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COMPANY EDITED TRANSCRIPT

Operator: Ladies and gentlemen, a warm welcome to the HELLA Investor Update Call. (Operator Instructions) This call is hosted by Mr. Favre, CEO; and Mr. Schäferbarthold, CFO. Let me now turn the floor over to Mr. Favre.

Michel Favre: Thank you very much. Good morning. I am very happy to be with you today. I am with Bernard Schäferbarthold, our CFO; and Kerstin Dodel, our IR. One preliminary comment. You have everywhere FY, FY means fiscal year, 7 months, not full year. So please take into account that we are speaking of 7 months. And of course, you can make an extrapolation with 12 and 7 to have the full year figure.

I will comment the presentation on the Internet, starting with the Page 4. So Page 4, we were recording again good figures on sales, whatever the low volumes of the market so EUR4.4 billion, which means that we are today over EUR7 billion sales on a 12-month basis. And of course, we see that we are targeting better figures. We have a very good support from our sales in North America and China, gaining market share in these two with a significant market share.

EBIT, we confirm the same EBIT as end of November, 5%, which is a relative performance, because of course, we targeted much more. But in the time of low volumes and inflation, I think that we can say that our teams and we have made our homework. And I can tell you that we have been very active to protect our P&L and to pass through inflation. We have something

like 85% of the inflation pass-through, which is as well relative figures, but probably compared to some peers, which will be a good performance.

As you know, we are more and more focused on cash. We need to generate cash in HELLA. And we have been able in these 7 months to generate EUR83 million after a period where we consumed cash. And we have to accelerate this figure, which will not be so easy in the current time. Order intake, EUR7 billion. If you prefer, EUR1 billion per month. And I can confirm that because of the 12-month calendar full year 2022, we achieved EUR12 billion of order intake. So we are very successful on this side. Very successful, thanks to the flagship technologies in HELLA is the fact that we are really driving very good innovations and we can manage as well differentiation for our customers.

The last point, we continue of course to accelerate integration on the right fields with Faurecia. We have achieved more than our figure target of EUR20 million. I can tell you, EUR27 million for HELLA, which is better than for Faurecia, and we'll of course continue to accelerate. And on top of that, we continue to feed ideas. So we are above, and I would say, much above the EUR400 million figures for the synergies to be captured and achieved by the end of 2025.

As you know, we speak of preliminary figures, so we will give you only the key figures. So Page 5, for the first time, you have the figures for the different activities. One comment because Faurecia will publish the figures next Monday. So you will see some small difference, higher figures for Faurecia Power business. This is due to the fact that some costs were already provided in the opening balance sheet of Faurecia because of the process. The main difference is the warranty cost. Faurecia is working on a statistical basis. So they were able to provide a cost that of course we have in our P&L where we are adjusting with Bernard our process and we'll be fully of course in line with the Faurecia process at the end of December 2022.

So saying that, you see good sales for both lighting and electronics. Very good growth, both volumes, but outperformance as well fed by the inflation. If I zoom on lighting, which is very good, because if you remember, the first half 2022 was complicated. It was our second semester fiscal year. So we show a clear improvement the team is making as a turnaround. The team is improving

the operations, mainly in North America. So we can say that today we are firstly above budget, which is good, and we are on the right track. So I am very confident in our capacity to continue to give much better figures on lighting in the next months and next years. And you know that we have given the target of minimum 6% for 2025. We are really on a good track.

Electronics, 6.5%. I have seen some publications. I think this figure is good. This figure shows that we have been able to protect our profitability in a time where inflation of semiconductors is unbelievable. We have as well a very good operational performance. So I think we can be satisfied in the current situation of this figure. In life cycle, whatever the mix, whatever the fact that we are feeding the global expansion, we were able to achieve a double-digit, which is as well a good performance. So I would like to take advantage of this presentation to say and to thank all the team of HELLA for these good results. Going to Page 7. It is still uneasy to make guidance in the time of inflation, but we have the impression that inflation has somewhere reached a cap, but to be confirmed. We are still on a political uncertain world. On the volumes, we are facing a small slowdown mainly in China currently. Now it was due to the COVID. We have some question mark about the final demand in China, but potentially as well in Europe. And the main driver for that is price, prices of cars are very high. So it is why, and I apologize for that, we will be conservative with the figure, which is not the 85 million cars production of IHS, but we are taking a conservative figure of 82 million, saying that it will be a flat evolution. Anyway, it is our budget. And for the moment, the first quarter is giving right to us, we will see afterwards. And we would like that volumes anyway will be an upside and not a downside. And of course, Europe is affected by that.

So on this basis, Page 8, we can commit to figures between EUR8 billion to EUR8.5 billion of sales, which will be a new breakthrough for HELLA.

Operating income, we confirm the margin of 5.5% to 7%. We were staying for the first 5 months on the low range. We confirmed that on the first 5 months, it will be lower - close to the low range. But of course, we target to be in the middle of the range, at least for the full year. So we are as well on the track the road map. And we have the very good opportunities of the synergies to continue to improve month-by-month the margins.

Net cash flow, it is the first time that we are disclosing a figure on net cash flow. It is clearly the tradition that the work made by Bernard, the financial team, is giving the fruits. We clearly want any way to provide a very good growth, but as well to generate cash. So we are improving. We target 2%. I don't say that it is the easy target, but of course, it is one of our major target for this year.

So summarizing the presentation, Page 10, we have a strong sales momentum, and we are very confident of course to achieve more than EUR8 billion of sales this year. We have a fantastic order intake, and I repeat, EUR7 billion in 7 months. We speak of EUR12 billion for the 12-month calendar year, which is clearly feeding our target for 2025 of EUR10 billion. So we are really on a good track on that. We have I think the right target for 2023, in line with what we have promised - committed at the Investor Day. And cash flow - an improvement of cash flow conversion - is a key target. And we continue to drive the cooperation with Faurecia, and I think synergies are speaking for themselves.

So saying that, now with Bernard, we are ready to answer to your questions. Operator, can you start the Q&A session?

Operator: (Operator Instructions) And the first question comes from Michael Jacks.

Michael Jacks: My first question is in relation to the comment that you made in the release that profits will be more skewed towards the second half of the year. Can you just please give us a sense for the main moving parts here? Is this just driven more by delayed compensation or is there something else there? My second question is on the synergies. Can you please just give us a sense for how much of this was realized already in 2022? And what the expectations are then for the remaining EUR300 million - or EUR150 million, which is HELLA's share over the next three years? And finally, on the sales guidance, can you provide a little bit more color on the moving parts here? What is the contribution that you expect from pricing and from outperformance?

Michel Favre: So the last question will be for Bernard. I will say, progressive improvement. Of course, we have some negotiation. We have to continue to pass through

inflation. We are slightly late on some activities. Some activities are clearly on a good track. And so it is a normal process. We have volumes, and you know that China is a big contributor of our P&L. And due to the Chinese New Year, which is not this year, it is every year, the first quarter is traditionally lower. So it is why there will be this ramp up and improvement in the next quarter. So those are the main drivers. We have some progressive new products which will feed sales and normally operating margin. Synergies, I have given you the figures. I think EUR27 million cost of synergies achieved in 2022 and we target more or less a double as P&L impact in 2023. Bernard?

Bernard Schäferbarthold: On the growth, we expect close to 3% in terms of price increases in the top-line in comparison now to 2022. It's in comparison now to our reference point '21, it's even around 5%. But the difference to '22 is around 3%. And the difference, let's say, is organic growth we expect. So it's more about-- in a basically volume flattish market, it's more about a higher outperformance. What we actually see is that in the growth areas, specifically of electrified cars, hybrids, but also in terms of our lighting products where we also have a big share actually in electrified cars, they are showing a bigger growth path. So that's why we expect with higher take rates also an increasing outperformance in 2023.

Michel Favre: And Bernard, what we can say that for inflation, the part is a full year impact of what we have captured -- achieved end of the second half of the year 2022.

Operator: And the next question comes from Christoph Laskawi.

Christoph Laskawi: The first one would be on the net cash flow guidance that you have initiated. The adjusted free cash flow that you've shown before is not including- has not included factoring if I recall that correctly. And is factoring now included in the net cash flow guidance that you provide? And could factoring alone already make EUR100 million in '23 to drive the number even above 2%? If you could share your thoughts on that? And then the second question would be on the assumptions for the cost headwinds that you factored. If you could just walk us through the cost buckets of inflation in '23

and a rough pass-through share that you target? And then just lastly, the outperformance pretty much driven by Asia and North America or is there something else that you would want to highlight on the outperformance?

Bernard Schäferbarthold: So in general, the 2% is without a significant change in factoring. So could be that there is a slight increase in factoring. We actually had EUR190 million through the end of 2022. So this could be a little higher, but not a significant difference. There is one factoring program we have now additionally signed now in January. It's \$100 million factoring program in Mexico. So that with that, we have an overall line of EUR300 million, but we are not assuming the full EUR300 million in getting to the net cash flow targets we have.

But perhaps as an additional comment, we will have some volatility also in the cash flow because we see the 2% we will reach through the end of the year. But we actually also see that with the slow start and significant higher volumes now in the months to come, so starting from March, April, May, we will have higher also inventories now in the first quarter, at least also through the, let's say, end of the first half. So we expect a negative cash flow in the first quarter and then positive second quarter and then a strong second half. So that's actually how our cash planning is looking like. But to your specific question, no significant change of factoring to our 2% target.

On the growth, we would expect basically outperformance in all three regions. Again, we were very strong in China and U.S. We would assume a continuous good development in these both regions. We see a similar growth pattern also in terms of lighting and electronics. Actually, somehow electronics with a stronger growth path in this year. We will benefit, especially in lighting also from, as we said, also in 2022 we had some bigger volume projects, which are continuing to increase in volumes. This will help in electronics specifically. We have also a lot of ramp-ups now, especially in radar, but also in energy management. We will benefit also from higher growth also in electrified cars with our product spectrum in terms of battery management systems specifically, but also DC/DC will increase more significantly also in 2023.

Christoph Laskawi: And on the cost assumptions affected in the guidance, any comment there or too early?

Bernard Schäferbarthold: On the cost assumptions, so basically, we continue to see that specifically on some technologies on semis, this is the biggest increase we expect here. The second is on energy. We have now seen energy prices coming down. But in comparison to 2022, it's quite a big increase. A little less than what we expected some months ago, but still a big increase in comparison to 2022. And we see on the wages also and on the salary levels, quite a higher increase, but not more than we expected. But the biggest part comes from comes from the electronic parts. In terms of our pass-through assumptions, we want to be higher than 80% to protect our margin similar to last year.

Operator: And the next question comes from Sanjay Bhagwani.

Sanjay Bhagwani: Also, I've just got two more or less. The first one is a bit more structural. So when I talk about the pricing pass-through, so what has fundamentally changed on the ground, because let's say, like in '21, we were talking about literally no pass-throughs then you got somewhere around 30% and now it is 80% and now you're even guiding for more than 80%. So have you structurally changed some KPIs of your sales force? And yeah, so any more color on that that will be super helpful because -- and is there also an element where you share the best practices with Faurecia's sales force who seem to have a good record in passing through? Yeah, that is my first question, and I'll follow up with the next one.

Michel Favre: So you're very right. So 2021, it was complex to pass-through because we were starting to see some price increase and some cost increase, but things were not completely clear. Of course, we said the processes was not always defined. So we have to define the processes with our customers. So we were clearly accelerating. We were -- and we are very proficient on the way to show and to demonstrate the effective cost increase. And our teams have

accelerated since the second quarter of 2022. So it was not only the fiscal year, it was really started by my predecessor in the second quarter of 2022. So we are making the things on the right way. Of course, no violence, no way: we are partnering with our customers. But we have the right to be compensated because they have the pricing power. And I will not comment on the price increase they have made on the cars. It is their duties. But anyway, they have the capacity to compensate us and it is a normal way in this industry. So it is why it has been a progressive process. Processes have been defined by customers of what they accept, what they want to be a demonstration.

So results are there, more than 80%, probably we speak of 85% for the second half 2022. And as Bernard was saying, we have the processes now. So we stick on the 85% as a normal target and normal compensation. We have the chance is that in our businesses. We are strategic for our customers. So it is a win-win story that we want to continue to deploy with our customers.

Sanjay Bhagwani: That is very encouraging. And if I can follow-up on this one. So now I mean, I can imagine that the processes are set. So first thing, the pass-throughs can come through much more faster. And then in terms of negotiations, are you basically going, like if you can provide some color on the nuances here that are you basically doing the bundled negotiations and then breaking down different components? And what sort of benchmarks are you using, particularly for not very quantifiable inflationary components like wages? So any color on that will be very helpful as well.

Bernard Schäferbarthold: Yeah. What we do is we are taking the reference of May 2021 in terms of pricing. So we take the bill of material and really the individual parts and we compare the increases within these parts, for example, on a single semi. And this is then the increase which we are valuing. And in general, you can say that most customers have now also professionalized or operationalized the proofs, so that they are also doing audits then on these analysis, we are doing in terms of the increases, and this is then the basis for discussion. In general, we talk about the raw material increases. So most relevant is certainly the material -- all material increases, but also energy is important,

logistics and also what we call the additional inflation on salaries, which we are also taking into account, not the normal level, but what comes on top. And this is then the basis for the start of the discussions. And the outcome is very different in how agreements then are taken with customers. It's very, very different. But at the end, some take increases on part levels, some connected with some volumes, some are doing one-time payments at a certain point in time. So that's very different.

Michel Favre: When they make one-time payment, the reference is there. So it will be the base with the one-time payment for the next period.

Sanjay Bhagwani: And the last one from me, more on the near-term. Like, I think January has not been very exciting because of China, but how do you see the visibility on March, April? Do you have strong visibility there in terms of the volumes and the profits?

Michel Favre: For China, you know that the New Chinese Year was the 23rd, so it was only a 3-week period affected by the COVID because some plants have closed, et cetera. So we have seen a big improvement in China during the month of January. I will not say that the COVID is over, I don't know moreover, but somewhere, it is a big improvement. And I hope that March will show a recovery. March is showing in our program a recovery, but not as much as we were initially expecting. So it is why I keep a small point of attention. We are not totally sure of the final market demand in China.
Of course, we speak probably of 2 million per month, cars, something like that on the horizon, but probably not more than that. It is always complicated to understand that, because on one way, you have some waiting times, mainly in Europe to get some cars. But on the other way, the price level is clearly preventing for some people, preventing them from buying cars. So this is globally a point that could slow down the recovery of volumes of this of the sector.

Operator: And the next and last question for now comes from Giulio Pescatore.

Giulio Arualdo Pescatore: The first one on the guidance. You expect the guidance as a range, but you actually gave a point assumption for the LVP for 2023, which is flat. Am I right in assuming that flat is true for both the higher end and the lower end of the range and that anything that comes above flat will potentially give you upside or you're assuming for the higher end of the range that production will be better than expected? Just a clarification there.

The second one on the order book. I have to say, it's very impressive. Just curious to know what is making the difference here? And why customers prefer to work with HELLA and not with somebody with a broader portfolio and potentially ability to system integrate? Is it having kind of key capabilities in one product making a difference here?

The last one, just curious to hear your thoughts on the semiconductor shortages. I know we've discussed it for two years now, but just structurally, do you think there's going to be enough capacity for the market to recover beyond 2023? It's one of a long-term question. Do you think your partners on the semi side are investing capacity enough?

Michel Favre: Some tricky questions. So for the volumes, it's 82. We are in the middle of the guidance. So usually, when you take HELLA, we have more or less a 25% margin of the additional volumes -- of the lower volumes, unfortunately. So it is clearly the sensitivity you can take. But 82 million cars is our assumption. As we have more than EUR8 billion, 82, it's not very complicated. If you want to add 1 million, what it means, more or less, EUR100 million of sales because of the mix of course, but it is quite easy now to do.

Your second question was about, sorry?

Giulio Arualdo Pescatore: Sorry, it was on the order book.

Michel Favre: Yes, order book. It's completed somewhere. It's a good question. We have some very good innovations. You have seen on the front end, radomes etc., we are taking some sizable business, radars as well. We have the DC/DC, Bernard was mentioning that. So probably, we have some very good innovations. We have some products where today we are discriminant. It will be the main assumption.

In some area, some competitors could face some difficulties and probably are more effective. I don't know how to comment that. The only thing I can tell you is that we continue to take this kind of level. I speak of 1 billion per year - per month, sorry. And second, the profitability of the order book is good. As a point of view, the order intake is good.

For semiconductors, the question is tricky because we have always a mix, which is playing negatively. EVs are much more consuming semiconductors than a traditional car. So the mix is playing actively on that. And more EVs means more pressure, and we see some pressures currently anyway. The second thing, the automotive is on the traditional standards on which investments are very limited because as the semiconductor players are investing in the new standards, mainly for the consumer electronics and the phone industry. So we are depending on the speed from this to other industries from moving to the traditional standard to the new one.

So it is an indirect impact. So it is why the vision on semiconductors remained limited. We see improvements. We see more volumes. But on the other hand, we see more consumption due to the mix. So not easy to have a clear view today. And we have still some small shortage. Early January, that was the warning, in week 5 we had a problem for our customer. Now it is Q2, which is a much better improvement. So my life is easier, but it's not finished. So we still have some pressure on that.

Operator: So currently, we do not have any further questions. (Operator Instructions) It seems that there are no further questions from the audience.

Michel Favre: Thank you very much. Thank you for your attendance. So please notice our next rendezvous, 21st of March, we will have the detailed full release of our figures and Bernard will be much more talkative than today. And April 27th, the Q1 figures. April 28th, we have the shareholder meeting. So I will be happy with Bernard to see you soon. And I wish you a very good day.

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