Q1 Fiscal 2019/20 results conference call transcript

Attendance List:	Adrian Mardell – Chief Financial Officer Ben Birgbauer – Group Treasurer
Hosted By:	Adrian Mardell

Coordinator

Ladies and gentlemen, good day and welcome to the Jaguar Land Rover Fiscal 2020 Quarter 1 Earnings Conference Call. We have with us today Mr. Adrian Mardell, Chief Financial Officer for Jaguar Land Rover; and Mr. Ben Birgbauer, Group Treasurer for Jaguar Land Rover. As a reminder, all participant lines will be on listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note this conference is being recorded. I will now hand the conference over to Adrian Mardell. Thank you. Now over to you, sir.

A. Mardell

Thank you so much indeed. Good afternoon, everyone. Good morning for those joining from North America. I'm on slide 3 to start off with. And just a reminder before we get into the details of quarter 1, it has been a very active and rich period for us for product and some collaborative announcements.

The new Discovery Sport you see there, refreshed, particularly the interior. I think we've surprised the market pleasantly with the calibre of the upgrades. It was a response to several things of course, including some of the quality concerns that we had with the original vehicle.

We also announced at the start of July that we will be building new electrified vehicles at our Castle Bromwich site, which will be coming online in the next two years. The collaboration with with BMW on EDU's was also announced in the quarter. Of course these will be co-engineered units bespoke for each brand, but importantly manufactured from our own locations.

And finally we'll talk to you as we get into the funding position about the announcements you would have heard just a couple of weeks ago about a new export finance guarantee and bank loans that will go beneath that.

If you go on to the next slide, if you would, highlights from quarter 1. Volumes were lower, 128.6 thousand units, 11.6% lower than the same quarter last year. Revenue is down to £5.1 billion, just over. There was, as reported, some impact in the quarter as a result of our contingencies for Brexit. We did close the plants for an extra week in April, and as a result of which there was about a £100 million worth of profit that we did not take in quarter 1.

EBIT was weak in quarter 1, (5.5)%, mostly as a result of higher costs on VME and warranty. And I will get into those details as we go through. The profit number was a loss of £383 million on top of which

we had £12 million for redundancy costs, so £395 million was the total loss in the period.

And we did actually have a much better result for cash. It was still a significant outflow of £719 million. But that was dramatically better than the same quarter last year, partly because of the receivables financing facility that you would be aware of that we began to draw down in April of this fiscal year.

Next slide please. The next slide is the breakdown of the retails. I think the highlights to draw out is the continuing decline in the quarter in China, 29% lower than the same quarter last year. Two things to note on that; June was stronger, and I'll go into some reasons on that, but we now believe we're at the point where we're through the year-over-year significant adverse in China, and we do indeed expect July retails to be higher than the same period last year. The industry is down, so a clear industry care point in China.

I think beyond that, UK was a good result for us, 2.6% higher versus the same quarter last year even though, again, the industry was weaker. The disappointment in the period for us was Overseas markets. They were down significantly versus last year. There is a weakening industry but we were significantly worse than industry. And you see on the right-hand side that it impacted versus last year. That's down 4,500 units.

Next slide please. If you go back by nameplate, not surprisingly we were down overall. We were down for the more established nameplates, although the two new nameplates in the quarter, the new Evoque and the I-PACE, the sales of those as they came on stream during the quarters did actually increase month-by-month, and I will take you through that also later on.

The details on slide 7 shows our loss before exceptionals, £383 million, compared to the same loss last year. Several significant issues; first of all we were down on volumes, as I mentioned, on wholesales as well. Within there, there are two pieces, China in the quarter versus last year, but also the Brexit position I mentioned. We lost about £100 million in the quarter on Brexit, which is overwhelmingly shown within that summary there.

VME was almost 9% in the quarter, which was 2 points higher than we would have had in the same quarter last year almost. It breaks down again into two or three factors. I will stay with China first, as I've mentioned China already. We did in the quarter release the remaining CN5 units into the marketplace and did take a significant VME reserve to ensure that they can be sold through to the customers at the end of the chain. So that certainly is a big piece for us.

We also had some model year run outs from '19 model years, part of which is a result of the old Discovery Sport with a new one coming along, and part of which is the old Evoque with a new Evoque coming at us as well. So it's a mixture mostly of old model year run out and CN5 units. But it's also important to note that the competitive

environment is becoming more challenging, particularly in Overseas markets.

I'll keep going across warranty. I will talk to it later. A significant increase in the quarter; I'll take you through the headlines on that. And then we do have some good structural cost reductions from Project Charge. In most areas costs were lower in this quarter versus the quarter last year, partly as a result of the people reductions, which we announced in January this year under Project Sapphire. But also headline cost reductions, fixed marketing selling costs, manufacturing costs were lower on a direct comparative basis as well.

Exchange was good news. Pretty much all aspects of exchange were good news versus the same quarter last year. Sterling has depreciated, as we know, over that time and a weaker Sterling is actually positive for our operating model, being a UK manufacturer selling extensively overseas, of course.

Our hedge book is starting to roll off so those hedges we put in place pre-Brexit are starting to reduce. And that was £60 million less this quarter. Losses were still significant but much less than they were in the same quarter last year. And FX revaluation, there was a significant devaluation in Q1 in FY19, and that was much higher than the devaluation we had in Q1.

So all of those things, a number of issues actually impacted us, a number of them negatively. But there are some positive things within there for our model also as well. I think the highlight for me of the quarter was our ability to manage cash flow much better in what is always a very difficult quarter 1 for us. It's always the weakest selling quarter as model years start to run out and we come into fresher model years. But this one was particularly difficult for those reasons I have mentioned already.

But our management of cash was much stronger. Cash outflow at £719 million was quite a dramatic, £954 million better than the same quarter last year. Within that we should note of course the receivables financing facility; we did draw down £305 million. It's a receivables facility and therefore it did reduce the headline £719 million by that £305 million. But we also had some very positive news in terms of our continuing Project Charge.

Rigor in investment control. Investment was significantly lower at £271 million less than the same quarter last year. And also inventory was significantly lower than the same quarter last year, end of June, by some £300 plus million as well, although it did increase from March to June by just over 6,000 units. So that was the cash position that we had in the quarter.

Below, I mentioned investment. And surprising for some, most of that investment reduction was actually real life project costs which have either been reduced or stopped altogether. That was £170 million of the £271 million reduction. We also of course, given Project Sapphire, implemented across the organisation, we also had some engineering

cost savings because people left our business at the end of March and therefore capitalisation costs of engineering was down about £100 million as well.

If I go to the next slide please. Now on slide 10, the overall debt position and cash position. If you look at the left-hand side of this page, the cash at the end of June, there's £2.9 billion, just over, in our bank accounts. And of course we have the undrawn revolving credit facility as well. So in total, accessible funds, £4.865 billion. Interesting to note, that's almost the same amount as our quarter 1 revenue. So we were in a good position at the end of June.

Looking forward in terms of the bonds, and the points when those bonds will need to be repaid, we have a relatively flat maturity profile over the next several years. Although the first two of those do fall into this fiscal year. One's in November and one's in March.

If I take you to the right-hand side of this page, in total our debt is just over £5 billion. £534 million of that was added as a result of the accounting change for leases, IFRS 16, which came onto our balance sheet for the first time in June. As a result of that, EBITDA to debt multiplier did increase from the previously announced 2.5 times, up to 2.7 times. So we do have an adjustment in terms of our EBITDA debt ratio up to 2.7 times debt to EBITDA as a result of that IFRS change.

Next slide if you would, please. So this is the funding plan we have in place at this point in time. The first one I've talked to, we completed it in March and we drew down £305 million of it just over in the first quarter. You would have seen us announce significant progress on another series of loans which will be a UKEF-backed, guaranteed facility up to 80% of the principal value. That will complete during quarter 2.

And we also have plans in place potentially to do a series of other actions later in the year, end of quarter 2/quarter 3 most likely, maybe more export credit agency backed loans, finance leases and/or new bond issuance. But our expectation is even though we have these two bonds that will mature in this fiscal year, our expectation is we will have more funding added than we repay back in FY20.

Okay, I'm going to look at little bit more and change direction from the direct quarter into some of the significant events. Of course, the automotive industry and headwinds, you won't be surprised by anything on this page. It's very similar to pages we would have shown previously. Brexit of course in the news this week, particularly with the change in the Conservative party leadership and the new Prime Minister, we've added a page on Brexit and we'll talk through our position on that in a few slides.

Before that I just wanted to make it clear. Our turnaround in our transformation plan, exactly the same as it was. So it really has three significant strands to this. The strong pipeline, the I-PACE, the new Evoque, both of which started to sell in most markets in the course of Q1. The XE refresh, which we released a little bit earlier in the quarter

and now the refreshed Discovery Sport. And then, as you all know, we do have the all-new Defender arriving around the end of this fiscal year.

Project Charge, I think you definitely see significant benefits from Charge again flowing into the quarter 1, exactly as we saw in the fourth quarter and I'll take you through the details of that in a moment. And then don't forget our Project Accelerate. Accelerate is deliberately positioned into our future products to ensure that we fix some of the fundamental issues that we recognise that we have, including some of our quality and delivery performance. I won't talk in any more detail about Accelerate today. It really won't impact fully until later product launches.

I do want to touch on the last two beautiful cars we've introduced into the marketplace though, firstly the new Evoque. As sales started to come on stream, you will see there that absolute sales units increased month-by-month from April through to June. It isn't yet in all places. Sales into China from the local JV don't begin until August, so we would expect incremental sales from the JV from that point in time also.

Then the all-electric I-PACE, again, we're starting to see increases in those sales also in Q1 versus Q4, so you start to see a profile we would expect from those vehicles on a monthly/quarterly basis going forward.

Of course, China is so significant for us. It would be remiss if we didn't actually focus on that on each of these calls. And I'm pleased to say, we're actually through the bulk of the year-versus-year reductions in Q1 and you start to see that within the key metrics we've shared with you previously. So retail target achievement has, for the first time, in June beat the target that we'd written down. Partly, that was as a result of those CN5 units actually being passed through into the marketplace at some level of discount but there's still an underlying pleasing delivery for the first time in 12 months versus our expectations in China.

Retailer return on sales have grown quite healthily over the course of the last 12 months. It did take a hit as we released, again, some of those old CN5 units into the marketplace. About 30% of our regions and dealers are able to sell CN5 so we do need to move those through at this point and we would expect retailer return on sales, and indeed our return on those sales, to deteriorate over the last 1,000 or so units we release.

Retailer stock, because of us putting those CN5 units through, mostly did blip up in June. My expectation is that is a blip up, not a new trend and the trend will continue to be at the levels we've taken it down to, 1.5 to 1.7 rather than the 2 once we've worked those CN5 units through. And importantly, again, we've shown an improving trend of dealers selling their cars in their own region so they're not having to move cars in other people's back yards. So, all of those trends continue to be positive or explainable and that explainable blip will be reversed as we work through CN5 units towards the back end of quarter 2.

Important for me to say, of course I see the daily and the weekly data from key markets including China. I do know that July sales are going to be higher than the same month last year and that's both for local business and for import business as well.

Next slide, okay Brexit, of course, has been very topical and with us for a while and with a change in Prime Minister, will become more topical over the course of the next several weeks, just 97 days to go before the end of October. We were planning on a three-version scenario. I think it's reasonable to assume, given the immediate impact and messaging from both sides that we're down predominantly to two potential alternatives, both of which would involve leaving the EU, almost certainly on the 31st of October. So that will be our main assumption.

Of course, whether we leave with a deal – which is something we dramatically would wish to do – or not, is mostly outside of our control but of course, we will continue to work with all of the right people so they understand all of the real implications of one versus the other. Just to cover those implications, the deal, there's nothing new here, but the deal would mean we would continue with the fundamentally important frictionless trade that we need with our just-in-time plants in particular.

We would expect an appreciation of sterling if we do get a deal. Whether that be gradual or accelerated, of course, is difficult to predict. Other people will have more opinion on that than myself, but we would expect an appreciation if we get a deal. And, of course, you would expect us to say we would reaffirm our growth and, in any event, continue with our turnaround and our transformation programs.

No Deal is a little bit more complicated. Of course there's more uncertainty, that's why it's more complicated. We would expect friction. Exactly how much, I don't think anybody is in a position to actually say, but our business model doesn't work very well with friction, which is why we took the week's shutdown in April. We will build stocks where we can but of course you would know we can't build that many days' worth of supply here in the UK so we would cover ourselves for a buffer period.

We would expect the duty regime to kick in with a No Deal exactly as we had discussed before under the WTO rules at a point in time. Of course that is negative for us, but we would also expect a partial hedge to that with a continued suppressed and weaker sterling. So you know the friction is obviously something we would all wish to do without, not only the automotive industry of course, several other walks of life will be suffered potentially more immediately than us. Duty, nobody would vote for, but we would have that partial offset on the weakening of the pound.

Next page, if you would, please. We thought it appropriate to talk to you about warranty and quality. I know it's often referenced for us but we wanted to lay it out in more detail for you on this occasion. Bottom line in quarter one, warranty was 6% of revenue which is about two points higher than it had become. It moved up from 4% to 6%. There

is really three main reasons for that, one of which is some recalls on powertrain, old model year units. In fact, they go back to 2010 model year, so seven model years' worth of units that we have to increase our costs in quarter one as a result of those recalls.

Beyond that, most of the work we're doing which increased our costs in quarter 1 were actually proactive customer campaigns. We've provisioned for Software Over The Air upgrades into infotainment units already in the field, and we've also taken decisions to speed fix customer complaints and therefore we've changed the ability for dealers to make decisions rapidly so we can get customer vehicles fixed more quickly. Those three things are overwhelmingly the reasons why our Q1 warranty costs increased versus the same quarter last year. Accelerate will handle the other things you see there, so I wouldn't talk in any great detail, but the other things we're doing on quality overwhelmingly will actually impact in our new vehicle launches over the next 24 months or so.

Now, J.D. Power, of course, issued again, next slide, USA, 31st and 32nd are positions that nobody would wish to be. That's where we are again, although you will see here, there have been dramatic improvement in our positions on both brands, actually, but particularly on Land Rover, since the last survey, which is good. So that shows us we're still where we don't want to be but a number of the actions we've certainly taken over the course of the last 12 months are now starting to feed through into the vehicles that the customers are driving. Land Rover was the most improved brand of any in the last three years and we just need to keep it up and the actions we believe we've taken over the last few months, which we showed the costs of which in Q1, will certainly continue to move us in that direction.

China, slightly different; actually the Jaguar position in China is number 2, although it is a smaller number of volume for us on Jaguar of course, so I think people would tell you there's a care point about lower volumes, but we're certainly in a good place at the moment in terms of our vehicle quality survey for our Jaguar brand. Land Rover, a little bit worse than average, but at the same place and the same point of BMW and the spread here between our competitors and ourselves on Land Rover in China is actually less.

Also, in some of the segments, notably the segments that we sell our XF Long wheelbase, Range Rover and our Range Rover Sport, these three vehicles actually performed top of their rankings. Again, we're not where we want to be. We certainly have to do more, but there definitely is the movement in a positive direction both in the scores in the USA and the positioning in China as well.

Finally, on the quality front, just so you link some of those actions I talked about, and you can see we're actually responding to those reports, you see here, us versus premium average and the two biggest areas of concern in J.D. Power, infotainment and interior, they are things we've directly targeted both with our customer campaigns I've referenced with software over the air, but also significantly with our mid-cycle fresh improvements. Already out there on XE, already out

there on Discovery Sport and will be out there in about nine months' time on the F-PACE 21 model year. So we're certainly responding to the issues we have in the field, although the data will take time to come through, of course.

Next slide, Project Charge. In the quarter, we saw £400 million incremental cash benefit on Charge, mostly in two areas. Investment was significantly lower as I've shown you also on the cash slide, £300 million, but also our costs, our headcount costs and our overhead underran versus last year by an additional £100 million. In total that means £1.7 billion of the £2.5 billion cash benefits from Project Charge have delivered, nine months before the end of the program. I think it's reasonable and right for me to actually say we will overachieve the £2.5 billion in total before the end of this fiscal year. Significantly on investment, we did really nice in quarter 1 on working capital so I'm very comfortable we'll overachieve working capital. The more difficult one for us is the cost and the EBIT so if you would go to the next slide, please, Slide 22.

We've broken this down into five pieces. The stuff we did last year, the £150 million, then the things we've already announced, £250 million on a year-over-year basis for people costs – if you look in the details of the actual accounts that was £77 million in quarter 1, so you easily see the £250 million – but we did actually release 6,000 people and average salary costs for those people that we actually released, the gross amount of savings, £400 million, but of course with the new shift in Nitra and other things that will actually happen this year, the net save will be down to £250 million.

Next one is our actions in terms of reducing material costs. Only a small impact on this in Q1. That's partly why the absolute value was only £100 million in Q1. Most of our negotiations are still ongoing and, of course, we certainly would not book any of those until they are finalised, so as we go through Q2 and even, indeed, into Q3, that's where most of the material cost reductions will actually show themselves. But we were on track, we did hit the target we actually expected to hit and we are confident we will do £250 million worth of material cost reductions this fiscal year.

Overheads, in total, we think we have good plans for £200 million, some of which came through as a part of our Q1 data, but we are short for the last £150 million and that will need to come on-stream later in the year but at the moment, we do not have those plans identified for the final £150 million of that £1 billion. In total, Project Charge will do more than £2.5 billion, certainly more on investment, more on working capital and at the moment we're about 15% short of robust plans for our £1 billion cost and EBIT improvement. Next slide, if you would, please.

This is mainly just reaffirmation of the things that we've talked to you about at the year-end and also on the investor day we had on the 5th of June. EBIT though, given the first quarter loss, it's reasonable to assume will be at the low end, the 3% rather than the higher end of this range. We have a lot of work to do to get to 3%, but that still remains

our target. PBT will turn into profitability as we go through the year. The volumes in Q1 were low. We knew they would be, partly contrived through Brexit. They will get better as we go through the course of this year, progressively by quarter. Part of it is the profile of our business. Most of our best-selling months are in the last seven months of the year in our three biggest markets.

Investment spending, I can reconfirm we will spend less than £4 billion this year, just under £800 million in Q1 was a good start towards that target. Cash flow, it will be negative full year but we do expect it, of course, to improve again, as we go through the quarters in the main as we sell more vehicles and bring more cash into the business as a result of that, and the 2.8 times debt to EBITDA, I've already talked about.

That concludes the main presentation.

Coordinator — Thank you very much. So we will now begin the question and answer session. Please stand by for your first question. We have our first question from the line of Christophe Boulanger from Barclays.

C. Boulanger — Hi, good afternoon. Thanks for taking my question. I will ask a lot of questions. If I may I will ask them one by one. So the first one is on your Project Charge. Looking at the end of the year headcount reduction charge was standing at £149 million. Do you expect to fully consume it this year? And also, do you expect to increase the provision each year? That's the first question.

A. Mardell — Just to make sure I understand that question, please, could you repeat it?

C. Boulanger — Do you expect to fully spend the provision on headcount reduction for this year, so you have the £149 million charge, right, at the end of the fiscal year? Do you expect to spend it all this year? So far it's non-cash, right?

A. Mardell — Okay, so you're talking about the Sapphire redundancy provision?

C. Boulanger — Yes.

A. Mardell — Excuse me, I'm sorry, okay. Yes, we do.

C. Boulanger — Oui.

A. Mardell — That's still our plan. Our plans are still exactly the same. We will allow people to leave the business as we previously indicated. Whether it adds up £149 million, of course, will depend on who leaves at what point during the course of the year and what terms we allow them to go with but you should assume that is the right number.

C. Boulanger — Okay. Thank you. The second one is on your slide on Brexit. So you were mentioning that you expect to pass on any additional costs to consumers but how will you see UK demand developing in a No Deal exit? Does it mean that the 3% to 4% EBIT guidance will be potentially at risk?

A. Mardell — I think there will be a number dynamics, actually. I think there will certainly be—and, by the way the marketplace will determine what we can and can't pass on, I think we all know that – in the UK market, though, we actually think it will be a good position for us in the UK market because don't forget we're a local manufacturer that won't be subject to the same restrictions as European exporters will be. So, for the UK market alone, we would actually expect an increase in volumes, notwithstanding any recession which might trigger from Brexit, of course. In Europe, it will be very different. In Europe we'll be the sufferer and therefore, with the local manufacturers, we will have a competitive disadvantage from sales into Europe. So a bit better in the UK, a bit worse in Europe. That would be our expectations.

C. Boulanger — Okay. And then what will be, in your views, a daily cost of the supply chain disruption?

A. Mardell — That's really, really difficult to say. From an import perspective, obviously the duty, our average duty as a blend of today's sales just under 4%, so it will add to that burden. In terms of the friction and the delays and restrictions and all those things, we have built up a parts bin to some extent. We have a working cap buffer as a result of that but we all know that buffer will only go so far and we will have issues of parts delivery to the plants. There is no doubt about that.

Over a further time of course, once those things are worked into the system and as suppliers actually build that into their distribution chain, into the logistics time period, that will work its way through. So I would expect more disruption in the very short term and I would expect that to be worked through at a point in time. If we left within the October timeline, my expectation was some point in quarter 4, it would be worked through the system.

C. Boulanger — I think there was, at some point, a mention of 16 million Sterling per day of delay. Is it correct or not?

A. Mardell — It really depends on—well, it only depends on what underpins that assumption, right? If we have to stop building cars, we build 2,000 cars a day, so anybody's estimate and guess is nice to have but really they're estimating and guessing. We all know not only as an automotive industry, but as a UK plc friction for supply into the UK, and frankly friction for supply into Europe, is not a good place to be.

C. Boulanger — Okay. Maybe my last question, on warranty, I'm wondering whether you could help us to understand when you may reach the peak in terms of warranty costs and when it will be.

A. Mardell — Okay, so if I look at this quarter, the 6%, I would expect that to be at the peak. I would expect some of the customer service campaigns to actually increase and continue but obviously there's a significant recall within the quarter, which I don't expect to continue to that level going forward. So your expectations on warranty going forward, the high end at 6%, the lower end at the 4% where we'd previously be.

C. Boulanger	Alright. Okay, thank you. If I may, if can squeeze one more, can you share with us the rate of the new receivable facility and the rate of the £625m loan of which 80% benefit from the UK finance guarantee?
B. Birgbauer	I think actually, we can't for lots of reasons. One, I think this is between us and UKEF in terms of the guarantee costs and also we are still finalising the bank facility arrangement, so I think we can't. But I think it would be fair to say that we expect it to be a relatively low cost source of funding for us compared to potential other alternatives.
C. Boulanger	And of the receivable facility?
B. Birgbauer	The receivable facility, so that would be one of our lowest cost sources of funding.
C. Boulanger	Okay. Thank you.
A. Mardell	Thanks, Christophe.
Coordinator	Thank you. The next question is from the line of Diomidis Ntountounakis from Chenavari.
D. Ntountounakis	There has been a bit of weakness maybe on the past months. Could you let us know which countries that's mostly coming from? That's the first question.
A. Mardell	When you say weakness are you talking sales?
D. Ntountounakis	Retail sales, indeed.
A. Mardell	Okay. So within quarter 1, the biggest weakness still remains in China and you see that most when you look at the same quarter last year, although we do believe we've reached a plateau and we do believe we can build from that plateau. And in the quarter, also, versus our expectation from last year, within the Overseas markets, the weaker markets were Korea, Russia, South Africa, Brazil, India.
D. Ntountounakis	Thank you. A second one would be, if possible, can you give us a bit of colour on China? I know we had the change in the emission CN5 vehicles and I suspect maybe that has helped a bit the June sales, but is it helping improve the July sales or is that retail sales or is that out of the picture?
A. Mardell	I think you're referencing the CJLR local produced when you say the CN5 vehicles?
D. Ntountounakis	Yes.
A. Mardell	So again, within that retail data, because it does have local as well as import, you see we were significantly weaker in the quarter versus last year on the local vehicles as well. Transacting prices in China also, in the local vehicles particularly, they're weaker than we would wish them to be. However, in that quarter 1 and into July, we saw some improvements from the local business with our dealer network so we

are pretty confident that the sales rates have reached that level I've just mentioned, that plateau and we will be able to build selling rate going forward. Care point around transacting prices, though. That's why the inventory reductions we've done over the course of the last 12 months not only in our own import business but also in the local manufactured business is fundamental to the model we have and that's why our and your expectations should be those inventory levels to stay at the low end of that range you've seen progressively going forward. Our production plans are all aligned with that.

D. Ntountounakis — Perfect. Just very last question, on the receivables financing how much more can you do of that? Is there space to increase the facilities there?

B. Birgbauer — Well, the facility is $700 million that we signed, which is, call it £550 million, depending on the exchange rate and we utilised about £305 million of that in the first quarter. We do see the opportunity to fully utilise that facility up to the $700 million and there's an opportunity as well to increase the facility beyond the $700 million. We would have to change the facility to allow that larger size but we do see the opportunity to do that at this time. We wrote down on the funding plan slide that we gave you that funding from it would be £425 million incremental. What that reflects is the £550 million equivalent on the $700 million less the fact it's replaced an earlier, smaller facility that we had just over £100 million outstanding on at the end of March, so that's why we called it £425 million incremental.

D. Ntountounakis — Okay, great. We cannot see that on the balance sheet, that's off balance sheet.

B. Birgbauer — It's accounted as a true sale and so it's now, the accounting treatment is off balance sheet. The prior facility that it replaced that was just over £100 million, that actually was accounted as debt, so what happened in this quarter is you had just over £100 million of debt related to that drop off and then you added in £305 million of funding that came through the financial statements as a reduction in receivables that was called out on the cash flow statement.

D. Ntountounakis — Thank you very much.

Coordinator — Thank you. The next question is from the line of Alexis Yannas from BlackRock. Please go ahead.

A. Yannas — Thank you for taking my question. So, I have two questions, please. The first is in relation to capex. So, in this quarter, you had a reduction year-over-year in capex, but you have maintained your guidance for up to £4 billion or I think around £3.8 billion of total investment spending, so capex and R&D. Should the fact that capex was lower than expected this quarter but the guidance was maintained, mean that there will be an increase in capex in subsequent quarters, just that it's largely been deferred rather than reduced, or has it in fact been reduced?

Second question has to do with your guidance. You're guiding now towards the low end of guidance which is closer to 3% than 4%. To clarify, that guidance is for, as you listed use as being for basically for

two fiscal years as I understand, '20 and '21, and you give the same 3% to 4% range. Is that 3% or 4% meant to be an average across the two years, or is that going to be the target for this fiscal year ended in March of 2020?

A. Mardell — Okay, let me take the first question. So £800 million in the first quarter. Our guidance is still less than £4 billion for the year so it is reasonable for you to assume our quarterly investment will increase in quarter 2 and also be higher in quarter 3 and quarter 4. It's not hugely lumpy.

A. Yannas — Okay, so it was basically deferred. The 12-month wasn't reduced, it was basically deferred to subsequent quarters, correct?

A. Mardell — No, it certainly was not deferred, no. We have stopped a huge amount of projects which actually was the prime reason why quarter 1 was lower. So the deferral actually was more into quarter 1 than out of quarter 1 so we had a significant project reduction in the quarter as a result of the processes we've been running as a part of Project Charge.

A. Yannas — Okay, so the total capex spend for the entire year will be less than previously assumed.

A. Mardell — Less than £4 billion, we have here.

A. Yannas — Okay, so even further less than £4 billion. Okay, thank you. And the question on the guidance of the 3% to 4%, is that 3% to 4% for this fiscal year ended in March or is that an average for the next two years?

A. Mardell — No, it's a range for FY20 and a range for FY21. FY20 is going to be at the low end of the range. There's no new guidance apart from 3% to 4% in FY21 at this point.

A. Yannas — Okay, so 3% for year ended in March of '20. Thank you very much.

A. Mardell — Okay, thank you.

Coordinator — Thank you. The next question comes from the line of Stephanie Vincent from JP Morgan. Please go ahead.

S. Vincent — Thank you very much for taking my questions. The first one is on China for inventories and thank you for telling us about the July retail sales getting better. On the inventory chart that you had in your slides for Q4 2019, you had a goal, I think, of 1.2 to 1.5. I assume that's in months of inventory that you'd like at your retailers. We're running slightly above that of course, so are you still expecting wholesales in China to be down this quarter or are you expecting retail sales and the pull forward to ramp up so you can get to that goal quickly? That would be my first question.

My second question is on the export loan, the £625m. Is that specifically ring-fenced for projects for EVs, for example, or can you use that for general corporate purposes as well. For example, if you did need some extra liquidity around a No Deal Brexit, could you use that facility to help boost liquidity?

And then finally, just on quality. I've seen some reports from earlier this year from *Automotive News* about China, some issues on quality and I know that you're addressing this in the presentation. Is the increase in warranty costs primarily related to China? And those are my three questions. Thank you.

A. Mardell: Okay, I will take the first, Ben will take the second and then you can come back to me for the third. On the first question, I've signalled the retail side of the inventory levels at the dealers, retails will be higher in July than last year. I've also signalled that our expectations are that we've actually reached a base of year-over-year deterioration, so even though I don't give monthly or quarterly guidance on retails, I think it's reasonable to assume that we will start to lift a little bit versus the levels of the last year.

We do still want to reduce inventory levels certainly from the 2 and the 1.7 that you see on the page, so it's reasonable to assume that's either going to happen by retail levels increasing or by wholesales not matching the retail levels that we're actually making in that period. Again, I won't give specific guidance of which ones those are at this point in time.

B. Birgbauer: Okay, and on the second question, Stephanie, the answer is the loan facility would not be ring-fenced. It would be general corporate purposes. It is intended to be a five-year amortising loan. It's likely we would draw it up front in totality.

S. Vincent: Okay.

A. Mardell: And your third question, Stephanie, nothing particular to China in the quality or warranty data. The recall impacted a number of markets as we referenced earlier. The Software Over The Air will not discriminate by customer. It will actually hit the existing infotainment customers across our products and we have the fix-it speed policy in process across the geographies as well. So, nothing particular emphasis to China at this point in time on warranty.

S. Vincent: Okay. Great. Thank you very much.

Coordinator: Thank you. So the next question is from the line of Phil Bagguley from BOFAML. Please go ahead, you're now live.

P. Bagguley: Hi. Thanks for taking my questions. I just wondered, with respect to the new facility, the five-year facility that you intend to draw up front, is it right that the UK export finance facility guys, they guarantee it but they still have recourse to JLR. Is that right?

B. Birgbauer: Well, in the first instance, it's a liability of JLR's, but they are guaranteeing £500 million of it and banks will perceive that portion of the loan is ultimately government risk, although obviously in the first instance, it's our liability and we're expected to pay for it. The guarantee would be only if for whatever reason, we failed to pay for it, which is not our intention, obviously.

P. Bagguley — No, no one expects that. In terms of the gross debt, is there an amount that you see it getting to within 12 or 24 months if it's—I think including that facility in a receivables facility, that would take you to £5.5 billion or so if you draw the rest of the receivables facility.

B. Birgbauer — Remember, we had £5 billion—sorry, I think what I'd say is that we basically had £5 billion of debt, a little over the end of the quarter. We have $500 million of maturing bonds in November and then again in March, so about $1 billion maturing bonds, basically with the $700 million facility, call it £550 million equivalent, or £425 million incremental, plus the £625 million, we're essentially, with that we will have refinanced the debt maturing in this financial year.

P. Bagguley — Yes, I was just thinking with respect to the additional facilities that Adrian mentioned earlier, the additional export credit agency finance leases.

B. Birgbauer — Yes, for sure we would be looking to do some additional funding beyond that and so that would then represent incremental funding to the refinancing of what we have maturing. We haven't really thought about an explicit target on gross debt, Phil. I think that the leverage target that we've given, debt to EBITDA, was intended to try to help investors and analysts think about where we would go on the balance sheet. So, as we said, we put that at 2.8, which is basically adjusting what had been 2.5 for the impact of the change in lease accounting treatment under IFRS 16.

P. Bagguley — Yes, that's cool. I tend to strip out the IFRS 16 thing to be honest. Okay, last couple, please. Do you have FX hedges in place for any kind of Brexit scenario? Like if there was a deal and sterling rallies back to $1.50 on the dollar or something, is that something you guys contemplate or hedge against?

B. Birgbauer — I guess we contemplate it, but I think to be honest, our hedging policy doesn't—it tries to be, I'd actually say, neutral for specific assumptions about events, so in principle, the purpose of our policy is to average out or smooth volatility. We hedge a percentage of our exposures. We've said that those percentages are 60% to 75% one year out and then up to 55% two years out and then descending thereafter. The idea is to have a hedge book that's been averaged in and then matures as exposures mature to smooth fluctuations in the exchange rate.

So, for example, if we did have a hard Brexit and the pound depreciated, that actually would, the hedges that we have in place would smooth the impact of that, in this case, unfavourably somewhat. It wouldn't be fully, but we'd have good news on operating exchange and the hedges would partially offset that. But it works in the opposite direction. If there is a deal or even no Brexit, I think most people would expect that the pound would appreciate and then the hedges that we have in place would smooth or lessen the impact operationally of the strengthening of the pound.

P. Bagguley	Okay, thanks. And then very last one, sorry. How are costs in Nitra versus expectations developing?
A. Mardell	They're in line with our expectations.
P. Bagguley	Okay, thanks.
Coordinator	Thank you. So the next question comes from the line of Peter Jurik from Tresidor Investments. Please go ahead.
P. Jurik	Hi. Thanks for taking my question. I have three, please. The first one is just would you be able to help us in bridging the EBIT margins that you had in Q1 and the guidance that you are giving for the full year? There certainly is quite a significant move. You have to go from -5.5% to +3%, and I know there are a few moving pieces in there, Project Charge, perhaps improving China sales, improving warranties. Would you be able to give us a bridge and give us the trajectory and components of that EBIT margin improvement throughout the rest of the year? That's my first question.
A. Mardell	Okay. Let me respond to that before you ask your second question. I think I'd refer you back to page 7 for the bridge. I won't give numbers around it but our expectations going forward are that volumes will be higher. We won't have to do Brexit planning every quarter. VME will be lower. Warranty costs will be lower and Project Charge will continue and depending on how exchange rates ebb and flow, of course, you can see we're benefitting this quarter versus last time on operating because of the weak sterling, on the roll-off of the hedges, and then I won't get into reval because, obviously, that's pretty lumpy. So, you will see the bridge would have all of those factors, the greens continuing, growing a bit and the reds reducing and walking away, but particularly it's getting to the third and fourth quarter, volumes will be high.
P. Jurik	Okay, so in terms of trajectory, I guess on a quarter-on-quarter basis, we should expect improvement every quarter sequentially.
A. Mardell	You absolutely should expect a better quarter 2 than we had in quarter 1, yes.
P. Jurik	Okay, thank you. So the second question is just a few more details on the UK export facility. So, 80% is guaranteed by the government and the remaining 20% that is not is that unsecured? Is it secured? Or how does it work in general? Just a bit of clarity there—
B. Birgbauer	It would be unsecured.
P. Jurik	Okay, alright. And then my last question is in your funding bridge, both this quarter and last quarter, you mentioned the opportunity for new finance leases. Could you give us what potential amount that may be or what kind of capacity you believe you have and perhaps which assets you could get those finance leases on? I'm also thinking the

	brand new plant in Slovakia, I assume there's potential capacity there, so any colour there would be useful.
B. Birgbauer	Peter, in previous calls, I've said that we aren't expecting huge amounts on this, £100 million to £300 million, I think I've given out as a figure. Basically, it's not like we're looking at a major sale/lease-back type of transaction. It's more within some of the investment spending there's some investment in assets that are well suited or customary to lease and maybe in the past we haven't done so but in the present funding environment, we would, but within kind of £100 million to £300 million. I mean, you asked what the capacity is. The reality is the capacity is pretty significant to do secured financing under our documentation, which is aligned between our bonds and bank debt. Specifically the only real restriction on secured debt is debt secured by principal manufacturing properties in the UK and the limitation on that is £1.7 billion or 15% of consolidated tangible assets; 15% of consolidated tangible assets, you could get up from our interim accounts. It would be about £2.5 billion.
P. Jurik	Okay, alright. That's very useful. Thank you.
B. Birgbauer	I think what I probably should say, by the way, I'll reaffirm, we do not have any plans to do secured financing.
P. Jurik	Yes, understood.
B. Birgbauer	Beyond the leasing that I talked about.
P. Jurik	Thank you.
Coordinator	Thank you. So, the next question is from the line of Richard Phelan from Deutsche Bank. Please go ahead.
R. Phelan	Thank you. Just one question following up on the warranty issue. I know that at the end of the fiscal year, there was an announcement here in the UK about a voluntary recall of 44,000 cars about the CO_2 emissions. Does that specific action explain most of the change in the warranty increase in the quarter or are there other regions which have contributed to the increase and trying to quantify the significance of that versus in the period.
A. Mardell	No that wasn't a significant part of the period costs. The three I referenced to was a significantly old warranty issue for a number of vehicles we've had in the field, mostly outside of UK and then the others really touch all customers, evenly. So, to get a sense of where are they going to land it's probably easiest to get a sense of where are our geographic retail profiles.
R. Phelan	And because of the model years that are involved, that's giving you the confidence that the warranty expense will begin to decline after fiscal Q1.

A. Mardell Yes, we're very clear in terms of that model year issue, the isolated units involved, where they are, which are subject to recall, which wouldn't be, so yes, I'm not too concerned about the continuum of that. But I would re-emphasise, we're signalling here a little bit more of a proactive managing of some of the quality issues that we've had, particularly now with our ability to do SOTA, so you know, you can expect us to continue to proactively manage issues in the field which might mean in the shorter term, not just Q1, that's why I gave a range of quality and warranty performance of between 4% and 6%, we will take the actions we think we need to take to improve that customer experience.

B. Birgbauer I can just add, those 44,000 units you were talking about in the UK, I think we took a provision of about £10 million for that in Q3.

R. Phelan Okay, so that was already in the accounts then.

A. Mardell And it was very modest as I indicated.

R. Phelan Yes. Got it. Okay, great. Thank you very much.

A. Mardell Thank you.

Coordinator Thank you, ladies and gentlemen. Due to time constraints, no further questions can be taken. I'll now hand the floor back to Mr. Adrian Mardell for closing comments.

A. Mardell Thank you, Amanda. Look, appreciate your attention, appreciate your questions. Hopefully you got the message that we're determined to continue to do the right thing in very difficult circumstances for the industry. You know that but there are some green shoots within the quarter and we'll continue to make progress on the things within our control. Thank you all for your time.

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