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Christina Schenck

Good morning, ladies and gentlemen. This is Christina Schenck speaking. On behalf of Mercedes-Benz, I would like to welcome you both on the telephone and the Internet to our Q3 results conference call. I'm very happy to have with me today Ola Källenius, our CEO; and Harald Wilhelm, our CFO. To give you more time for your questions, Ola will provide a brief introduction, followed by Harald, who will detail our financials as usual. After that, we will move directly into the Q&A session. The respective presentation can be found on the Mercedes-Benz IR website.
Before Ola kicks off his presentation, let's relive our IAA highlights one more time.

Ola Källenius

Welcome, everybody. This morning we published our third quarter results and I guess you've already skimmed through the numbers. So we'll be happy to give you a little context now. We're managing, as you know, a highly dynamic business environment from tariffs and political disruptions to intense competition in China and to heterogeneous BEV adoption around the world. And as you can see in our results, we're navigating through it with prudence and a plan.
From the beginning of the year, we took a realistic view about the challenges and opportunities ahead, and we will maintain this approach. So our first message is this, Q3 is in line with our 2025 guidance. All Q3 key performance indicators match full year expectations. Yes, the current challenges need a lot of management attention. And while we're a 100% focused preparing for the future, we will most definitely take our long-term goals into account. And the best answer in any market environment is customer orientation and product substance. And recently, we made a lot of progress.
With the CLA, we kicked off our biggest ever product launch program. The CLA is elevating its segment. It's our first software-defined car and the first Mercedes to run on MB.OS and its efficiency is unparalleled. That's not just what I'm saying. Maybe you saw it a couple of days ago, one of Germany's most renowned car magazines basically wrote, it's the best car we have ever tested. And I mean, they've been evaluating cars for almost 80 years, and the CLA has just raised the bar.
We now see this great feedback translating into customer orders. The CLA is gaining traction in the European market, and we're just at the beginning of a global rollout. We have also launched the new CLA Shooting Break. It offers the same product substance as the CLA and adds even more room in its very popular model amongst fleet customers, important for Europe. Both these cars also now in the next weeks' start production of the hybridized ICE version.
We met many of you guys in Munich in September. You saw the new electric GLC with your own eyes. It sports the new face of the Mercedes-Benz brand combining iconic Mercedes elements with the latest technology, and that car can be ordered as of today.
I'm sure the new GLC is about to continue the success story of our best seller in the electric era. With the new VLE and VLS models, we're expanding and elevating our range of grand limousines. We began pre-series production of the VLE in the third quarter. The next steps will follow soon. I recently drove one of those prototypes, watch this space.
In that context, let me say a few things about our product strategy at this point. As announced, all added up, we plan to launch more than 40 new models by the end of 2027. And we want to spark desire wherever we choose to play. This includes a significant expansion in the top end segment over the next two years. That's where Mercedes comes from. That's what we do best. And that's also what fuels our financial firepower.
So the focus on the top end segment remains a cornerstone of our strategy. In addition, the core segment is where most of our volume is. It's the backbone of our business. Here, we'll complete our offering across all powertrains: BEV, plug-in hybrid, and ICE.
The electric GLC marks the start and the C-Class and more will follow. In the entry segment, you will witness a complete reskinning of our offering. Soon, the new CLA and CLA Shooting Break will be followed by two SUVs. As you can see, we make sure to keep providing an accessible entry point into the world of Mercedes-Benz. This is particularly important for the European market. So we have this in mind.

All these new products will carry the next generation of exceptional Mercedes technologies. So we're keeping up the pace. In electric drives, we showcased a new dimension of performance with the CONCEPT AMG GT XX. The car has shattered a whole series of records. It travelled around the world in less than eight days, covering over 40,000 kilometres.
Some might say that was a nice PR start. But in reality, it was the most demanding test drive of all time because the very technology that made this possible is going into series production already next year. This includes axial flux motors and directly cooled batteries.
Regarding software, we have entered the era of software-defined cars with MB.OS. We'll roll out MB.OS across our entire portfolio, BEV and ICE and see constant evolution, thanks to over-the-air updates. Our advancements in ADAS are elevating customer experience and increasing safety. We'll launch our point-to-point assisted driving system for urban traffic next week in China, some call it Level 2++.
I'll be happy to talk a little bit more about our way forward in a minute. But first, Harald will guide you through the numbers and give you our financial outlook. Harald, please.

Harald Wilhelm

Thank you, Ola, and hello, everybody. Let's continue with the group financials on the page 6. Revenues are at EUR32 billion due to lower sales volume. However, partially offset by a better structure. The EBIT adjusted sits at EUR2.1 billion. Obviously, we'll dive into that a bit more in detail. If you look at the EBIT booked, that sits significantly lower due to 2 effects: the restructuring program, the NLP-P, as we call it, and the legal proceedings at MBM, also more on that a bit later. EPS is at EUR1.22. Also, we will give a bit more colour on that in the section a bit later.
In the third quarter, you might have noticed that we had a healthy cash generation with EUR1.4 billion in the quarter, yielding a total year-to-date of EUR5.6 billion free cash flow and that brings us to a comfortable net industrial liquidity of EUR32 billion by the end of the Q3.
Looking on the car sales, page 7, in July, we expected H2 sales in the vicinity of H1 with Q3 slightly lower and Q4 slightly higher. And I would say this is exactly what happened for quarter three, if you look at the 441k units sold. Overall, sales were influenced by the market environment in China and continued diligent stock management to mitigate US tariffs and adjust the dealer inventory.
Also worthwhile to notice, I would say, top end actually increased year-over-year by 10%, driven by G-Class, S-Class, AMGs, and all in all, I mean, that leads to a higher TEV share of 15.4% in the quarter. Also interesting to see in China, the top end sales increased by 13% year-over-year.
On the electrified vehicles, we could notice a 10% year-on-year increase driven by our plug-ins. Sequentially, our BEV sales increased by 22% in the third quarter versus the second quarter driven by first deliveries of the electric CLA in Europe. Overall, we reached an xEV share of 22% in the quarter.
On the cars financials: Sales, I just explained, revenue developed a bit better, thanks to a higher CBU share and top end share. The ASP remained stable. EBIT sits at an adjusted value of EUR1.1 billion. Cash conversion above 1. Let's look a bit more in detail on the page 9 on the profit evolution.
In quarter three, we achieved an EBIT adjusted of EUR1.1 billion with a return on sales adjusted of 4.8%, respectively, 6.3% ex tariffs. On an overall note, if you look on the chart, you'll see that through our work on cost levers, we were able to offset the impacts of a dynamic market environment, including tariffs, the situation in China, and effects from FX.
Let me guide you a bit more in detail through the bars on the chart, volume structure net pricing, what is inside lower unit sales that were nearly offset by a better structure due to a higher CBU and top end share, flat net pricing, lower contributions from China. And overall, the effects from tariffs, which amounted to roughly 150 bps in the quarter, slightly lower due to the stock management and lower US group sales.
The largest single part of the FX effect you see on the chart is Turkish lira, which we maintained pricing compensation. The remainder is driven by Korean Won and Japanese Yen. The industrial performance is meaningfully positive, driven by the material cost savings and efficiencies in our operations. Similarly, we achieved cost savings in the other cost categories, including reduced direct selling expenses and lower non-capitalized R&D cost. Altogether, these buckets contributed to over EUR1 billion positively in one quarter.

Looking on the cash flow for cars. CFBIT adjusted at EUR1.5 billion. So we had some tailwind from the working capital, positive contribution coming from trade receivables due to lower part supplies to BBAC and higher inventories, but also higher payables which offset each other. The net investments in PPE, equal almost at depreciation level. And on the others, we have the adjustment for the non-cash effect of the NLP charges, not yet cashed out, dealer provisions and the reversal of the BBAC at equity result.
Moving to the vans, page 11. Sales are at 84,000 units due to a competitive market environment. In Europe, we see the competition in the fleet business continuing. At the same time, we could double the xEV share to 10%, thanks to improved availability of our eVans.
In Europe, we achieved a best share of 14%. Revenues reached EUR4 billion, driven by the sales development, an unfavourable mix and a softer net pricing also impacting EBIT. More on that next page. And on the cash flow side, you see reduced stock levels, which had a tailwind in terms of working capital. However, that was more than offset by the investments into our new van architecture and the ramp-up of the respective PPE. With that, we ended with EUR300 million of CFBIT adjusted for Vans.
Looking on the Vans profitability evolution, page 12. Volume structure net pricing, I already explained before. Additionally, we saw a lower aftersales business and an impact from provisions for achieving CO2 targets. On the cost side, Vans benefited mainly from operational efficiencies, on-time valuation effects and lower SG&A costs, R&D and others are wash. That leaves us with EUR412 million EBIT adjusted, RoS adjusted at 10.2% in a dynamic market environment, which is, I think, a good achievement.
Page 13, on the Mobility. The penetration rate increased. The new business volume decreased versus previous year, mainly due to the development of the unit sales and the FX effects. Portfolio remained stable over the quarter. Quarter three, EBIT adjusted is at EUR313 million with a return on equity adjusted at 9.6%. The main drivers of the improvement versus previous year are positive development in the portfolio margin, continuously healthy acquisition margin, which are in line with our target returns. The improved cost position for SG&A expenses are also supporting the margin improvement. These positive effects were partially offset by higher cost of credit risk due to a softer global economic outlook.
In the UK, the FCA recently published a draft redress scheme concerning Motor Finance Commission models. Based on this development, we provisioned a mid-3-digit million-euro amount in the third quarter driving the significantly lower EBIT booked at minus EUR180 million. We are currently reviewing the FCA's consultation paper and are considering our response to the FCA.
Page 14, on the group EBIT. Cars, Vans, Mobility, I explained already. In the recon, mainly you have the at equity result of Daimler Truck, EBIT adjusted is therefore at EUR2.1 billion. The adjustments refer to the restructuring and the legal proceedings at MBM.
On the restructuring charges, let me give you a bit more colour. These refer to our NLP personnel cost reduction program. So we had an effect of roughly EUR1.4 billion in the first nine months of this year. As you can see that we were making good progress on this topic.
Please expect also some further progress in the fourth quarter on the NLP program; however, lower than in quarter two. Thereby, the group EBIT booked sits at EUR750 million. The EPS is at EUR1.22, which includes positive effects from revaluation of deferred taxes due to a lower corporate income tax in Germany starting in 2028.
If you look on the cash flow, we already talked about Cars and Vans, so you see cash taxes at minus EUR300 million, significantly lower than in previous years. The rest, I would say, is a wash. With that, we achieved a solid EUR1.4 billion free cash flow, with adjustments of EUR200 million due to the first cash outs for the NLP program.
Page 16, comfortable, healthy net industrial liquidity at EUR32 billion. And obviously, that brings us to the page 17, the stuff you, I think, eagerly expected and anticipated, the share buyback. You know we have that capital allocation framework in place. You know what it means. So we are, therefore, honouring our commitment to return free cash flow generated to shareholders.
We stated earlier this year that we would initiate a new share buyback once we had better visibility on the cash generation. Now we generated EUR5.6 million in cash in the first nine months of the year. And we paid out at the same time EUR4.1 billion of a divi. That means we have generated roughly EUR1.5 billion year-to-date after the divi and we anticipate further positive cash flow for the remainder of the year.

Therefore, we've decided to initiate a new share buyback program with a volume of up to EUR2 billion, plan to start next Monday, third of November, and the program is expected to run for up to 12 months. As we said, we remain committed to our capital allocation framework, and we are pleased to be in a position to execute it now.
With that, I mean I would come to the outlook section, page 18. On the divisional guidances, I mean first, and please consider the disclaimer regarding forward-looking statements at the end of this presentation in relation to the outlook.
On the Cars division, on the sales guidance with 1.3 million units year-to-date, we continue to see 2025 significantly below 2024, mainly due to China. H2 sales are expected in vicinity of H1, with quarter four slightly higher than quarter three. On the US side, we see underlying customer demand higher in quarter four [corrected] than in Q3 and continue to manage stock levels to target. Q4 group sales are expected slightly higher than quarter three.
In Europe, we expect solid momentum in the fourth quarter. The customer order intake is on a healthy level, which takes us into 2026. And in China, the market environment remains challenging and the competition intense. Therefore, we expect quarter four in the similar ballpark as quarter three.
On the global TEV share for the full year, we expect this to be well within the 14% to 15% range. Quarter four is expected in the ballpark of quarter three. The xEV share is at 21% year-to-date. Therefore, we continue to see full year between 20% and 22%.
On the return on sales, I mean, adjusted with 5.7%, including tariffs and 6.7% underlying year-to-date with a slightly higher volume in quarter four; continued dynamic pricing environment; a stable mix; cost seasonality, including fixed cost capitalization as well as higher tariffs. We do confirm the guidance range of 4% to 6% and expect to be well within this range for the full year. With the cash conversion rate year-to-date now at 1.4, we raise our CCR guidance by 1 notch to a range of 0.9 to 1.1, no change on PPE and R&D.
On the Van side, sales usually come in higher in quarter four, and this is expected to be the strongest sales quarter of the year with the sales development in line with earlier expectations. Consequently, we're keeping the sales and the xEV guidances is unchanged.
On the return on sales adjusted, in the first nine months, we achieved a healthy 10.7% return on sales adjusted. Against the year-to-date run rate, we expect for the fourth quarter: a positive impact from higher volumes, commercial dynamics to continue, headwinds from seasonality of material cost one-timers, and the ramp-up of the transformation of factories for the next generation of Vans.
We expect the impact from the tariffs to be less than 100 bps on the van side. This aligns well with our previous assumptions. And I mean, therefore, we confirm the full year guidance range of 8% to 10%, including tariffs and expect the full year to finish at the upper end of the range. With the CCR year-to-date at 0.9, we raise the CCR guidance also by 1 notch here.
On the Mobility, we are at 9.1% return on equity adjusted year-to-date and we expect the full year unchanged in the range of 8% to 9%, also rather at the upper end.
And leaves me to comment on the group guidance, page 19, follows obviously same assumptions as the segment guidance. On top of the divisional guidance, the group EBIT will be impacted by the restructuring and the legal proceedings, as I commented before. And with EUR5.6 billion of cash generation year-to-date, we are well on track with regard to the cash generation for the full year.
And with this, I hand back to you, Ola.

Ola Källenius

Thanks, Harald. I think this environment will remain dynamic, and I can say this, we're very aware of the challenges ahead of us. And that's why our fundamental priorities are firm: desirable products, technological leadership, customer focus, profitable growth and, of course, attractive shareholder returns.
We have a plan. And I think that the results of the first three quarters clearly demonstrate our execution focus. At the same time, we're not afraid to adapt when circumstances change. The animal that is able to adapt is the one that survives and thrives in evolution.

So going forward, we'll offer our customers the full range from BEVs and hybrids to high-tech ICE all the way to V8s, because customers decide what suits them best and we will continue to listen to the customer. We can respond to market demand with new products because our architectures allow technologically convincing and cost-efficient solutions. No technical compromises in terms of the packaging of the cars for the customer.
We're constantly readjusting our go-to-market strategy because the operating optimum of a business is a moving target, certainly in the market that we're in right now. We're taking on the challenge in the Chinese market with China fit tech and products and a new approach to fundamentally improve product costs because the hyper competition in China is not going away anytime soon. This is certainly a multiyear task.
Looking ahead, we expect the market environment to remain challenging, and we retain a realistic view. But we also remain confident in the strength of our product pipeline and the upcoming ramp-ups which will have their full impact beyond 2026 and will unfold fully during 2027.
Mercedes is driven by a management team also with new minds, fresh ideas and a lot of energy. We'll jointly press ahead with our product and tech launch program. And of course, we will remain focused on enhancing the customer experience. And we'll continue to drive efficiency across our company, and we're committed to generating attractive returns for our shareholders. We are determined. Thank you.

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