Q1 Fiscal Year 2020/21

Attendance List:	Adrian Mardell (CFO, Jaguar Land Rover) Ben Birgbauer (Treasurer, Jaguar Land Rover)
Title of Meeting:	Jaguar Land Rover Q1 Fiscal 2020/21 Results Call
Hosted By:	Adrian Mardell (CFO, Jaguar Land Rover)

Coordinator

Ladies and gentlemen, good day and welcome to the Jaguar Land Rover Quarter One Fiscal 2021 Earnings Conference Call. We have with us today, Mr. Adrian Mardell, Chief Financial Officer of Jaguar Land Rover, and Mr. Ben Birgbauer, Group Treasurer of Jaguar Land Rover. As a reminder, all participant's lines will be in listen-only mode. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Adrian Mardell. Thank you, and over to you, sir.

A. Mardell

Thank you. Good afternoon, good evening or good morning everybody, depending on where you obviously are calling from. If you look at the first slide of the Q1 results, hopefully you've had a chance to see some of the information so I'll skip through this pretty quickly and we can get onto Q&A.

Here are the recent product launches, you see the wonderful Defender, Production Car Design of the Year, we're not surprised by that. You see the Defender commercial hardtop which is one of the derivatives we've done with the product, which will be on sale later this year as well. I have a page later to reference Defender.

The very versatile Range Rover, Range Rover Sport Special Editions coming through with '21 model year, including a new enhanced MHEV which you see there, the MHEV 48 volt drivetrain system, which actually improves fuel efficiency by 12% and CO_2 reduction by 12% on these vehicles as well.

The next slide, Q1 results. I'm sure you've taken a chance to look at them already. Let me hit the highlights. The losses were £413 million. Only £18 million worse than the same quarter last year even though retails were down 42% and wholesales that drive our revenues and profits were down 53% year-on-year.

Profit after tax was £648 million, so a big notional accounting driven mostly tax charge, 80% of that is actually the reversal of UK tax losses from a deferred tax asset, so it's non-cash, it's clearly as a result of the uncertainty that COVID has brought in terms of future profitability and speed of profitability.

About 20% of that value is just under and the tax charge is actually taxable profits in our national sales company jurisdictions outside of the UK, and obviously those tax amounts will be cash paying. Most of that is accounting related, which will once we become profitable again, reverse in later quarters probably from the end of the fiscal year onwards.

Other key highlights here, investment much lower, and you won't be surprised given what we've all been through, we've done what companies do. We battened down our investments and we battened down our spend, there's been a dramatic impact on these results. Because our cash out flow was £1.5 billion, higher than last years £719 million outflow, April and May cash out flow was £1.5 billion also which tells you our June cash was breakeven. And the cash balance, the absolute cash balance on hand was very close to the balance we had at the end of quarter one last year at £2.7 billion. We'll get into the Charge benefits and the reason for the cash losses later.

Next slide, please. Retails were down 42%. Interestingly you can see by region, now the first region's return was China and they're only down 2.5% versus the same quarter last year. North America next, down 32% and then Europe and UK were mostly closed for most of the quarter, we'll show you more detailed slides later about how that profile is coming back.

Overseas actually is, likely given our Overseas is everywhere else, you know obviously at all corners of the globe and as this horrible disease is impacting different regions at different points in time, we expect the Overseas region to be the slowest return to normality. Retails down 42%, wholesales down 53%.

Next slide shows the profiles by region and the data at the bottom is a monthly year-over-year numbers which I think of interest also. China, you can see this classic V-shape which we referred to, on the year-end call on the 15th of June. Retails did gain in June versus May slightly by another 7% or 8% year-over-year at the bottom there. So overall in the quarter we're down just about 3% in China.

And North America bounced quickly as well particularly in June, you see a big increase in North America June versus last year and at the bottom there, you will see North America retails are actually 2% higher in June '20 versus June '19. So that return to this level was very sharp, although you will note that some states did close down again at the back end of June, early July, which will have a modest impact on July retails for North America.

UK, very strong return. Dealers opened on the 1st of June, as you know, and there was a quick bounce back and that's continued in July. July retails for UK will be better than July 2019 by some considerable amount.

Europe as well is starting to bounce back and that's continued into July Overseas, as I mentioned, you know 33% lower in June but I don't expect that progression in Overseas to be as aggressive as the other regions have been, are now becoming. The total number's on the right-hand side there.

So by name plate, you can see here pretty much all name plates are lower with the exception of the new Defender, we'll talk in some detail later. We wholesaled 8,000 Defenders to the marketplace in quarter one and we retailed 2,000 of those. We have an order book of just over 30,000 units which we'll talk to on a later page.

Next slide, if you would. This must the profitability page. It is. Okay, so our losses of £413 million, £18 million higher than the same quarter last year. You won't be surprised by a lot of this information. Wholesale volumes which drive our profitability were down 53% versus the same quarter last year, that's why there was significant volume losses. Parts and accessories with dealers not being open and customers overwhelmingly not driving their vehicles, were much lower in the quarter as well.

Although the first sign of this systemic improvement work, we have been doing over the course of the last 12 months is China JV. You know we had large losses in China 12 months ago, a share of them was just a bit higher than this number. We've overwhelmingly eliminated those losses in quarter one. We talked about this before and now we're much better balanced from the fundamentals of our JV business and we think we brought that back to a profile of around breakeven so that was improved in Q1.

We're pleased about the VME in a disturbed marketplace, volumes were low, but the VME levels were consistent with pre-COVID levels, which is very good and then dramatic improvements within our cost reduction programme under the banner of Charge as we've spoken many times before. You know manufacturing cost reductions, big improvements on warranty, but that was really versus a poor quarter one last year when we had some recalls, engines, Software-Over-The-Air, which is starting definitely to improve our warranty instances and visits to dealers which is the intention, of course, and then structural cost reductions across fixed marketing, selling, administration and the contribution you see there from the UK government for people who aren't working, a proportion of their salary is actually being paid for.

Destocking is interesting, that really is. It happens when we don't build units. When you built 20,000-some units in the quarter, we had significant manufacturing inefficiencies, we call that the destocking number there. And on the last column, improvements all around in exchange and commodities. The one I really want to call out is the realized FX hedges, significantly less losses in the quarter just gone than 12 months earlier as those pre-Brexit hedges now starting to roll out of our portfolio at speed.

We still lost £49 million but that was only a third of the level of the previous year. All that added up to the £400 million loss and we'll talk more about charge later.

Slide, next slide if you will, please? Our cash position is very interesting. This £1.5 billion out flow as I said, same as the first two months, cash breakeven in the quarter. Overwhelmingly driven by the unwind of working capital as we didn't build units, so you see the payable number there dramatically drop. Note the inventory reduction £840 million, I'll come back to that in a few moments.

I think the really important thing here, for me, you can see if you then look at the bottom piece year versus last year, actually the underlying cash loss this year is better, is lower* and therefore you can start again to see the power of the underlying programmes even though volumes are down.

You know overwhelmingly our position last year, the working capital unwind was much higher this time around. You know that will come back as we start to build units out in the second half of the year and some of that will come back to us in quarter two also.

Next slide, if you would please? Investment. Of course, with this uncertainty we did significantly put a number of programmes on pause. We talked to you about that last time on 15th June when we did say our investment number would be lower than £600 million, it came out at £548 million.

All categories down although expense R&D with engineers was higher and that's because a lot of the engineers were not engineering, they were on furlough and therefore, of course, that we weren't taking their salaries to the balance sheet on new programmes.

Next slide, if you would please? Okay, so let's talk a little bit more about how we're doing this and what we see the outlook to be, I won't spend a lot of time on this. This tends to redraft itself every presentation. Clearly there's significant risks and uncertainties that remain, versions of this in all regions, given COVID. What I would like to say is I believe we're managing those risks really well and that's why, even though it was a bad quarter, perhaps it was better than a lot of people were expecting. The geopolitical risks will continue, in our view, particularly through the balance of this calendar year.

Next slide, if you would please? We talked about a demand led recovery. The great news is that 98% of our dealers are now open, most of them fully, although some dealers in North America, as you would have seen, are only partly open because of the closedown in some of those states.

* Cash profit £135m lower YoY

As a result of which we brought our production back on schedule, you know all plants, apart from Castle Bromwich, were on one shift from the middle of May and early June and our Solihull and our Nitra plants already back onto two shifts through the end of June. We will bring Castle Bromwich back up on the 10th of August once we come back from a planned holiday shutdown period.

Next slide, please? Really important slide, a new one, but it's important to understand what we believe is going to happen over the next quarter and then into the second half of the year. So the blue line is actually dealer inventory. We did have a strategy which would have brought the inventory down to target levels in March, of course, because we sell so many of our vehicles in March, generally 15% of the total, then we build those vehicles up over the previous one to two months.

And therefore we build inventory into the dealers in January and February and the first half of March and then sales closed down very rapidly, as you know, in the second half of March which meant those units were stuck at the dealers. That inventory grew to 109,000 units in May, about 140 days' worth of supply. You can see it in the bottom there, just about.

Our target line for dealer inventory will be just short of two months, we're calling it 55 days, it really depends on name plate and region. But 55 is a good average for us and we're significantly higher than that but dramatically that is reducing particularly as those retails increase in May and June and we weren't building the cars, of course.

So we're down to 90 days already at the end of June, that's fallen even more dramatically in July, so we're already down to less than 80, close to 75 days and that will continue as we go through the quarter. So our plan is to only build cars and wholesale cars to put into the dealer network to enable this number to get back to its target levels. Anywhere around the 60 days is perfectly fine and as I say, the 55 is an average anyway.

So because of that plan, even though retail levels are going to increase in quarter two, we'll still build fewer cars, wholesale fewer cars and therefore, our revenues will be down in quarter two versus a normal pre-COVID period. So we believe we will be loss making in quarter two, but we also believe we'll be cash generative and cash positive as we start to build more cars, some of that working capital will unwind. So we'll keep this page in place through quarter two until the point in time when we get back to normal levels.

The big signal here is we now start to see a profile of volumes at today's conditions that really reverse to pre-COVID norms by the end of September. And in the April/May period, that speedy recovery wasn't actually envisioned, so we're very, very positive of where we currently stand in the marketplace and the demand led recovery is working very, very nicely.

Next page, please? Okay, new products. Wonderful products. You know some of these vehicles in there are getting to eight years of age from the original architecture and technology, but the significant refreshes we do model year after model year, keep them bright and new and very, very attractive. These new changes, actually the 48 volt battery MHEV as mentioned, 12% improvement on fuel economy and 12% reduction to CO_2 also.

Lots of special editions coming as these vehicles come towards their final chapters of their lifetime and therefore, we think we have some really, really attractive offerings and we've had a great response to these vehicles in our China, North America regions over the pullback period. So not only have we had, you know a fast pullback on vehicles, but the mix was significantly steered towards a heavy product in the May and June period. We do expect that to normalize as the UK and European regions kick back in, of course.

Next slide, please? The wonderful Defender, so we know we launched late because of the COVID period. We did not want to launch this wonderful vehicle during those dealer closures. UK launched May, Europe same time, America later and we did our China launch on the 24th of July. A dramatic response from all regions, all customers.

China, we've already had 1,100 orders in the space of a week, so we're really, really pleased with how China is going; 30,000 order bank globally already. That really means we're effectively sold out for the balance of this calendar year and it's been a super response, pretty much everything we would have expected and more, actually.

I've talked before about the number of configurations, we stopped measuring at 1.6 million of those, so sometimes this gets misread because people optically read the number, but trust me, this is a very, very good start to this vehicle.

Next page, please? Okay. Of course, like all OEMs, the impact of CO_2 and compliance on this industry is dramatic and we did say we will be bringing a lot more new, compliant vehicles as we come through '21 model years, so our line-up will be a BEV – the I-PACE – 8 PHEVs and 11 MHEVs by the end of the fiscal year. Obviously with COVID, the delivery start point of these dates have been impacted but this is the footprint that will keep us compliant over the next two to three fiscal years.

Next slide, please? Dramatic impact of the Charge program, now Charge+ of course. The plan of this program is now 18 months or more, really enabled us to respond very, very quickly to the challenges we all faced at the end of March and that's why cash was breakeven in June because the actions we took within the first ten days ensured that post-working capital unwind, we balanced out even with 53% reduction in our wholesale volumes.

We benefitted in the quarter to the value of £1.2 billion as recorded. I ask you to remember the inventory number because the inventory was actually down £840 million in the quarter and and we're only showing £400 million of that benefit within this result and we're signalling, actually we're just showing what we expect the normalized level to be once we start to build back our inventories and sales increase from quarter two onwards.

Our reductions in investment will continue, reductions in cost and profits will continue into the second half. Because of that dramatic response, we've improved our target for Charge+ to grow to £6 billion in total and £2.5 billion in this fiscal year, so we've added another £1 billion which was £1 billion on top of the first increase we put in place a few months ago.

Where is that going to come from? We think pretty much now the future benefits are half and half. I've mentioned inventory. We've done more than the £400 million but that's pretty much for the full-year number, we think; we're measuring now. Investment reductions will continue across each of the quarters so our guidance of £2.5 billion is still the guidance, and quarter one would be within that level.

And then the rest of the program, the costs and profits, which in total for the year is about 50/50, but will be skewed towards costs and profits a little bit in the last three quarters. We're starting to see good signs on warranty. I mentioned that in the profit flow. The Ignite savings will start to come through in the second half of the year because most of them are model-year related. We're pleased with the VME response from the marketplace and the spending, the zero base that we're doing on spend heavily influenced quarter one and that will continue until we get back to post-COVID norms.

Next slide, please. Debt, we added, as you know we talked about on the 15th of June the new funding that's within the total debt number. We haven't done any new funding since the 15th of June announcement. So, £6.5 billion debt, and cash at hand £2.7 billion, plus the revolving credit facility. The cash was very close to the same number in the previous year. Revolving credit you can see there actually matures in calendar year 2022, and we have a very modest profile of repayments of that debt over the next two and a half years or so.

We'll take next slide, please. And so, already done and we'll take a look at the marketplace going forward later in the year to see whether it's a good time for us to take on more debt but to improve liquidity. It's not for incremental investment. We've given our guidance on investment and that won't be determined by the new debt we raise. It will be a liquidity build rather than an increase in investment should we take additional debt on going forward.

Next slide, final slide, I think. So, outlook looking ahead, things are uncertain, right? So, our job in uncertain times is not to overcommit, not to overstretch. That's why you see our targets for investment lowered, our targets for spending lowered, the acceleration and increase in the Charge+ progress, the lean pipelines, not having more stock in faraway markets. All of those things is what you'd expect, all of those things are in place and will continue until a new norm shows itself.

At least sales will be better in quarter two, not all of that will flow into profitability because of the dealer inventory points we've raised. But from half two onwards, we do expect production wholesales and retails, outside of CJLR, to be very close and therefore significantly increase in our revenues and cash into the business in half two. We do also expect to be cash positive in Q2 because of the start of the build back of working capital, although we will expect to be loss making in Q2, profitable in half two.

Focus areas, we've talked to them already, the new models, the PHEV introduction and rollout; more aggressive on Charge+, and the investment levels £2.5 billion this year. We're now saying up to £3 billion for the period after that, rather than up to £4 billion which we were at pre-COVID.

That's the end I believe of the formal presentation. So, we can open it to Q&A.

Coordinator: Thank you very much. We will now begin the question and answer session.

Coordinator: Thank you so much. We have our first question from the line of Philip Baguley from BofA. Please go ahead.

P. Baguley: Thank you. Good afternoon, guys. Thank you for taking my question. Can I just get a little bit more colour on the warranty expense, please? I think it's down £200 million year-on-year. You said it was related to model year. Being simplistic, is it just the newer cars are better than those that were designed eight years ago? Is that how we should think about it?

A. Mardell: There's two pieces you should bear in mind with warranty. Versus quarter one last year, which I think you were referencing in the number, we're down £107 million versus quarter one. We did have a number of campaigns in quarter one last year so we had an engine campaign, TDV6 from very old model years 2010 forward, and we also had Software-Over-The-Air we would have talked about as well where we downloaded to hundreds of thousands of customers the ability for them to get infotainment upgrades, and we also had a smaller one, O_2 sensors. Most of that year-over-year improvement was as a result of those things not repeating.

However, the big point on warranty is the other piece you actually mentioned and that is we are starting to see significant improvements in warranty model year '20. So '20 model year vehicles, the 13 nameplates, 12 of those 13 nameplates are significantly better than '18 and '19 model years. They haven't come to full maturity yet so there's still a small care point around them, although most of those vehicles are now 11 months old and counting. Once we get to 75% of the full model year we start to allow that profile to be the predominant profile which basically means those lower incidents and those lower costs will start to reduce our warranty charges on those cars but also we will reset the previous reserves. I expect that to happen mostly in the second half of this year.

But, the mixture of those two things, i.e. previous year and the quarter and a lot of one-offs, deliberately customer care programs, most of them, which we don't expect to repeat to those levels, and improving warranty of our latest vehicles will start to lower that number even over 3.9% level, most of which you'll start to see in the second half of this year.

P. Bagguley — Thank you. Thank you for that. That's super helpful. And then, just really quickly on the follow-up, how do I understand the difference between the £107 million warranty in the slides and the £200 million differential in the accounts year-on-year?

A. Mardell — I think it'll be a volume and mix item. It'll be number of units, that's what it'll be, the differences. We've called out the performance pieces here but we won't show the full £200 million because you're selling less vehicles.

P. Bagguley — Alright, great. Thanks.

A. Mardell — Thank you.

Coordinator — The next question is coming from the line of Richard Phelan from Deutsche Bank. Please go ahead.

R. Phelan — Yes, I was wondering if you could comment on the secured debt capacity that the group has right now, taking into account some of the actions, the funding that you've done in recent quarters, the group's appetite for potentially using the secured markets to issue bonds, as you mentioned in your slides the potential to come back to capital markets as one of those funding options.

And secondly, there's been quite a few stories in the press about potentially securing government-backed loans from the UK. I guess Project Birch is frequently mentioned. Can you give us any more details in terms of status and further details on that? Thank you.

B. Birgbauer — Sure. So, on secured debt, our capacity is substantial so I think that the covenants provide for £1.7 billion of secured debt or 15% of consolidated tangible assets, which would be over £2 billion. But, I'd make the point that that's only for security against principal manufacturing properties in the UK, so there's no restriction on security over other assets besides principal manufacturing facilities in the UK.

I think we've been very consistent time and time again that our philosophy towards the capital structure of the business is fundamentally an unsecured capital structure. So, we do have things like for example some finance leases under IFRS16 that are on the balance sheet that you could say are secured debt in some sense, but in general we've never issued a secured bond or a specific secured bank structure. I think that that remains our intention. I mean, we can never guarantee that we wouldn't pursue other options if we felt we had to, but I think we haven't had to do that to-date and we don't think that we need to do it at present so it's not our intention to do that.

I think as far as discussions with the government on funding, we have many discussions with the government. We've had discussions on funding with the government since £330 billion of guarantees were announced back in March but we haven't been able to agree with the government on an appropriate program for JLR. So, for example Project Birch is lender of last resort funding. I don't think we're a candidate for lender of last resort funding. And, the CCFF program was for investment grade companies. Well, unfortunately we're not investment grade at present. It does remain our objective to be investment grade by the way, but we obviously have some work to do before we get to that point.

R. Phelan — So, at this point no extensive discussions ongoing with the UK government, is that fair, for neither Project Birch or CCFF?

B. Birgbauer — Well, I think discussions haven't ended with the government but I don't expect to access any funding under Project Birch which is for lender of last resort funding.

R. Phelan — Understood. That's clear. Thank you very much for the answers.

A. Mardell — Thanks, Richard.

Coordinator — The next question is coming from the line of Peter Jurik from Tresidor Investment Management. Please go ahead.

P. Jurik — Hi, thanks for taking my questions. I'll start with a couple. The first one is just your focus on slide 19, the Charge program, and you basically increased this target from £1.5 billion in the last presentation to £2.5 billion in this presentation. However, the numbers on the slide have remained exactly the same. So, £2.5 billion investment, sub £3 billion inventory, 10% material costs, less than 4% warranty, all those numbers are the same. So, I'm trying to understand where that additional £1 billion came from, if you could put buckets into it, or whether simply it means these are percentages on the cost side, so does that simply mean the revenue assumption has gone down and hence costs overall normally are obviously going to be lower. If you could clarify that, please.

A. Mardell — So, we don't, even though we tried to use percentages and metrics and values here, just to give you some absolutes around it, the way the program actually gets measured is year-over-year. So, let me give you a good example. Investment last year was £3.3 billion, to get to £2.5 billion that will be measured at £800 million in the program. Inventory finished the year at £3.4 billion, our target is £3 billion. That's why we're just measuring £400 million even though we're at £2.6 billion.

So, what you're really seeing, Peter, is you're really seeing categories on the right-hand side of that page and also on material costs that we're increasingly confident will generate benefits as we go through the balance of this year.

And, you're also seeing a zero basing of the organisation over the first three months and probably the next three months, which are reducing structural costs significantly lower than we would have otherwise expected them to do. So, those are the two elements of the change, really.

You're absolutely right in your observation, so investment is what we said when we were talking about £5 billion, inventory is what we said when we were talking about £5 billion savings as well. So, it's really those overhead pieces, growing confidence in warranty, and our growing confidence in the Ignite program that will constitute the increase of the £5 billion to the £6 billion.

P. Jurik: Okay, so in other words, you said towards 10% and sub-4% for cost and warranty, for example. You're kind of saying, well, maybe we're going to end up further below 4% than we were previously or something similar.

A. Mardell: That's a great illustration, yes. Within the £5 billion, we thought we were within the 4% tolerance, but there wasn't a big measurement of the program within it. Now we're starting to get confidence that those new cars are going to contribute to the program because they're going to end up lower than 4%.

P. Jurik: Okay, alright. Now my second question is in your decrease in investment to £2.5 billion from £3.3 billion last year, and significantly higher amount for years prior, could you give us some sense of which vehicle variants or some delays on model refresh dates that you had to concede to lower that capex? I know in the past you mentioned the Evoque Convertible as an example. But, could you give a little bit more clarity on what you've had to concede and whether you think that £2.5 billion is a sustainable amount or if that will have to pick up in future years to increase that pace of new vehicles and refreshes again?

A. Mardell: Yes, so there's two pieces to this. I'll talk to the £2.5 billion first. So, when we announced year end numbers on the 15th of June, we talked about the programs that we hadn't paused, Range Rover, Range Rover Sport, Defender, Defender 90. So, the £2.5 billion guidance is mostly as a result of those programs continuing but everything else we were working on, so MLA MID, XJ BEV, new Range Rover BEV, 2021 model years we delayed. They were due to come out after shutdown in August, September. They'll now be October, November. So it really is our inability to have worked those programs through the height of the isolation periods. That really took for most of our models two to three months' worth of pause time. That's what you're seeing in the £2.5 billion level.

Now the £3 billion level, we never actually had investment plans to spend £4 billion; that's why we referenced it as up to £4 billion. Clearly as we go through quarterly reviews of our product portfolio, we were giving out as the option and the ability to spend at that level. Now we don't now see this as the new norm, we don't believe that's the right thing to do. We believe our actual investment profiles were closer to that £3 billion level and we're signalling it to the market.

P. Jurik Okay, and so if—

A. Mardell The programmes that we didn't have defined are going to be derivatization of programs, there's going to be less of those going forwards than we previously might have assumed.

P. Jurik Okay, and so if the £3 billion level is more a normal level going forward now with slightly fewer derivatives, and then you're referencing to be sustainably free cash flow positive from fiscal 2022 onwards, that implies a reasonably robust level of EBITDA margin, I think maybe 12%, 13%, and it's been quite some time since you've achieved that, depending on where revenues land for that year. So, I guess it also links to the first question.

So, given what you're seeing with Project Charge you're more and more confident that you're able to achieve that even if fiscal 2022 revenues are a certain percentage below let's say the 2020 level.

A. Mardell Yes, so we are assuming fiscal year 2022 is marginally below, not hugely below FY20 within our planning horizon. That's I think one piece of the question. We were actually hitting EBITDA margins for the seven-, eight-month period before COVID from the end of June above 11%. So, that gives you a sense of where we were at.

But, the other point is there's still a lot of uncertainty about a number of those things, right? So, we'll really be in a better place as we go through Q2, we see the outlook in the second half of the year to revisit our confidence in that last point. But, we're also signalling here we are going to be cash flow positive and if that means we need to make other adjustments going forward to enable that, if the marketplace isn't as robust as at the moment we would estimate it to be then we would do that also.

P. Jurik Okay, so there is flexibility within for example that £3 billion capex figure that you mentioned as an example.

A. Mardell There is some flexibility in that number at the moment, yes.

P. Jurik Okay, alright, great. I'll get back in the queue. Thank you very much.

A. Mardell Thanks, Peter.

Coordinator The next question is coming from the line of Alexander Nordhagen from Goldman Sachs. Please go ahead.

A. Nordhagen Hi, there. Thank you for taking my questions. I just had a couple, three to be precise. When Mr. Bollore joins in September, what are his top three priorities when he joins?

A. Mardell I've not actually met him, yet, Alexander, so I mean I would be guessing. But, I guess, given his track record, he's going to be very interested in the details of what this organisation has been doing and is planning to do and I suspect he's going to want to have some form of corroboration of that. So, ongoing product portfolio will be a good one, wouldn't it? That would be my guess. I mean, have we been making the progress in Charge that he would have expected us to have made and that's code for efficiencies end-to-end across the organisation.

How do we go to the next level of quality improvements - although I'm signalling to you that we've already made a change which will come through, those type of aspects, has he got the right leadership to take us to this sustainable organisation, which is our vision? Are we moving fast enough towards a net zero destination, carbon free environment? Those are the type of things I would imagine but to be honest, I've never spoken to the gentleman yet, so again, that's probably a question for him, which I'm certain he'll join the call in October. You'll be able to ask him.

B. Birgbauer Save the question for the next call.

A. Nordhagen Okay, thank you very much. When I think a couple years down the line, and perhaps I do want to ask you before he joins, if we go three years down the line, what kind of volume level should we have in mind for JLR, all things going according to plan where your EBITDA less capex number will be positive and then that'll enable some total deleveraging over time?

A. Mardell So we do see—I mean, if you take from a base where we were pre-COVID, that's probably the best way to start that one, Alexander. Our retail volumes pre-COVID were about 550,000 units. Now, we do think Defender is a game-changer so we do think increases will come up off the back of that product line. We have refreshes, all new vehicles, very successful historical vehicles coming in over that three-year period or so. So, we're confident it'll be higher than that 550,000 level.

If I take away any post-COVID uncertainty, we're confident it will be greater than that but we're trying to plan this business now on a breakeven that doesn't rely on significant year-over-year increases in volume and in revenues. And so, from my perspective, from the planning of this company perspective, I think you should have something in mind that we won't structure this place that requires volumes greater than 500,000 and then clearly as we go through 550,000, which we will I believe, and 600,000 which we likely will as well, then you'll start to see those structural improvements start to drop to the bottom line.

A. Nordhagen Okay. Great. That's helpful. Just to follow up on that one, if Defender is a game-changer, what's the capacity of Nitra? I think there's one line making the Defender right now. What's the annual capacity that it can put out?

A. Mardell Well, I mean we're two shift at the moment for the Nitra plant. So, between the Defender and the Discovery, we expect the volumes to be 8,000 units a month. There is greater capacity beyond that. Obviously one of the things we're looking for in terms of the shape of the sales, whether there's some cannibalisation between Defender and Discovery or not. We have internal ambitions for Defender to be much larger than 4,000, 5,000 units a month going forwards. There's lots of the 90s coming out, the Hard Top is out. We're talking about the same wheel base but an extended version for some of our markets. So, I think you will see some nice product upgrade and offerings on the Defender.

So, it is one vehicle line. We are confident, with modest investments by the way, because the core engineering is all in place, and then the shape changes and all that are relatively minor in terms of new investment, with modest investment we do think this has an opportunity to go even if it cannibalises some Discovery to grow beyond the 100,000 units. We have about another 20,000 units I think before we get into shift issues in terms of requiring another shift.

But, in our other plants, we're doing two shift as a core and then two shift plus above that. So, flexibility and the hourly contracts of the employees enable higher volumes. So, there's still some to go before we'd have to put incremental structural investment in place.

A. Nordhagen Okay, great. Thanks. And then just as a reminder for myself, the loan that was secured I think from CJLR or in that business, what were the terms that you shared with us on that please?

B. Birgbauer Well, first of all, it wasn't secured and it wasn't in CJLR. So, it was actually in the primary wholly-owned subsidiary in China that imports our vehicles. And, it's basically a three-year facility. It does have an annual confirmatory review and it would be one of our lowest cost pieces of debt. It's unsecured.

A. Nordhagen Okay. Thanks very much.

A. Mardell Thanks, Alexander.

Coordinator The next question is coming from the line of Jacob Parker from Reorg. Please go ahead.

J. Parker Hi. Earlier on you mentioned that July sales in the UK would be better year-over-year. I'm just wondering to what extent this is just from the delay in deliveries that would have occurred over the prior months. Can we expect this year-over-year increase in August and September as well? Thanks.

A. Mardell Thanks, Jacob. That's a really good question. I think the honest answer is we're not yet certain. Although the pent-up demand theory, which of course we've been discussing as well, the longer it continues is obviously less likely. The July data for UK is substantially high. It's like 25%, 30% higher. I think the other piece of information which is really positive is the channel of sales have been strong to private customers which of course were our most lucrative sales as well. So, there's definitely some—and that's been consistent since June the 1^{st}, so for two months now.

Impact going forward, well, in the immediate term, September is a big month for the UK, the second biggest selling month. We were originally expecting it to be about 10% lower than last year under the profile that we would have seen four or five weeks ago. There's a good chance it won't be that much lower but we will get into, given the shutdown periods we've had, and extensive, we will at a point in time get into access to vehicle build issues. So, that's possible. It will be limited because we just don't have enough cars in place. We'll catch that back obviously later in quarter three if that does become a problem.

But, I think the really good news in the UK, similar to other regions, the speed of the recovery has been very strong and in a sample month of two that seems to be continuing. We get the daily data and that's continued to be even stronger in the second half of July than it was in the first half. So, at the moment it's looking very good but maybe there was just a lot of pent-up demand. We'll know as we go through the quarter, Jacob.

J. Parker Okay. Thanks. That's really helpful.

A. Mardell Thank you.

Coordinator You do not have any more questions. So now, I hand the floor back to Mr. Adrian Mardell for closing comments.

A. Mardell Thank you. Thank you so much. Look, I appreciate everybody joining the call today. Hopefully, we've been able to reassure you through the results we've posted and the information we gave to you on the 15^{th} of June that we are in this, through the original storm and our objective obviously is to slowly, carefully, not extend ourselves and build it back, which we expect to do through quarter two and into the second half. So, even though the headline results are obviously really, really poor, the underlying issues that we had and the underlying traction going forward is actually much stronger than I expected it to be when I spoke to you seven weeks ago, so I'm very pleased about that and long may it continue. We'll stay focused on it.

Thank you for your time. Please enjoy your weekend and stay safe. Thank you.

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

[END OF CALL]