



C: Michel Favre; HELLA GmbH & Co. KGaA; CEO and President  
C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO  
P: Christoph Laskawi Deutsche Bank AG, Research Division - Research Analyst  
P: Akshat Kacker JPMorgan Chase & Co, Research Division - Analyst  
P: Giulio Arualdo Pescatore BNP Paribas Exane, Research Division - Research Analyst  
P: Michael Shawn Jacks BofA Securities, Research Division - Director  
P: Sanjay Bhagwani Citigroup Inc., Research Division - Analyst  
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: Hello, ladies and gentlemen, and welcome to the conference call regarding HELLA Q1 Financial results in 2023. (Operator Instructions) The floor will be open for questions following the presentation. Let me now turn the floor over to your host, Michel Favre and Bernard Schäferbarthold. Please go ahead.

Michel Favre: Thank you very much. Good morning to everybody. Thank you for your attendance. So we will comment on our first quarter results. You have the presentation of the webcast. A very short introduction. Now it is good -- FY means fiscal year and full year, so we are on a full calendar in our base. And of course, we will compare the figures with the first quarter of last year which was, as you know, not competitive first quarter in the old HELLA, I will say, fiscal year. So this will ensure the, I will say, the full comparability. And of course, as it is quarterly figures, these figures are not audited. So going now to the figures, to the results, Page 5. So this sector is taking advantage of recovery, mainly in Europe because if you remember last year, the first quarter was deeply impacted by the semiconductors. So we are posting, I would say, a good sales growth, plus 14.8%. We have, I will say, a growth which is much above the market, but we clearly take as well advantage of the geographical mix as we are more European, and Europe is definitely the market recovery. But as you will see, we have a growth in all our business units. Electronics is growing by 10.8% to more than EUR 700 million; Lighting, 22.1%, close to EUR 1 billion; and Lifecycle Solutions, 12.8%,

which is remarkable, I will say, and profitable contribution. On the operating margin, we start, as expected, 5.6% operating margin. As we have said, we'll improve quarter after quarter. But we have a small downside with the R&D cost, but Bernard will come back on that. And net cash flow, slightly better than we were expected. We have an adversity and we have some catch-up on CapEx , but anyway, cash flow remains our top priority. And as you know, we intend -- we want to achieve 2% of sales as net cash flow. Now I give the floor to Bernard.

Bernard Schäferbarthold: Thank you, Michel. So good morning also from my side to all of you. So the sales development. It's a growth of 14.8% organic. Pro forma Q1 last year was at around EUR 1.7 billion, and we are growing to a level of around EUR 2 billion. The FX effect is quite small and neglectable. If we look at the segments. So Electronics is at EUR 763 million, in comparison to prior year, around 11% higher. The operating income is lower in comparison to last year. There are 2 specific topics. One is that in terms of the inflation in the first quarter, the inflation compensation or price increases to our customers, we had a slower start. We are only around 50% in the first quarter. And second is that the R&D spendings are higher than we expected originally. There is, on one hand side, an increase due to the strong acquisition level we had in prior years, but we also had some overspendings on some specific projects where we are preparing now for the launch. We expect that these overspendings will be over after the first half of this fiscal year. In terms of Lighting, we had quite a good growth of around 22%, exactly on the expectations we also had internally. The operating income is improving, still not at the level where we want to be, as said in the Capital Markets Day, but a solid improvement in comparison to prior year, also taking into account that the compensation rate in terms of the inflation is very similar to Electronics in the first quarter, also only around 50%. So we expect also in the upcoming quarters an improvement to that so that we are on a good track to a continuous improvement in Lighting as well in terms of the full fiscal year. If we look at Lifecycle Solutions, a very decent development in terms of sales in independent aftermarket but also in our special application business. We had continuously solid development in terms of agriculture products but also on

our customer segment, construction. And a very solid performance in terms of operating income. Overall a ratio in operating margin of 13.1%, as expected also internally on track. If we look overall regionally, so we outperformed basically the market, around 8.7%. We are outperforming overall in all 3 regions. Specifically in Asia, we had somehow a smaller start also with product and customer mix. We would see going forward a slight better outperformance in our expectation in the quarters to come. Overall, we expect the outperformance to be roughly in that range in the upcoming periods, even slightly higher than we have seen it now in the first quarter. If we look at the full P&L. The gross profit increased, specifically also in percentage of sales. We had a solid improvement, which is a very good development in our view, also considering that in terms of the pass-through and the high inflation. As I said, we expect also continuous an improvement in the quarters to come. The R&D, as I said, on a level which is too high in the first quarter, specifically with the overspend I mentioned. And we would expect an improvement now in the second half of this year specifically in terms of the percentage of sales. SG&A, we will continue to work on it. Some specifics also in the first quarter, but we would assume a reduction in percentage also overall on the full year and coming back to a quite similar level we had also in the last fiscal year. So all in all, a start as expected and also predicted that we say we would be somehow in terms of operating margin a little lower than the midpoint of our guidance in the first half, we expect a better Q2 and then a stronger also second half, which should bring us at least to the midpoint of our guidance we have predicted. In terms of net cash flow on Page 13. We mentioned already in our last call that we would have a negative number in the first quarter. On one hand side, in relation also with our profitability on the other hand side, with the higher CapEx level Michel was also mentioning, but also an increase in terms of working capital also due to an increase in receivables but also a continuous high level on inventories because of the high volatility in customer demand. We expect in Q2 a positive net cash flow and overall also on the first half of the year an aggregated positive number. And we are still confident about the second half then to reach our target of around 2% on the full year. Having said that, happy to take your question afterwards. And I hand back to Michel for the outlook.

Michel Favre: Thank you, Bernard. So Page 15, we go back to the volumes. As you know, we are very cautious on volumes because we think that the pricing situation, the prices of cars are very high, could impact the market and could impact as a recovery. So which is why we still stick on a flattish worldwide market. I know that some people, and we say famous organism is more positive, we will see. As you know, what is important for us is the trend of 4 key customers, the 3 Germans and the famous EV American player, carmaker. So we are, I would say, a partner for more than 60% of our sales. So of course, the trend of volumes for these carmakers is more important than the worldwide side. So it is something that we will review permanently. But today I can tell you, we are close to our budget, even lower. So we have to be cautious. Page 16. So I will repeat the guidance. Sales from EUR 8 billion to EUR 8.5 billion, operating margin from 5.5% to 7%, net cash flow a definitive 2%. As Bernard said, we are today, our vision is the middle of the ranges. Going to Page 17, our priorities. Sorry to be very short term but we have, of course, some long-term priorities, and we'll build a bright future for HELLA. But for the short-term priorities for 2023, we want to change our way to manage and to be more cash-focused, which means that we have to be selective on one side. We have any way to pass-through inflation on the other side. We have a lot of discussions in process. We are reasonably advanced, the 2 next months will be, I would say, definitive to close our situation for 2023 and to protect as much as possible our profitability. And of course, we will continue to accelerate on synergies. We have some definitive reservoir of ideas and of implemented ideas. So this will be a very nice provider of profitability and cash improvement. So as a conclusion, Page 19, I will say a solid performance in Q1. You have seen the figures. We should -- we could have made better, but anyway, we have some, I will say, good providers of better results like the pass-through and like the synergies. So as Bernard was explaining, we will sequentially improve our figures and mainly on the cash. And we expect that through the startup of new products, we'll continue to improve our trend of sales, knowing that the EUR 2 billion of the first quarter is a record and a good achievement for HELLA historically. So we are on track to achieve our 2025 targets. We will continue to build that. We will have internally a lot of

strategic plan presentation. So we will be ready to talk again, we say, end of July and to confirm our expectations for 2025. Being said, as Bernard said, I propose now to go to your questions. And operator, if we can start the Q&A session.

Operator: (Operator Instructions) The first questioner is Mr. Christoph Laskawi of Deutsche Bank.

Christoph Laskawi: The first one will be on current trading and a bit on call off volatility that you see in Q1 and also heading into Q2. Does the environment in general improve, you would say, and make it easier to manage your operations. Or especially in March and early April, was there more disruption than you anticipated? And then the second part on electronics. Obviously, you highlighted the R&D and the lack of pass-through in Q1. Could we expect electronic margins to be on par with last year for the full year? Or will it be challenging because of the R&D excess expenses to reach the same level? And then on pass-throughs, overall, you said 50% you got already. Should we expect a more meaningful step up in Q2 or just a gradual and then more weighted towards the second half?

Michel Favre: Current trading volatility, we have seen some pressure on semiconductor. I think I mentioned that last time. We find the semiconductors, but we are always struggling negotiating. We have to play between suppliers. Not easy as well to make some change because we are never sure that if we make, I would say, technical change, the family will be still the family of the future. So we need still some better vision of the semiconductor. Which is more and more present, and it is very present in China, it is the ramp-up of EV. And this is a massive, I will say, disruption in the market. So you have some customers who are gaining market share, and you probably you have seen that BYD in China is gaining very significant market share. Tesla is gaining market share. Whereas some traditional carmakers are impacted. And I think we will continue to see this acceleration. And you know that in 2025, the regulations will clearly boost in Europe, the EV. And we probably as well trigger, I would say, switch from hybrid, which is today, I think, as equal as EV. And we

clearly say hybrid will drop and EV will substitute. So EV will continue to be the flagship activity. So this has some impacts, and we see that model per model, we see that customer by customer. So this is creating some, I will say, big changes that of course we have to manage. But you know that globally, HELLA is much more exposed to EV than to double engine. So globally, we take advantage of this, I will say, impact. But your last question, yes, Electronics should post at least the same profitability as last year. It is our view today.

Bernard Schäferbarthold: To add, Mr. Laskawi, on a 4-week perspective, the volatility was around 25% last quarter, so Q4 last year. And we only had a small improvement in Q1. So we are still above 20% on a 4-week deviation. So it's still very high. So only a very small improvement. So no significant change, to your point, with all what the reasoning Michel has given to you. And on the pass-through, we would expect already an improvement in Q2, but the stronger step in the second half.

Christoph Laskawi: And just one follow-up. Michel, I think you had mentioned BYD. And I think Faurecia is obviously quite strong also with the local Chinese in that market. Can you actively leverage that connection through the FORVIA group now and obviously essentially gains in that regard or too early for that so far?

Michel Favre: No, no. What I can mention is that we are very proud to receive the CEO and COO of BYD in our Shanghai booth. And like I mentioned, Shanghai booth was a fantastic success. More than 25 CEOs of Chinese carmakers visited us and spend some -- not only some minutes, I am speaking of 30 minutes, 40 minutes. You know that for a CEO, who is present to motor show to dedicate 30 to 40 minutes is already a big step. So we were very happy to receive these key people. On top of that, we have made some full presentation to BYD with a lot of, I would say, technical people in BYD. This was made in March. So we are actively leveraging our presence with FORVIA. There are some key points is that BYD, for part, is integrated in our type of business. And probably, we can bring some feeling of the robustness on the differentiation,

et cetera. But it is something that we will continue to propose to trigger, if I can use this expression, towards these important customers.

Operator: The next question comes from Mr. Michael Jacks of Bank of America.

Michael Jacks: My first one is just touching on one of the first questions that were asked, maybe just asking it in a slightly different way. In relation to current customer activity levels, are the production schedules that you've received thus far for Q2 tracking more in line with the IHS forecast? Or is it something lower than that? And then my second question is just on input costs. If you could perhaps just comment on how these have developed in relation to the key cost buckets thus far in Q1 for raw materials, special freights and in electronic components.

Michel Favre: Yes. Thank you. For your first question, the difficulty today is that customers are oversizing their call-offs. They are always, I will say, anxious to get the components so they oversize for a big part. So which is why we have this volatility because we have to deal with them to understand how much of oversize. We have a problem with workers and staff because if we order exactly what they want, we'll have significant overstock. So we reduce that. We try to take the right, I would say, safety, but we are forced to reduce the call-offs. So the big volatilities coming from this attitude, which is due to the big problem between 2021 and 2022. So we need that customer replay, I would say, a reduction of variability. Industry variability is key. And when you have -- you have a big variability, you have big cost. So which is why we need absolutely to go back to a more normal work

Bernard Schäferbarthold: Input costs are better than expected originally. So specifically, all raw materials, but also on our energy, on our electronic parts, we are lower in percentage of our material ratio, it's around 1%, which we are lower than expected. So in terms -- in euro terms, it would be around EUR 20 million better than we expected originally in our budget. In terms of energy costs, most of it was hedged. So only specifically for Romania, it was not possible because of the regulation and with the cap they had, we have an improvement in comparison to -- so that we have in comparison to last year, a significant

increase in energy cost, but not as much as we expected. But even considering this lower inflation than already expected, so I mentioned that in reference to our measurement point, which is June 21, we have around 50% only of price increase we passed through in comparison to the inflation we have seen. So -- and your question also related to special freight. We had a good improvement. There are only little special freights in comparison to the last year. Still some, but in comparison to last year, a good improvement.

Michael Jacks: That's great. Maybe just one small follow-up. Can you please just remind us what was the special freight impact last year?

Bernard Schäferbarthold: Last year, it was a higher single-digit million-euro amount in the first quarter, and this year it's now low single digit.

Operator: Next, we have Mr. Giulio Pescatore of BNP Paribas Exane.

Giulio Arualdo Pescatore: The first one, on pricing. You talked about a 50% compensation rate in Q1, which is very impressive. I just wanted to understand how much of that is the carryover of the price increases you have done last year and how much is new negotiations that you managed to sign already in the first quarter? Then the second question, on synergies. Can you maybe elaborate on the phasing of the synergies over the course of the year? How much did you already achieve in Q1? And how much would be the step up in the coming quarters? And then the last one on Lighting. Just quickly, the business seems to be doing really well, a lot better than some of your close competitors. Are you gaining market share? What is put in the outperformance there?

Michel Favre: On pricing, when we negotiate the pricing, we want a price increase. So you have 2 different solutions. One is definitely price increase, which is the best solution. The second one is a temporary price increase that we have to document to keep and, of course, to continue. So a big part is that. So when we say 50% pricing, it is what we have secured. And of course, some are still valid, but we have to document and to definitely contractualize with customers. So which is why we have only 50%. If you remember, we are



speaking of 70% at the moment for last year. So we are still to secure contractually a part of it. But I will say we are on the good process because the process has been defined, and we have all the justification starting with the semiconductors to do it. For Lighting, I would say we have a very good trend, mainly linked with the famous EV American carmaker, for this first quarter. We for the next 2 years, we'd be like the market probably because the order intake was a little low in 2020 and 2021. On the other hand, we will start to take advantage of the very good order intake in 2022. And we are on a very good track today in 2023, of course, too, we have the big growth that we want from I would say, 2025, 2026 onwards. So we will have this kind of, I would say, slowdown in acceleration. Today, if I see the order intake, yes, we gain market share. And we are probably taking advantage, as you mentioned, of some difficulties of our peers. Bernard?

Bernard Schäferbarthold: On the synergies, we said overall the target which was increased to a level of EUR 300 million and 40% for this year, and around half of it for HELLA. So this was the overall perspective. And in terms of where we are now after the quarter, it's roughly to what we're targeting to realize this year. It's around a quarter or so. So it's a quite linear approach, a little lower than linear but minor, so yes.

Giulio Arualdo Pescatore: Perfect. Michel, can I just follow up on the pricing? Are you finding that carmakers are pushing back harder than they were last year on the price increases? Or negotiations have always been tough and it's just business as usual?

Michel Favre: Is that business as usual? Never. Because we speak of a big magnitude of pricing. We have said that the impact of price increase is something like between 4% to 5% for HELLA if we compare to June 2021 because of the semiconductors on one side, because of the big increase of prices on some raw materials, like plastics, and energy. So we speak of very sizable figures. So it's not business as usual. Inflation is back. Probably, we will see a lower inflation now in the next months, potentially in the next year, but of course, to be confirmed. Of course, the attitudes of carmakers are different. Some play the

game because they have the pricing power. They play the game as well because they anticipate that prices will be back. So this will be in 2 ways, which is important. And we are -- we don't make concession. We want this price increase because we have to protect our P&L and we have to protect our collaborators. So we consider this as a duty respect to all our people. So we have a clear file, and we will get what we need as pass-through.

Giulio Arualdo Pescatore: And sorry to follow up. Are you ready to walk away from potential businesses that you think are not reflecting the right level of pricing in case the carmakers just decide not to give you any price increases?

Michel Favre: If in the new businesses, there is clearly pushback on the, I would say, price adjustment, of course we will drop with respect to the business. In this world, if somebody is doing that, it's crazy. So it's a basic assumption to take a business. And of course, if a customer is too aggressive, it will be a good opportunity for one of our competitors. We can be selective, and we will be selective because my topic today in HELLA is that we are restricted as many people on the resources. So we have to adjust the growth with respect to what is strategic, what are our strategic customers and partners and how we can give the right means to everybody.

Operator: And the next questioner is Mr. Akshat Kacker of JPMorgan.

Akshat Kacker: Akshat from JPMorgan. Three questions from me as well, the first one on R&D expenses. You have previously mentioned that R&D will continue to go up to support the strong order backlog, especially in the Electronics business. So what kind of levels are you thinking about for this year? And when do you see these investments tailing off based on your current order backlog? Also on the overspending that you mentioned on the R&D, do you expect to receive customer compensations on those extra expenditures maybe by Q4? That's the first question. The second one, Michel, you mentioned Shanghai Auto Show in China. What are the views coming out of that auto show, please? Are you more bullish or more pessimistic around the developments in the Chinese

market in the second half? And the last one, I just want to make sure I understand the discussion on cost inflation. So probably asking that in a different way. In the first quarter, what were the net impact from inflation in absolute terms on operating profit, please, across the key buckets, raw materials, energy, and labor, please?

Michel Favre: Bernard, you take the last one. So for R&D, we have to adjust according to our resources. Today, we are over 10% of R&D expenses which is a big investment. It is linked with the Electronics, as you know. It is linked as well with the growth. So we continue to have a minimum 10% of R&D. As Bernard was specifying, we have some accelerated R&D, if I can use this expression, because we have to ultimate some strategic projects which will be in the start-up phase by the end of the year. So we have no alternative. We need to put all the means on, I insist ,strategic new products. For the payment by customers, of course, this is including the contract. Of course, in some cases, we can have some specific developments, which is what we call reimbursement. We will continue to ask our customers to pay what is very specific. So we could have effectively some discussions, negotiations on this. This is a part of our priorities. China, I will say, fantastic dynamism, fantastic confidence in the future, fantastic team. We have a fantastic team in China at HELLA. I can tell you we have a fantastic team at Faurecia as well. They are very successful. They have taken some significant market share. Both in Electronics and Lighting, we are leaders, but Faurecia as well. So we have a very good position. What we have realized is that we are traditionally the partner of our key international customers. We are close to 15% of our sales at Chinese. It is clearly not enough. So we are coming back, and our Chinese team has some very good ideas. And we are coming back of how and what we will implement to accelerate our development with the Chinese. What I will say for the market itself, probably the fact that there are some repositionings of pricing, you have seen Tesla. And of course, this has an impact on the EV, will probably re-boost the market. The market consumers are literally expecting some additional ground subsidies. So this could be a little of the market, but I think we can be more optimistic on the Chinese market with a big change. International carmakers, we were representing close to 60% of the

market last year. We'll probably represent less than 50% this year. So the definitive winners are the Chinese because the Chinese have enough EV at low price. When I say low price, that means below EUR 15,000, which is unique, and the European carmakers have big difficulties to compete with that. And what I can tell you is that of course they will come to Europe after 2025. They will come to Europe, and this will create a new competition and a new challenge. So I come back with a fantastic impression/feeling on what we are doing as Forvia as HELLA and with the conviction that we have to act to accelerate our development, accelerate to focus on that, et cetera, because we must accelerate our growth with the Chinese carmakers.

Bernard Schäferbarthold: On the inflation, so the higher costs are around EUR 80 million. So Michel mentioned the 4% to 5%, so it's EUR 80 million. Around EUR 60 million is material. So it's around 75%, this is the vast majority, EUR 10 million is higher energy cost, and the rest is on higher transport and also the over inflation in terms of labor. And as we said, out of this EUR 80 million, we realized price increases around 50%.

Operator: And we have one more questioner in the queue. It's Mr. Sanjay Bhagwani of Citigroup.

Sanjay Bhagwani: I have got 3 questions as well. So my first one is on -- just going back on your commentary about Q2 and for the rest of the year. So just looking at the outperformance, is it fair to assume that the outperformance will accelerate going into the Q2 and also Q3, Q4? And how are you seeing light vehicle production development as well in Q2? And on the margins, again, I think you mentioned that H1 margins could just be slightly lower than the midpoint and then full year could be at least at the midpoint. So yes, if you could provide some color on development for Q2 and H1, that would be very helpful. That's my first question. I'll follow up with the next one.

Michel Favre: Okay. Thank you very much. On outperformance, be careful because the second quarter, probably the geographic mix will play a lot. As last year, there was a lockdown in China, so the weight of China as volume growth and

volume impact will be key. So it will completely distort, I will say, the figures. As you know, China is more or less 15% of our sales. So probably, we will have a negative mix on this. So the figure could be strange for HELLA, but for many European players because of this geographic mix. On the outperformance per region, which is the most important, yes, we think that second quarter will be better because a repeat of startup of production. For the margin, we have spoken of a sequential improvement with Bernard. We would like to see now quarter-by-quarter a figure starting with 6. If you don't mind, I will not commit more, but I think it will be the minimum figure that we would like to see now for the next quarters.

Sanjay Bhagwani: Sorry, I didn't understand the last one. The minimum figure you would like to see for the next quarter is what, did you say...

Michel Favre: Profitability, starting with 6.

Sanjay Bhagwani: Yes, yes, that's very encouraging. The second one is on inflation. So maybe could you maybe provide a bigger picture color on the electronics cost inflation? I mean, I understand that the semi cost is still a headwind. But a lot more other electronic component inflation is coming down, like those components like inductors or capacitors, which are less customized to the autos and given the consumer demand is falling for like other consumer electronics. So maybe can you provide some color on are you actually seeing, let's say, non-semi-related inflation coming down rather fast than you were expecting? And yes, maybe like what's the total proportion of your cost in electronics? And within electronics, what's the split between the non-semis versus semi components?

Bernard Schäferbarthold: Yes. I said already that we have seen in comparison to our reference point, EUR 60 million increase in material costs. Most of it was related to electronics. And originally, what I also mentioned was a reduction of around 1% compared to our original estimation in terms of material expenses, which is around EUR 20 million. This also, the vast majority is electronics. So we are around EUR 15 million lower in terms of electronics,

which is exactly to the point what you said where prices partly are coming down. On the other hand side, it depends also on the different products specifically. So on some semis, what Michel was mentioned, we are still – a significant bottleneck is there. There, the pricing is still high and even the demand on customer side on pricing is still increasing. So it's a very mixed picture so that overall, we feel that still electronic pricing is quite high, but as you said, with some of the electronic components coming down, but not all.

Sanjay Bhagwani: And maybe can you provide some general split between overall electronics cost basket? What's actually the semis versus non-semi components? Just a very broad split can be helpful.

Michel Favre: On non-semi components, this year, we consider that we have a very, very low inflation. And potentially in the second half, we could start to see some, I will say, price reduction.

Sanjay Bhagwani: That's very helpful. And my last one is on Lighting margins. Could you please maybe explain the pass-through to the margins? And then could you remind us, like, I mean, the key drivers on margins going to the midterm targets for the Lighting business?

Michel Favre: For lighting, we speak more of a 3-plus improving sequentially. And I hope that we will go to a higher level by the end of the year. The main, I will say, driver will be on one side the pass-through because we were late last year to have the pass-through, so we have started midyear last year. So we are recovering. The second driver is the efficiency in the industrial plants, and the third driver is synergy.

Operator: (Operator Instructions) There seems to be no further questions in the queue. I hand back over to the company.

Michel Favre: Okay. Thank you very much and thank you for your attendance. So the next, I will say, events are tomorrow, our AGM. Of course, everything has been said today. There is no further news to expect tomorrow. But anyway, it's an

important event for the company. And for our first half results, please take the date the 25th of July. Thank you, and have a very good day

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