BMW GROUP

Transcript of BMW Group IR Call on 10 September 2024

Ladies and Gentlemen, Thank you for joining today's call.
My name is Ritu Chandy, Senior Vice President Finance, Group Treasurer and Investor Relations for BMW Group.

I hope you had an opportunity to read through our **ad hoc announcement**. As part of our broader plan to enhance information dissemination and transparency to the investor and analyst community, we will host a Group conference call for all pre close discussions going forward. We thought this an opportune time to use this format for our guidance update today.

Let me start with an update on the safety recall and temporary delivery stop. This relates to technical issues in the **integrated braking system** that is provided to the BMW Group by one supplier. BMW originally identified an issue with the supplied electronic system when conducting an internal quality examination. This resulted in a first safety recall back in February 2024.

Since then, additional cases were identified beyond the scope of the original recall. BMW has developed a diagnostic software to detect the brake fault before it occurs. In case the software detects the possibility of a fault, the driver gets a warning to visit a dealership as soon as possible in order to get the brake system replaced free of charge. In the very unlikely event that the malfunction occurs, the brake system reverts to safe mode. This mode continues to provide a high level of safety and meets the legally required standards for braking performance. However, drivers would then need to increase the force applied to their brakes.

This impacts 1.53m vehicles across various markets produced between June 2022 and August 2024. Vehicles produced before and after that date are not impacted. Of the 1.53m vehicles, the split across key markets is as follows: 370k in China, 270k in the US, 150k in Germany, 70k in Korea and 60k in France. The affected vehicles cover X models excluding X3 and X4, 5 and 7 Series, Rolls Royce Spectre, MINI Cooper and Countryman. Of the affected cars, 1.2 m vehicles are in customer hands and 320k are in Group and dealer stock. Currently approx. one third of the 320k are globally impacted by individual market delivery stops.

We are reliant on our supplier to provide us with clean parts to service customer cars, refit stock cars as well as to produce new vehicles. Given the current limited availability of parts, we continue to prioritize across these different requirements. Supply of new parts remains a hurdle but is expected to improve. We expect that the recall and rectifications will be completed on an ongoing basis throughout 2024 and into 2025. As a result, we have provisioned a high three-digit million figure for additional warranty obligations in Q3 2024. This is reflected in the updated Automotive EBIT guidance for 2024 and will mainly impact Q3 2024.

Another key impact will be a reduction in deliveries in H2 2024 versus plan, with a skew towards a richer product mix. We anticipate the majority of the delivery impact related to the braking system to be in Q3. This has been reflected in our updated volume and EBIT guidance for 2024. Consequently, we expect in Q3 an impact on inventory levels in major markets, where a temporary delivery stop has been implemented on vehicles and the affected parts need to be exchanged before delivery. This will result in a higher level of inventory in Q3. We are compensating this inventory build-up through adjusting production which will provide relief to inventory levels by year end.

We are, of course, in dialogue with the supplier of this part regarding compensation for the cost of the technical campaign.

The other aspect of our guidance update relates to the **general market situation in China**. The Integrated Braking issue had a significant impact on the sales performance in China in August with a skew towards a richer mix. Furthermore, the government measures to stimulate buying behaviour in China have not yet taken effect and we see ongoing weak consumer sentiment. The increase in dealer transaction prices in July, which we referred to at half year results, were sustained in August despite the market environment. Given the integrated braking issue and weak market dynamics in China, we expect a volume impact for 2024. While our profit-oriented sales approach remains intact, it does not compensate for the loss of volume and mix dilution. This overall leads to a profit impact in China and is reflected in the updated group guidance for 2024.
In this situation we are also constantly monitoring the health and performance of our dealer network and collaborate with them to optimize profitability. We continue to leverage the full flexibility of our production processes and are implementing measures to compensate for the volume impact. These include, optimizing stock, adjusting shift patterns as well as insourcing maintenance and logistics activities.

As outlined in the ad hoc communication, the BMW Group **adjusts guidance for the 2024** financial year:

The following changes result in **segment Automotive**
- We expect a slight decline in deliveries to customers versus previous year (before: slight increase).
- The EBIT margin for 2024 is expected to be in a corridor from 6% to 7% (before: 8 % to 10 %).
- Return on Capital Employed (RoCE) is expected to be between 11% und 13% (before: 15 % to 20 %).

At the **Group level**, we now expect Group EBT to decline significantly (before: slight decline).

We expect **Free-Cash-Flow** in Segment Automobile to be above 4 bn.
Our shareholder return approach using dividends and share buy back remains intact. We are continuing with tranche 3 of our current share buy back program as announced.

Ladies and Gentlemen, the news of the one-off technical action and China market development is definitely challenging. This however should not overshadow the **positive aspects** of our current operational performance.

BMW overall retail sales increased by +4.4% YTD August outside of China.
In **Europe**, the BMW brand continued to gain market share in August. In four major European markets (UK, GER, IT, FR), we have gained market share YTD August, outperforming the market.
In the US, BMW brand maintained its market share YTD August and simultaneously reduced incentive levels. We saw a slight increase in days to sell in Aug given the integrated braking system delivery stop. Despite the slight increase BMW still remains below industry and European OEM average days to sell.
In other relevant markets – like Korea and Middle East – the BMW brand is gaining market share and is staying ahead of the competition.
BMW Battery electric vehicle sales continued to grow significantly in August compared to last year, reaching a BEV share of 19.7%. This continues the positive trend communicated at Q2. Furthermore, we are on track for significant growth with BEVs over 2023 numbers and therefore remain confident to meet our CO_2 objectives for 2024. Our multi-drivetrain strategy continues to prove itself as robust. Our recent track record underscores the appeal of our battery electric vehicle products, which fuels our growth momentum.

Quality remains a top priority for the BMW group. This year we have intensified our efforts with a comprehensive set of measures in collaboration with our suppliers to improve quality in the supply chain.
Similarly **cost management** is part of our DNA. Also, here we have increased scrutiny and are taking additional actions to drive further cost reductions. With this, we have the clear objective to return to our strategic target corridor for profitability of 8-10%.

We will share the full quarterly results in the BMW Group Q3 Statement publication on 6th November.

Thank you for joining the call today. The transcript of today's call is published on the IR website. The team and myself are at your disposal should you have any open topics or follow up questions.