



Attendance List: Ken Gregor (CFO, Jaguar Land Rover)  
Ben Birgbauer (Treasurer, Jaguar Land Rover)

Title of Meeting: Q2 Results Call

Hosted By: Ken Gregor

Coordinator Good day, ladies and gentlemen and welcome to the Jaguar Land Rover Q2 Results Call hosted by Ken Gregor. My name is Richard and I'm your event manager. During the presentation your lines will remain on listen only. [Operator instructions]. I would like to advise all parties, this conference call is being recorded for replay purposes.

I'd now like to hand you over to Ken. Please go ahead.

Ken Thank you. Good afternoon to everyone who's taken the time to join us on our Q2 results call. I'm going to step through the presentation. I may not talk through every slide, but I'll refer to the page numbers as I go.

Just starting on page 3, we've included a little summary here. What I'm going to describe is really three things. First that our Q2 result was disappointing. We had a loss of £90 million and I'll describe some of the features of that as we go. Second, I'll be updating you on how we see our outlook for the balance of this year which is also lower than the previous outlook that we've provided for you in terms of both sales and profitability in the full year. Finally, I will talk about what we're doing about it in terms of our turnaround and transformation activities where we're including some details of the size of cost, cash and profit improvements that we're seeking to deliver in order to turnaround the financial performance of the business.

Let's move forward, slide 4 has a few of the highlights. New product remains at the heart of our business and see some spy shots found their way into the media of our new Defender, which we look forward to. And our Slovakia plant had an opening ceremony last week, which is an important development for us accessing a lower cost base for the vehicles that will be produced there. Top right on the chart talks to financing actions that we've been taking in order to ensure that the business has the liquidity it needs to work its way through the more challenging market and business environment that we face.

Slide 5 has got the key points of the results for the quarter. Lower volume driving lower revenue, basically driving the loss for the quarter of £90 million. The wholesale volume in total down almost 23,000 units. The most significant driver being China, and with the profitability of China being strong that has driven the sharp deterioration in profits EBIT versus the same period a year ago.



We also had a one-off in the quarter which was a warranty action around about £40 million.

You can see then the half one performance underneath, the loss was lower than the loss in the prior quarter, but clearly in combination that now means a loss of £350 million for the first half.

Moving forward, actually the next slide I was going to stop on was slide 7, which is the retail sales for the quarter which we're down 13%. Really the biggest single challenge, although there are challenges in various regions, it's fair to say, but the biggest challenge being in China where we saw the sales down circa 44% in the quarter on the back of weaker consumer confidence, uncertainty in the face of tariff changes and trade disputes, and also actions we have been taken to reduce and right size the inventory levels in our dealer stock levels. All of that's added up to 130,000 unit sales in the quarter, down 13% year-on-year.

The next slide I was going to stop on was slide 9, talks to Q2 profits year-on-year. Clearly, down significantly and you can see the impact of the 23,000 unit reduction in sales really being the most significant piece. Although, there are also the cost of the warranty actions and also higher manufacturing costs overall due to having Graz coming on stream producing E-PACE and I-PACE and not having Slovakia on-stream just starting to ramp up production of the discovery which moves there from Solihull.

The tariff costs were higher year-over-year which is mostly raw materials and other aspects flowing through.

On the cost front, there's almost a £100 million of costs and other items which have given us some benefit year-on-year, but what you can see is it's clearly not enough to offset the impact of all the other items. And, we also had depreciation and amortization growth of £70 million.

Foreign exchange overall was flat year-on-year when commodities are included, including the non-recurrence of some gains in Q2 last year.

The next slide over is going to touch on with the cash flow on slide 11. It was a cash out flow of £624 million after £1 billion of investment spending in the quarter.

Moving on, I'll touch on slide 12. We obviously do seek and have been rebuilding the liquidity of the business in the quarter, so have roughly £5.3 billion of liquid resources around us at the end of September (including the \$1b loan drawn in October) based on both the cash and the revolving credit facility, which is undrawn but there to provide the additional liquidity we may need with a maturity profile that remains manageable.

I'm actually going to skip forward and talk about the guidance that we're giving. So, I'm going to skip forward to slide 21 and talk about



how we see the balance at the year and then I'll move back to a couple of the earlier slides later.

In terms of the balance of the year, we do continue to be targeting stronger sales performance in the second half of the year based on the absence of the destocking we've done in the first half, to the same degree based on building on the new and refreshed models that we see and some impacts of the seasonal factors and the action we're taking in China which I'll talk about. However, all that being the case, it's fair to say that we do see the full year sales being roughly plus/minus flat compared to last year. So, more modest volume projection given the reality that we face of the marketplace and issues we faced in China than we talked about in prior calls.

Slide 22 talks to profitability. Here, given the loss that we've had in the first half, we clearly are still targeting to move back to profitability as fast as possible. However, given that we now have that first half loss behind us and even with the benefits of the actions that we plan to take in the second half we are seeing a full year outlook of about breakeven due to the weaker China conditions, broadly, that we see as the biggest single driver. The other thing I'd say about that second half outlook is the improvement is mostly expected in Q4 because Q3 is expected to be relatively weak due to the production downtime that we're putting in place in order to reduce inventory levels in the quarter.

The final thing I was going to talk to on slide 23 is the cash flow. I think we already said that we would be forecasting negative cash flow in the full year. That does remain the case with the £2.3 billion cash outflow we've already had in the first half. We are working to drive positive cash flow in the second half, but that will mean that we do still have negative cash flow in the full year.

Now, I wanted to turn back. I've touched on the results of the quarter. I've touched on the outlook for the balance of the year. I wanted to talk more about what we're doing about it. So, I'm back on slide 14.

We've launched a turnaround and transformation plan in response to those more challenging market conditions. Of course we'd like to see market conditions improve, but our based assumption is they're likely to remain challenging because of various geopolitical, economic and regulatory factors, Brexit, China uncertainty, etc. Therefore, we need our turnaround plan to be able to succeed in this more challenging environment that we find ourselves in, both through rejuvenating sales and through improving cash flows and profitability and through addressing longer term issues. So, I'm going to touch on that through the next slides.

Slide 15 talks to rejuvenating sales. We have a strong model line-up, which is great. It's relatively fresh, which is even better. And, we have more models in the pipeline, so we have the opportunity to continue to grow our sales volume based on the model line-up and the new models



that are fresh and that we're continuing to plan to introduce. That's really positive because that is at the heart of success of any car business.

Slide 16 talks to our plans to resume profitable growth in China. There are undoubtedly challenges in the marketplace. Consumer confidence has been dented and the industry overall was down in Q2. When that happens, dealer profitability levels fall, stock levels go up, we get heavy discounting of vehicles, all of that makes the marketplace quite challenging and has been especially so for us.

There are, however, opportunities to leverage because the premium segment is forecasted to continue to grow, so we need to take advantage of that. The lower import duty in principal, although it basically has caused further consumer uncertainty, is a factor that we should be able to leverage with the prices to consumers being lower than they were this time last year.

In addition, we have an action plan to work really closely with our retailer network to ensure a healthy development and balance of profitability for both our retailers and for Jaguar Land Rover. At the heart of that is really taking action to balance supply and demand in response to the market conditions in order to prevent incentive levels that the retailers may feel that they need to put behind the product or that we are required to put behind the product continuing to rise. Therefore, we're scaling back significantly the level of volume and production in the market for China in order to balance that sales with demand and drive us broadly to more of a pull strategy for our markets in China.

All that said, of course, near term demand concerns remain. So, undoubtedly, I'm sure China will continue to be a challenge over the coming weeks and months. But we're clearly focused on and committed to long term growth and taking the right actions to enable that.

Slide 17 is the first of a couple of charts here to talk to project Charge. We've launched a two to three year turnaround plan. We have brought some consultants on board to help us. We've got engagement at all levels of the business, including from the board, in a steering committee and in the teams that we've mobilised across the business. We've given a little bit of detail around what we're targeting here. We're targeting a big number: £2.5 billion of costs, cash, and profit improvements over the next 18 months. Given that is a big number, just to give you a sense of where we're targeting that from, one billion is by reducing investment by £0.5 billion in each of FY19 and FY20 from the £4.5 billion level that we were otherwise working to, to closer to £4 billion.

Second thing is to drive positive working capital in the second half of FY19, mostly through inventory reduction, because we've basically seen our inventory of finished vehicles grow by the thick end of 17,000 units in the first six months of the year and that has caused us to have cash tied up in that inventory that we now wish to take out in the second



half of the year, roughly the same amount of units and to drive a cash inflow from inventory reduction mostly, but also from other working capital of over half a billion in the second half of the year. From an income statement point of view, we clearly want to drive back towards profitability and do that through identifying over a billion of profit improvements and cost reduction actions. That's what we're targeting.

The next two slides, slides 18 and 19, talk to the areas. Really slide 18 is just a list of the areas we're looking at and the point of the slide is to say is we're looking at all areas, whether it's our China business improvements, whether it's tax and treasury, whether it's non-product investments, whether it's working capital, we're looking across the entire business at the actions we need to take to drive the profit and cost and cash improvements I've just described.

The following slide, lacking a number, but it's slide 19, is a few specifics on investment. We are fairly well progressed in terms of identifying the actions that we need to take to get the investment down to close to £4 billion which is, therefore, going to deliver us the half a billion improvement in each of FY19 and FY20.

**On the working** capital side, we've implemented production reduction actions with more to come. For example, the three day week in Castle Bromwich and two weeks of paid shutdown in Solihull and we will be doing more in order to align supply with demand and reduce the inventory of finished vehicles that we have around us right now that exists because our demand levels reduced below what we were previously planning.

It doesn't stop on the industrial side of the business where we're focused on reducing our sales and marketing costs, identifying efficiency there, whilst obviously still working to keep our brands healthy and at the forefront of consumers' minds.

On the organisational efficiency point of view, we're doing the normal sort of things you'd expect of freezing non-essential spend, but we are also reviewing our organisational design. And it is fair to say, the sort of cost reductions that we are targeting are really not possible without also reducing employment costs and employment levels which is something that is a work in progress.

Slide 20 talks to Accelerate. I'm not going to say too much about that, mainly because we've talked about it in prior calls, but we absolutely remain focused not just on the short to medium term that I've just described but also on addressing some of the underlying root causes that also take longer to fix around enhancing our sales performance and the experience, delivering competitive material cost on our future models through should cost activity and designing our parts to be competitive going forward in our cars. Also, delivering our model programs on time and delivering the sort of quality experience that our customers demand, rightly so.



With that I'm going to turn back to slide 24, which is really just our closing summary. It's a difficult quarter for us. It's another loss, albeit a lower loss than we had in the first quarter. The market environment is definitely challenging with Brexit and headwinds in China, and diesel uncertainty. Those things are certainly trying for us. However, that's what we're facing so we have to respond to that and I've described some of the actions that we're taking to respond.

We are targeting improved sales performance in the second half and improved margin performance in the second half. However, as I said, those things likely to deliver us plus/minus relatively flat volume year-on-year and breakeven EBIT in FY19. Hence, we've launched project Charge to drive the turnaround as I described targeting £2.5 billion, roughly in the shape that I described. Obviously the shape of that can change a bit, but just wanted to give you a little bit more detail around it.

Curtailing investment target to more like £4 billion in the next two fiscal years and clearly still targeting returning to the prior guidance range of 4% to 7% between FY20 and FY21, and targeting a more sustainable EBIT level thereafter.

So with that, I was going to stop and obviously throw open the floors to questions, which as always I'll do my best to answer. And if we don't have all the details here in the call, we can obviously follow up outside of here for some of the more detailed questions. Thank you.

Coordinator Thank you. [Operator instructions]. Our first question comes from Alexander Nordhagen. You're live in the conference. Please go ahead.

Alex Hi, this is Alex Nordhagen. Thanks for taking my questions and for the presentation.

I had one that's just a tidy up. What did you say your inventories were like in China, expressed as a number of month sales/

Ken I said that the import vehicles were roughly 1.5 months sales. Actually, after the call I was looking at our locally produced vehicle inventory. It was roughly two months sales at the present time. And in both cases I'm talking about the dealer inventory, and that's somewhat lower than roughly 2.5 months that we had around us previously, but still a bit higher than we would wish the import vehicle inventory being a little bit closer to the range of 1-1.5 months that we want. And a bit more work to do on the local vehicle inventory to basically allow that to reduce through cutting production where the factory in Changshu has basically been closed for most of October in order to allow the inventory of both our vehicles and dealer inventory to start to reduce. So expect to see us continue to work on that through Q3.

Alex Thank you. There's another of your competitors, similar, let's call it Swedish that posted strong growth in China in the period. Just contrasting that with the huge decline that you had, can you actually



explain a little bit more about what you think could be driving the difference between the two?

Ken

Well, I can't talk to the results of said Swedish competitor because, to be honest, I've not studied them in detail nor understand their business as closely as our own business, but sometimes you get effects where new model introductions can help drive sales performance ups and downs.

I think for us, we're more focused on our own business. It's clear that the consumer uncertainty and the market factors have had a bigger effect on us than some of our competition at the present time. We have been very focused on – clearly I worry about the sales levels, but whilst worrying about the sales levels helps, I've also been more focused on worrying about the actions that we're taking in insuring that the actions that we're taking are the right ones to address the underlying causes. We've had a situation in which our retailers have not been as profitable as they would wish and have had more inventory of finished vehicles around them than they would wish. And what that causes is a reality of, part of the cause and part of what it causes, part of the cause is the discount levels that need to be offered to sell those vehicles in the market stops rising and effective transaction prices drop. That impacts dealer profitability and the overhang of inventory then sort of accentuates that to the point that dealers start to reduce transaction prices further in order to shift the inventory and causes a sort of unhealthy spiral.

We're really focused in that environment on basically finding a way out of that vicious circle of ever higher incentive levels in order to support an unsustainable level of volume. Therefore, if that means accepting lower volume than we otherwise would wish in order to allow incentive levels to drop, in order to allow dealer profitability to be rebuilt, our own profitability to be rebuilt, albeit at the lower volume level, then that's what we would otherwise face, that's what we will look to support.

At the same time, of course, volume is also important, so we want to find the right level of volume that is good for us, good for our retailers, good to create the right balance between supply and demand, and the right balance between push and pull in the marketplace. Those are all the actions that we're taking, albeit clearly not happy to have seen the volume reductions that we've seen. That is what we've faced, so we're focused on taking the right action in order to get that to sustainable profitability for us and our retailers.

Alex

Thanks very much. The final one is just a request that you release your financial documents a little bit earlier so analysts have a period of time to analyse it before the call. Thank you.

Ken

Fair question. I will take that back to the team. Thanks for the feedback.



Coordinator

Thank you. Our next question comes from James Maxwell.

James

Good afternoon. I have a few questions, if I can.

First, can I just carry on the China theme, because I'm trying to understand what you're saying here? In terms of pushing the product with higher incentives and the impact on dealer profitability, I get your point about profitability and that you'd like to improve that, but are you saying that you think the dealers have been more profitable at lower volumes? What then would be the impact on JLR?

Then maybe more to the root of it, when you look at the pricing of your product in China net of the incentives offered, do you think it is competitive versus the competition? Those are my questions around China. I'm really trying to understand how it is that you could actually start to drive an improvement there.

Then more broadly, you talked about rejuvenating sales, but when I look at the products and the refreshes that you've had on Range Rover, etc., you're selling materially less of the new model than you were in the same period this time last year. So what is it that you think is going to happen there that's going to suddenly drive the demand?

Finally, just generally on your cost savings, it's only a few months since you had the capital markets day and all of a sudden we seem to have come across the opportunity for cost savings that weren't talked about previously despite the fact that business had been under pressure in terms of margins for the last couple of years. So I'm wondering how come you are now able to find savings that seemingly weren't there just a few months ago.

Ken

James, you make a number of good points, so thanks for the points. To be honest, I don't know that I can answer them all because some of them are observations as much as they are questions and some of them are things that clearly we and the management team, my sales colleagues, are working on as we speak rather than able to give you really easy, simple answers. Because if there were easy, simple answers to some of these challenges, I wouldn't be posting another loss in Q2 here or lowering the guidance for the full year.

But, just to try and take some of the thought processes, on the dealer profitability there are certain models, the locally produced models, that have higher transaction priced discounts to the point that the dealers tell us that they lose money selling those vehicles. So, quite frankly, from their point of view if they were to sell less of those, they would lose less money and balance out the profitability of the overall portfolio of vehicles that they sell. So there's a balance to be found in the mix of vehicles that we sell in the marketplace and that, therefore, helps drive improvement in profitability through mix rather than volume. And of course that's also the case for our business, too. So that's, if you like, one of the levers that we are looking at.



You make a good point about price levels when you look at absolute transaction price levels relative to, you know, I'm talking about discounts. But ultimately what matters is the absolute price level relative to the competitors. Overall, obviously that's something that we pay very close attention to, to ensure that if we're selling a Jaguar XE long wheel base in the marketplace that the absolute transaction price after the discount, how does that compare with the competitors for that vehicle. That's something we pay attention to.

In all of the actions that we take in the marketplace that may be something we need to relook at in order to drive a better business equation with lower discounts. But I would say that that's a work in progress rather than necessarily anything to talk about right now. It's something that the sales and marketing team are looking at very closely.

On the cost reductions, I just wouldn't characterize it the way that you are perhaps asking the question. I'd characterize it more that clearly, yes, we've faced margin pressures over the last couple of years, and yes, we were working on cost efficiencies and improvement actions. But, what I'm doing here is not a question that these things are easy to identify and now we're talking about them, it's perhaps more a question that the business situation has gotten tougher; therefore, we've had to redouble our actions beyond what we thought was previously necessary because the market situation has gotten tougher than we thought. That's just part and parcel of the reality of running a business in a very dynamic market environment. Therefore, given the ongoing losses that we've seen driven by largely the ongoing challenge in China, we thought it was right and appropriate to give you a sense of the seriousness with which we're seeking to tackle the situation.

James

Thank you.

Coordinator

Our next question comes from Christophe Boulanger. You're live in the conference. Please go ahead.

Christophe

Hello, good afternoon. I have a few questions. The first one is on incentives. So you mentioned that incentives have been rising year-over-year. Could you give more details what has been the rise in incentives? For instance, if you look at the cash incentive as a percentage of list price year-over-year, what is that? And also, what has been driving this in the US and in Europe? I tried to understand whether it was structural or whether it's one-off.

Ken

Overall, I mean, it's interesting, when I actually talk about the overall global figure across our entire portfolio, it's roughly 6.5% of revenue, which is not stratospherically high as an average for the overall business, but it is just over half a point higher than we had in the same quarter a year ago, and that's what's driving the roughly £30 million year-on-year variance on the Q2 bridge compared to Q2 last year.



I think basically we see, across most of the regions, relatively more, a continuation of relatively more challenging market conditions than we saw this time last year, and that's just a general theme across the world. It may be, just thinking aloud, as China economic growth slows and all car manufacturers have faced challenges in China, albeit as someone previously pointed out our challenges have been bigger, but basically all manufacturers have been pushing somewhat harder in other regions in order to try to offset some of the challenges in China. That, unfortunately, then results in more competitive market conditions in those other regions. Some of which, like the UK, facing some economic uncertainty due to Brexit, albeit that's difficult to say just how much. But overall, I do believe that that's contributed to incentive levels, which obviously vary by model, which on average increased by just over a half a point versus this time last year.

Christophe So more broadly for Europe, how much of the cars you sell in Europe are actually diesel engine and what level of incentive would you offer versus the normal petrol engine?

Ken Actually, I shouldn't guess. I don't have the incentive figures broken out between diesel and petrol for Europe. It is the case that our sales in Europe continue to be substantially, the vast majority continue to be diesel. It continues to be the case that our customers choose diesel, for example, for Land Rover, something like close to 90%, just under 90% of sales for Land Rover's in the UK and in Europe are diesel. I think what happens there is our customers are choosing the fact that the diesel engines are as clean as petrol engines for both particulate and NOC's gas emissions but are actually 25% more fuel efficient. That's why we continue to see the mix of diesel engines being as high as it is.

Christophe I have two more questions, if I may. The first one is on what you mentioned on the dealer inventories in China. If I understood, you said 2.5 months currently. You would like to target them at 1 to 1.5 months.

Ken Just to get it precise. Two and a half was what we were before. What I said was roughly 2 months for the locally produced cars and roughly 1.5 months for the imported cars. And in both cases we want to have it between 1 to 1.5 months.

Christophe Okay. So then to bridge this move to the 1 to 1.5 months, what would be the additional costs you would have to take for the dealers to lower the inventories to this level?

Ken Well, the cost that we broadly pay is having to face up to lower wholesale volume levels for ourselves and we will see some more of that in Q3. So that was linked to what I said about our profitability outlook for the balance of the year. What I said about the profitability outlook for Q3 in particular, where the production levels and adjustments that we're making, both in China and in the UK, to address the inventory level that we see – not just in China, but also to a lesser extent in other places – those product levels in Q3 drive lower wholesale volume in Q3 that will drive lower profitability in Q3 as a



result. That's really where the cost comes in order to reduce the dealer inventory level; it comes through lower wholesale volume that we achieve.

It is a cost and it's painful, but faced with the lower demand level, it's just one of those things we have to work through over time. So, it's not clearly what we would wish, but we have to follow through and do the right thing – kind of have the conviction to follow through despite the fact of the pain it causes us.

Christophe                      So there is no intention to provide like cash incentives to the dealers to lower the pricing?

Ken                                      We have to take measures to address dealer profitability. I really want to do it through avoiding pure cash incentives, if you like. But, in some cases we also have to provide additional, what I would call variable marketing support to the dealers in order to underpin the transaction price support they need to put behind the cars in the marketplace. And as I was saying earlier, what we have to do is find the right balance between driving the sales level that both us and our dealers need, but avoiding, if you like, trying to avoid pushing an unnaturally high sales level which we then have to underpin with overly large incentive and profit support arrangements with our dealers.

Christophe                      My final question is on liquidity and funding. On your slide 12, you are showing a current liquidity of £5.3 billion sterling. So the first one would be, what will be your minimal cash requirement in terms of liquidity?

Then the second one, in terms of funding needs for the next two years, do you have any view on that?

Ken                                      I'm just going to ask our treasurer, Ben Birgbauer, if he could take that question.

Ben                                      All I'd say on minimum liquidity is that we've always tried to benchmark against our competitors. Our competitors generally tend to hold let's say 12% to 15% of cash as a percentage of revenue and that remains something that we will target achieving. It can vary from quarter-to-quarter because of some of the working capital volatility we see, but I don't think we've fundamentally changed what we'll target.

What was the second part of your question?

Christophe                      Second question was around your funding needs for the next two years. You've been pretty active into the debt market lately, and I think a lot of investors are wondering whether you are going to remain fairly active in the next two years.

Ben                                      Obviously we did a euro bond in September and we also have announced that we did complete the billion dollar syndicated loan that we had communicated in September as well. We completed that in



October. We've said that we expect negative cash flow this year and it may be negative next year, in the following year as well. We also have certain debt maturing this year and next year. So for all those reasons we'll continue to look at funding from time to time in the marketplace. I wouldn't say that as we sit here today we have any specific plans to go into the market, but I think you will definitely see us going to seek additional funding at some point over the next year or two.

Christophe                      So did I understand correctly that you said free cash flow would be negative next year as well?

Ben                                      That's what we've said, yes.

Christophe                      Okay. Thank you very much.

Coordinator                      Our next question comes from Rodolphe Ranouil.

Rodolphe                              Good afternoon and thank you for your time and the answers to your questions on China. I was wondering if you could give a bit more colour on what's happened on the ground recently commercially. Are you seeing the trends that we saw in August and September with the consumer continuing? Or, are you seeing a bit more of a return to normality, as we've seen in the other parts of the year, of the luxury sector as it were?

My second question is that in relation to funding and in particular to the very low price that you could get on loans, would there be any room for asset liability management?

Ken                                      Let me take the China question first, I'd say through October, we're not quite done yet because we have one day left to go, if you like, today, but broadly through October I feel we've seen a continuation of market trends in China. I don't know that we yet would say that we've seen a return to more benign market conditions in China. Obviously we're intending and hoping that the actions that we're taking are going to help, but I think the market conditions could well remain a little bit uncertain for us, unfortunately, so we have to take that on the chin and I think that will clearly be a key factor for how our full year turns out.

So there's not much more I can say about that until we see October, November, December, a really important season for China ahead of the New Year, and obviously we'll then be talking more about that in February call. But rest assured, between now and then it's got our entire focus.

I think I'll ask Ben to take the funding question.

Ben                                      Sure. I think on the asset liability question, I just would say I think our first priority is having the right level of funding. Of course we want to have the cheapest funding possible, but I think our first priority is to have the right level of funding. So, I think considering asset liability



exercises would only come as a second priority to getting where we want to be in terms of funding.

I think that question does sort of complement the earlier question, and the one thing I just should have mentioned on the earlier question, we do continue to have non-drawn revolving credit facility of £1.9 billion that's also there to support our liquidity requirements.

Coordinator

Our next question comes from Brian Studioso.

Brian

Thanks for taking my call. Just looking for a little bit more granularity. The price improvements as new models and refreshes roll out and as you adjust the level of incentives, how might we see that effect revenues and profit over the next four to eight quarters?

Then similarly on the cost front, you mentioned a few areas where you're looking to target cost improvements. How might we kind of look at that over the coming four to eight quarters, just looking at the impact, whether it's front loaded or backend loaded, or kind of straight line across the next couple of years, especially keeping in mind the big sort of negative cash flow period in the first quarter each year. Thanks.

Ken

I think those were fair questions, although I don't know that I'm going to be able to give you in this call the sort of granularity that maybe you're asking for, for a couple of different reasons. We've taken the call to put those big targets on the table. There's clearly work to be done to flesh all of those out and deliver all of those actions, so that's in progress. So I think I'm going to ask for a little bit of patience and forbearance as we work through that and we'll talk more about what we're doing period by period.

What I did say, though, was some pieces of it are reasonably well progressed in terms of our plans to reduce the investment levels. I hope we will see a number closer to £4 billion for the full year FY19 and FY20 than the prior number, which was headed north of £4.5 billion. So that's already actions and implementation already pretty well progressed to make that happen, quarter-by-quarter. And for example the investment spending this quarter was just under a billion, so supports the delivery of that. That's already been taking place through making tough choices on non-product spend, on the timing of product spend, on engineering cost efficiency across the board. So already sort of well underway.

On the working capital side, the production reductions are in place and in principle should deliver the contribution from working capital that we need in the second half of FY19. That requires us to remain laser-focused on making sure that we continue to react to any further demand fluctuations beyond what we've already accounted for in order not to chase our tail on the inventory reductions, if you like. But that's something that we're obviously laser-focused on making sure we deliver.





for those Takata airbags in working with NHTSA in the US in order to accelerate the uptick of customers of that airbag campaign, because actually it's sometimes difficult to get customers to come into replace it and we obviously want them to do so for safety reasons. So, that is a piece I could talk to that's part of this total charge in the quarter.

David Have you considered any management changes, either at wholesale or dealer management level in China?

Ken I didn't quite get all of the question there, but I think you asked about management changes in China?

David Yes.

Ken What I'd say is I don't have any significant management changes to announce in China. We appointed Qing Pan as the lead of our China activity just over 18 months ago and he continues to lead us through this really challenging period. So, I believe we have a really strong senior leadership team in China.

I have actually just appointed a new CFO for China, but that was more because the prior incumbent in the marketplace was due to come back to the UK and has done so, so that was unconnected with any market difficulties. I believe we have an experienced senior leadership team in China to help us navigate this storm. I think that's probably the best thing to say.

David What has Qing Pan achieved in the past 18 months?

Ken For sure he's faced a difficult market situation. He's a very experienced leader with his Audi and VW experience behind him. He's worked hard on also aligning the actions that we're taking with our China joint venture and Cherry colleagues in the marketplace, and we have very close alignment with our Cherry colleagues as we address this very difficult market situation and Qing is very well placed as a Chinese national as well as having experience in the German car business to bring those skills to bear. But undoubtedly, we face a challenging market situation, so that's his challenge to continue to address that.

David I'm just trying to get to cost actions in China, because you've outlined a billion for the group but you haven't mentioned anything at the JV in China.

Ken On the joint venture, it previously has been and continues to be incredibly focused on cost actions. I haven't talked about it because I'm mainly talking about our own business results rather than the half share in our JV.

David EBIT margin is 3% down from 22%, so.

Ken Yes. Correct. Absolutely. That's what I've just announced. The JV is totally focused on taking the same sort of actions that we're taking



in order to offset the impact of the market challenges it faces. That said, I do expect the profitability of the joint venture to continue to be relatively weaker in the balance of the year, including in Q3. But that's not because of a shortage of focus on cost activities.

David

Thank you.

Ken

Alright, I think that was the end of the call. I just want to say, look, I know the results are disappointing. We're not happy with it nor are we complacent about it. I know the full year guidance is challenging with a lower sales outlook and plus/minus a breakeven result for the full year. That's not what we would have wished and it's not what we're planning.

I hope I've given some sort of sense of the intent around our desire to turn this around, we're talking about the £2.5 billion of cost, cash and profit improvement actions that we're taking. And as I say, we will talk about that more in future calls.

So with that, I'd just say thank you for taking the time to join us on the call and thank you for your ongoing support for the Jaguar Land Rover business. I appreciate it.

Coordinator

Thank you. Ladies and gentlemen, that concludes the conference call for today. You may now disconnect. Thank you for joining. Have a very good day.

*[END OF CALL]*