the right time to do that. But as we laid out, our strategy is really clear. First and foremost is to get the business to double digit operating margins. Secondly is to continue investing in transitioning to electrification. And then the third is M&A, which includes acquisitions on divestment. And clearly, we will look at that depending on what creates value for our shareholders.

Tom Narayan, RBC Thanks.

Liam Butterworth, Dowlais CEO Well, let me just add one last point to that is there's no part of the portfolio that we need to sell because we don't have an anchor that's sinking the company because of ICE.

Chris Dyett, Head of Investor Relations Mark, over to you.

Mark Davies, Stifel Thank you very much, Mark Davies, joining us from Stifel. Liam, can I take you back to one of your first slides, which is on market context? It seems to me a very strong story around execution and margin trajectory, but probably rather a bigger question mark around volume and revenue growth. What are you expecting this year? Because, light vehicle production expectations seem to be slipping quite badly again. Do you think we need progress on the supply side or on the demand side for that to get back to pre-COVID levels? And you said that's a question of when, not if. You sure about that? There seem to be some changes in attitude to ownership structures and general impressions on affordability, which are weighing on volume expectations.

Liam Butterworth, Dowlais CEO Okay. So there's a few questions in there, I'll try and unpiece it.

Chris Dyett, Head of Investor Relations That's a thesis.

Liam Butterworth, Dowlais CEO It's in terms of market volume. We use S&P for all of our planning purposes. And for this year we've assumed between 3 and 5%. S&P have just actually downgraded their volumes for this year. And that's what we're using for planning. In terms of and I would say the only area that we're watching closely we have been for some time is China. So we planned that China will be softer in Q4 last year, and we saw that come through. We've also planned that China will be softer for the first half of this year, and that's part of how we're thinking about 2023 in terms of supply and demand. So what we're seeing, we're seeing semiconductor starting to ease, but there's not a step change in terms of the availability of semi. So we're seeing that starting to ease. There's still a significant amount of pent-up demand in the system and between 2019 and 2022, there was a shortage of 33 million vehicles that weren't produced. So we see that coming back at some point, that pent up demand is there. So we're confident that the 2019 volumes will come back. S&P is saying that will be around the end of 25. But as Roberto said in his presentation, we're not standing still. So we're now moving forward on further plans in the business so that we're not waiting for that volume to come back. We can get to double digit margins for the lower end.

Chris Dyett, Head of Investor Relations Mark, any follow up or.

Mark Davies, Stifel I can ask another one, I guess, which is in the discussion around the combination of the two large businesses here. You said the Powder Metallurgy conversation will happen in the next two or three years. What are the key criteria in reaching a decision on that?

Liam Butterworth, Dowlais CEO So powder met is great business. And clearly with this there's two things that are clearly, first and foremost on our mind for powder met. One is the trajectory to get to 14% margins and we will continue to provide the same level of support as Melrose did to get there. The second one is magnets, which is clearly a great opportunity for the business going forward. There's a lot of interest in the market for magnets, but it's still in this early phase. So I think it's really to see how that opportunity develops over time. Longer term, we've clearly said if you look at powder metallurgy, it's a metals and a metals processing business. The majority of the business today, revenue stays in the auto industry. But as you saw from Diego's slides, there are other industries in other areas where that business could also grow or that technology could also grow. So it's looking at how does that business look like in the future? And at some point, as we said, we'll consider future ownership for the powder metallurgy business. But in the short term, it's about supporting Diego on those two levers I said at the beginning.

Mark Davies, Stifel Thank you very much.

Chris Dyett, Head of Investor Relations Mark, if you could pass the mic going back one row and to the end, that'd be great. Whilst you're doing that Diego is getting a very easy time at the moment. If you've got any powder metallurgy, questions, he's raring to go.

Liam Butterworth, Dowlais CEO Thank you.

Shaun Daly, Millennium Thank you guys for your presentation, Shaun Daly from Millennium. Two questions from me. The first is, how do you see the process of the sale going through in terms of the timeline for pricing the sale? So do you anticipate sort of engaging with investors beforehand in sort of like an auction type kind of discussion beforehand? Or will you be relying sort of on the brokers? And then the second question is just a technicality in terms of your net debt guidance. Just wondering if this includes pension liabilities.

Chris Dyett, Head of Investor Relations You want to answer the question around that first and we'll come back to the question around timing, around the demerger.

Roberto Fioroni, Dowlais CFO Yeah. So no, the net debt does not include the pension liabilities. But there are I was going to annex that with this they're [pension] in surplus right now. Right.

Chris Dyett, Head of Investor Relations The second question effectively is into the demerger. Are we just going to naturally let the demerger happen or is there going to be some level of pricing discussion? I think it's probably a question that we can have offline rather than in this forum.

Liam Butterworth, Dowlais CEO Yeah, it's more of a technical question, I think. And clearly the plan is to demerge during the first quarter.

Chris Dyett, Head of Investor Relations Mark.

Mark Fielding, RBC Hi, Mark Fielding from RBC. A couple of questions, please, around the margin side. First, which is just you obviously mentioned that China is a 10% plus margins already. So is there any significant regional variation elsewhere in margins across the business? And just to give us some context on that, would be a good start.

Roberto Fioroni, Dowlais CFO China is the one region which is at target margins, as I've mentioned. The other, you've got a broad split by product really and as I mentioned, you've got the all-wheel drive segment which is already there and then the drive line or the old drive. And so prop shaft and slide shaft essentially, which would be the if we were at 2019 volumes, it's just with burdening the business with some fixed cost overhead which isn't being absorbed by the volume right now.

Mark Fielding, RBC So the other product margins are pretty stable around the world basically for this product supply.

Liam Butterworth, Dowlais CEO Maybe I can just add if you'd have asked that question four years ago, it would have been a very different answer because Europe was a challenge for us. And if you look at what we've been doing to fix the business or transform the business, a lot of the heavy lifting has been around our footprint in Europe. Maybe you want to talk about powder met Diego.

Diego Laurent, CEO You know, just to say we have been more balanced in the last couple of years, but we have still some areas of the business of product specific that need an improvement. So it's not completely the same level of the products, but much more in line, there is some more work to do in some areas.

Mark Fielding, RBC Okay. Thanks a second one also on [unintelligible], it's just there's been a lot moving parts the last few years. Give us some thoughts around margin seasonality in the business. I mean, simplistically, the second half margin is obviously higher than the first. Should I be taking that as the base rate going forward for the business or not? Just how we think about that.

Roberto Fioroni, Dowlais CFO So, you know, we as per the Melrose interim announcement, there was a bit of a lag in getting some of these customer recoveries. So second half margins benefit from that of having had those recoveries that weren't in the first half. I would not take second half margins as your run rate going forward. I would more focus on the full year that evenly spreads out our inflationary pressures with our recoveries and offsets.

Mark Fielding, RBC Thank you. And then a final still a margin one actually just I'm sorry, my colleague here is the auto specialist. I by no means am, so.

Chris Dyett, Head of Investor Relations I should have limited to three questions per institution shouldn't I really.

Mark Fielding, RBC Yeah, that's it. We're all over it. But when you talked earlier about that book to bill, that was always over 1x at GKN Automotive and how those new bookings were all 10% plus margins, I suppose I'm curious to think, you know, at what point does that just naturally, even if volumes are lower, become 10% plus margins or has some of the stuff you booked in 2019 at 10% plus margin, actually now not 10% plus because of the way volumes have gone, etc.

Roberto Fioroni, Dowlais CFO So now that's a very good question. So a couple of things. The book to bill ratio, we look at it more. The first, as you said, the right indicator is it shows growth. Now, you know, there's a bit of art there. It's not pure science because as we take our lifetime revenue, we take we look at two things. One, what the OEM promises us in terms of lifetime revenue as well as the S&P volumes. And we triangulate that and sometimes apply a bit of a haircut when we say these guys are too, too optimistic. So that explains the book to bill ratio. But again, I'm looking for it to be above 100% and that says growth will come. Mark, also to your previous question, I think, you know, how do we justify that. In terms of the profitability, the way we take, you know, when we approve our RFQs or NPAs, a new business acquisition. We look at many economic variables. As you can imagine, the NPV, the contribution margin for me is very important because what happens below, which is essentially your fixed cost and how do you absorb it? We can't burden new business acquisitions that will be going to production two or three years from now with current utilisation rates, right? so there is an aspect of saying that 10% that I state booked at 10% assumes a better utilisation of our footprint, which will come in one of two ways. Either volumes come up or we'll keep on doing what we've been doing for the last four years, which is, you know, essentially seven plants less absorbing that work in our current existing footprint.

Liam Butterworth, Dowlais CEO Maybe if I just add if you look at our target to get to what is 11% for the group that factors in there is some tailwind or favorability from the better quality of bookings that we've got coming into the business that Roberto showed. And we moved from volume chasing, which was to basically fill our uncompetitive footprint to quality of bookings. And we start to say we're starting to see some of those better margin products coming through over the coming years.

Mark Fielding, RBC Thanks and thanks, Roberto. Thank you.

Roberto Fioroni, Dowlais CFO Sorry, I just one extra point of comfort because the auditors always look at an onerous contract.. We've always analysed our order book for potential onerous contracts, and I'm very happy to say that during COVID, even when utilisation came down at its lowest levels, there were none of these bookings that made the danger zone or danger list of being called onerous.

Mark Fielding, RBC Thank you.

Andrew Hollingworth, Holland Advisors Hi. Thank you. I'm Andrew Hollingworth from Holland Advisors. You've talked about some of the opportunities for the business, which is very useful. Thank you. Could you talk about one or two of the threats? I mean, two that come to mind to me, I'm not a specialist in the sector, is that you talked about a sort of 63% propshaft siteshaft percentage, but you haven't given us a breakdown between the two and you have talked about the opportunities in side shaft. It sounds like you're telling us there's headwinds in propshaft so maybe you could talk about that and it'd be great to break the 63% down further. And then the second thing, you've obviously talked about opportunities. I mean, the powder met business in terms of magnets and all the rest of it, if we look at it around the other way and look at businesses in China that are also looking at your businesses and look your businesses that they can target, where are we vulnerable? And also the other bit for China is sort of intellectual property. You know, do you feel that either you or the sector is defending intellectual property against Chinese competitors?

Liam Butterworth, Dowlais CEO Okay. There's a few questions in isn't there?

Andrew Hollingworth, Holland Advisors I'm not asking anymore. You're alright.

Liam Butterworth, Dowlais CEO In terms of the portfolio split between what's vulnerable and what's not. I think there's a slide in the deck that shows by 2025, 2026, only 20% of the portfolio will be vulnerable to internal combustion engine and that some all-wheel drive components and propshafts. So all of the propshaft business eventually will go away because you don't need a propshaft after to obviously take the power from the engine to the rear of the vehicle.

Andrew Hollingworth, Holland Advisors And it's worth saying propshafts is a much, much smaller business than...

Liam Butterworth, Dowlais CEO But propshafts today represents less than 10% of revenue of the business, probably about 8%, which is a very small amount.

Andrew Hollingworth, Holland Advisors Okay. So what that 63%. You know. The vast, vast majority of that is sideshafts you're telling us?

Liam Butterworth, Dowlais CEO Yes, Yes.

Andrew Hollingworth, Holland Advisors Thank you.

Liam Butterworth, Dowlais CEO Yes. As you said, you know, it's a significant part of the part of the company. In terms of other risks that we've been probably really focused on heavily is supply chain over the last two years and that was... We were working quite aggressively to regionalise our supply chain pre-COVID. And obviously we came out of COVID, we saw just how fragile global supply chains were, so we accelerated some of our localisation plans and we've still got some work to do. But that's an area that we're quite focused heavily on in terms of how do we simplify further our supply chain to get material, start flying material around the world, but also manage our supply base to make sure we've not got critical supplies that are going to fall over. Then in terms of China. So, first of all, 100% of our China business is localised. So the rest of GKN doesn't need China and China doesn't need the rest of GK own to produce parts. In terms of exposure to the market, we're pretty well balanced to probably around 40% of our revenue is with domestic local OEMs and the rest is with the global guys and that local OEM share is increasing and it's increasing at the margins that we expect. So it's not as if we're going into a very low end commodity based business. This business is transitioning very well and we have a great relationship with our partner who has the same aspirations in terms of profitability returns from the China business. So we're very well aligned in terms of how we grow that business. In terms of intellectual property, we own all of the IP and we're very selective in terms of which, what IP we put into the China JV, and that's usually determined by our global OEMs that are pulling our products, for example, Volkswagen that pull our technology from Europe into their China platform.

Andrew Hollingworth, Holland Advisors Thank you very much, those are useful answer. On the IP bit, but I didn't necessarily mean in your JV. I meant as in other competitors. So on one of your pie charts, you've shown that obviously you've seen a number one in your area.

Liam Butterworth, Dowlais CEO Yeah.

Andrew Hollingworth, Holland Advisors There's a wide array of competitors. You know how happy are we as an industry that IP isn't leaking into other competitors that aren't interested in double digit margins. They're happy to run at much lower margins with much lower cost base.

Liam Butterworth, Dowlais CEO We're very happy. We're very confident. We have a very strong IP structure in the business. We challenge anybody that tries to attack our IP. And one of the reasons why we've got such a strong position with twice the size of everybody else is that we protect our IP and our customers value that. So we don't see that as a major risk for us.

Andrew Hollingworth, Holland Advisors Thank you very much.

Chris Dyett, Head of Investor Relations Thanks for the question. There's a question in the far corner in the middle maybe if you could pass along the row. Thank you.

Michael Jacks, Bank of America Thank you. It's Michael Jacks from Bank of America. Two questions from my side on the order intake number that you mentioned of 20 billion since 2019, how much of the 43% that you attribute to BEV and full hybrid comes from eDrives and specifically powertrain components for BEVs. And a second question, specifically in the powertrain area as well, where do you currently see yourselves winning on current RFQ processes? Is it in the mass market or more on the premium side?

Roberto Fioroni, Dowlais CFO Yeah. On the. I'd have to get back to you on specifically how much is eDrive versus. You know, sideshafts for electric vehicles, for instance. So I'm sorry, I don't have that number off the top of my head.

Chris Dyett, Head of Investor Relations I'll come back to you Michael...

Liam Butterworth, Dowlais CEO Majority of it is a sideshaft. We've been again, we are being very selective in terms of which eDrive programs we will take. A Good example being last year there were two big eDrive programs on the market. We got down to the last two. We were technically validated by the OEM. The pricing made no sense, so we walked away from it. So the majority of our business on our bookings on the 43% BEV, is sideshaft and eDrive components. In terms of a breakdown, we don't openly disclose what a breakdown is by product line. Sorry, what was the second part of your question?

Roberto Fioroni, Dowlais CFO Just to add on to what Liam says, you know, that is and going back to strengths and weaknesses maybe, but that is a big strength to us. We don't have this anchor on ICE so we can be selective and, you know, say thank you, but no thank you. When as Liam said, when pricing just becomes, you know, not credible anymore for our margin targets.

Chris Dyett, Head of Investor Relations Have you got a follow up?

Michael Jacks, Bank of America The follow up question was just in terms of where you're winning on order intake and BEV powertrain, is it more on the mass market side or on the premium end?

Liam Butterworth, Dowlais CEO It's more on the mass market side. So again, on sideshaft, there was a customer that with for contractual reasons, but not clear to anybody in the industry really. But for contracts reasons, we can't say who it is. We had no business with that company two years ago, and we're going to have 75% of their volume by the end of next year. And it's because of our technology and the portfolio we have and the solutions that we can bring to them. So we're winning with the EV guys. We're winning with the global OEMs on massive platforms that they're producing globally. And at the same time, we're winning with some of the smaller niche guys like Rivian. So I wouldn't say we're a mass market, we're across the board and then again with our eDrive or E powertrain components, it's across the board.

Michael Jacks, Bank of America Thank you. And then just one follow up, if I may on the first one. You've got some of your competitors like Vitesco and BorgWarner, announcing pretty large, massive intake on the eDrive side. Is there a risk that that market gets away from you because they're scaling much quicker and it gets more difficult then for you to enter at a competitive price level?

Liam Butterworth, Dowlais CEO There is a risk that the market will get away from us, but that's absolutely fine. We're very comfortable with the portfolio we have, and we're not we're not betting the future of the company on being successful in eDrive. It's part of the portfolio. We see it as an opportunity for us for further growth and which is why we're being selective and conservative in terms of how much engineering investment we make in those products and how much capacity and capital we sink into the business. But we believe we've been successful in certain core or niche, more niche programs. And we'll continue to make sure that whenever we do take an eDrive program on, it creates the right value for the company.

Michael Jacks, Bank of America Clear. Thank you.

Chris Dyett, Head of Investor Relations Thanks Michael. Well, I'm going to go over this way first, but Rory I'll back to you.

Guy Kelly, Allianz Global Investors Guy Kelly, Allianz Global Investors. Firstly, on the content per vehicle on electric versus ICE. Can you give us a sense of how like for like that is given the generally much higher ASPs for EVs versus ICE? I mean, I think that Fiat in the corner is twice the price of its ICE relative. Presumably you've got a lot more content than you would on the ICE car, but that kind of makes sense given it's a more expensive vehicle. If and when EVs come down to the price of ICE today, do you still think that differential in content per vehicle for you will hold?

Liam Butterworth, Dowlais CEO Yeah. So I understand just the question was around the overall content of the eDrive line products or just on sideshafts?

Guy Kelly, Allianz Global Investors The overall content and drive line.

Liam Butterworth, Dowlais CEO So in terms of the overall value, we see the value on a fully loaded EV with sideshaft and two eDrive units. We see that probably being around two and a half thousand pounds full content. Clearly that's going to come down over time as volumes go up. What that will come down to, we're not really sure, but it will come down. The sideshaft piece of it, we don't believe that the value of sideshafts will come down because it's the same product that's carrying over more or less from an ICE to a BEV. Slightly more premium products. We don't see that changing much over time. The area where the pricing is going to continue to come down is on the eDrive as technology advances and volume comes in.

Guy Kelly, Allianz Global Investors Okay, so content per vehicle probably comes down a bit as the technology matures.

Liam Butterworth, Dowlais CEO The opportunity, the size of the opportunity for BEV for our portfolio may come down over time. Yes.

Guy Kelly, Allianz Global Investors Okay, thanks. And also, on the order book and the BEV component of that, I mean, some of those customers, particularly the start-ups, come out with quite optimistic production assumptions. What sort of adjustments do you make before you put out these public order book numbers?

Roberto Fioroni, Dowlais CFO Yeah, it really varies a lot by customer and you know, on some of those start-ups it's not that much of the order book anyway. I would say the only exception is the one that contractually we can't name And we've taken a haircut on that. But it's difficult to give you a range because it really varies by credibility of customers of the established OEMs. You know the less, the one that we take a largest haircut on is, is actually I'm ashamed to say, but it's the old Italian one that has now become Stellantis. But you know, some are much more rigorous on their forecasting. Again, I hate to stereotype, but German OEMs tend to be quite, quite good. And then on the start-ups, you know we're, we going in quite conservative, let's say in our business case in our business model.

Liam Butterworth, Dowlais CEO Yeah. I think if you added up all of the volumes that these start-ups are going to produce, there are probably 300 million vehicles a year being produced Clearly is not going to be the case.

Guy Kelly, Allianz Global Investors And can I ask one on powder met?

Chris Dyett, Head of Investor Relations Yes, please. Ready? Drum Roll.

Guy Kelly, Allianz Global Investors The industrial share of that business the 22% industrial, can you talk a bit about how that has evolved over time? And then is there anything sort of inherent in the automotive supply chain manufacturing process, given how, you know, it is a slightly different industry to many others, particularly in terms of the volumes that just makes it more suited to powder met and going to make the penetration or the growth of the industrial side relative to auto a bit more difficult over time. Thanks.

Diego Laurent, CEO So in the industrial sector, or our share in the industrial sector increased about two or three points in the last few years. So we are finding other opportunities, we are focusing on growing in the areas where there are more scale. So keep looking on that. I mean, some areas or some geographies specifically are very competitive for industrial sectors. So we have to choose where makes sense for us to invest and penetrate. But there are some. In terms of opportunities, you know, magnets is one that we are focusing for automotive, but there's also a very significant opportunity for magnets in the industrial sector as well, which are not initially focusing on. We're dedicated now to the automotive industry, but that's a great possibility for us to explore in the future.

Guy Kelly, Allianz Global Investors Thanks very much.

Diego Laurent, CEO Thanks, Guy.

Chris Dyett, Head of Investor Relations The murmuring in the room is growing a little bit. The white wine is getting a little warmer. So unless people object, we'll probably going to Rory for the last question. Started and finished. My friend is coming to you now.

Rory Smith, UBS Rory Smith from UBS, again, only had two at the start, so I thought I'd tack on a third. And it is for powder met. You highlight that sort of 90% of magnet production currently is in China. Is that because 90% of rare earths come from China and are you sourcing them from elsewhere or is that is that something that you've started to look at? Yeah. Thank you.

Diego Laurent, CEO So the production of motors are also largely made in China, and that's moving. The rare earth oxides are largely exported from China, but there are many other mines being opened in the U.S., in Canada, in Africa, in Australia, in India. So this is naturally evolving. The supply chain is establishing in countries like U.S., like in countries in Europe, and naturally the supply chain is being established as well for components like the ones that we are producing and also the for rare earth oxides. And they're even British companies establishing to supply rare earth oxides from outside China. So we are talking to all of these players and we will supply or source our rare earth oxides from this from these areas, perhaps from China. But we're definitely looking for other regions in the outside China.

Rory Smith, UBS So it's fair to say that that's a 2030 story given sort of permitting timelines on some of those new projects that you've mentioned outside of China.

Diego Laurent, CEO In terms of sourcing or in terms of.

Rory Smith, UBS Yeah, sourcing from.

Diego Laurent, CEO I wouldn't say that I think there are more. There are some very advanced projects in terms of mining and in processing the rare earth oxides outside China. There was one that was announced in Sweden that well, perhaps longer term, but there are some already established mines for example, in the U.S. That are ready to produce and I think this will come soon. There's others in Canada as well with the processing being established in Europe and Sweden, for example, and this will come sooner.

Rory Smith, UBS Thank you so much.

Chris Dyett, Head of Investor Relations Thanks Rory. Thanks, everyone, for joining us here today. If you've got any questions after the event, then we're happy to take them. We're road showing next week, but also happy to take those questions through email. Please join us for some drinks and canapés next door and there'll be plenty of people around to answer your questions or just make your life funner. So with that, thank you, everybody, and have a good day.