



C: Michel Favre; HELLA GmbH & Co. KGaA; CEO and President
C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO
P: Akshat Kacker - JPMorgan Chase & Co, Research Division - Analyst
P: Pierre-Yves Quemener Stifel, Nicolaus & Company, Research Division – Director
P: Sanjay Bhagwani Citigroup Inc., Research Division – Analyst
P: Philipp Konig - Goldman Sachs Group, Inc., Research Division - Research Analyst
P: Giulio Pescatore - BNP Paribas Exane, Research Division - Research Analyst
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: Good day, and welcome to the HELLA Investor Update Q1 FY '22/'23 call. Today's conference is being recorded. At this time, I would like to turn the conference over to Michel Favre. Please go ahead

Michel Favre: Thank you. Good morning, ladies and gentlemen. I am Michel Favre, the new CEO of HELLA since the 1st of July. I will make this conference call with Bernard Schäferbarthold that you all know, our CFO; and Kerstin Dodel, the IR.

As a first introduction, it is the Q1 in our business, I will say here. As you know, we are changing to calendar period. So we have a 7-month period this year. So we will have a publication end of November as well. After that, we'll go to a more classic, if I can use this expression, I will say, publication. Second thing, if I compare to last year, the pattern has drastically changed. If you remember last year, we were with IHS taking, I would say, the result of a very difficult, I would say, end of August, September. October was on the same pattern. Big drop of volumes, they were correcting by more than 4 million cars, if I remember. We were completely uncertain of what is happening. So this year, when we see the good volumes of this summer, we are in a very different, I will say, pattern. I will not say that things are completely finished. I say that the semiconductor story is smoothing. But still erratic, as you notice that on our inventory, still erratic, because we will take the call-offs of the first week of the month and the call-offs at the end of the month, we have still a lot of corrections. And if we take a magnitude, , it will

be between 25% to 30%. So still a big difficulty to plan. And why? Because customers want to recover; customers have, I will say, a deficit of inventories. As you know, they have very big waiting time.

So the market today for the, I would say, demand disconnected with the production. Production has to recover. And it's complicated for a supplier like us to see really what the situation is. What I can tell you is that demand for us is very high.

I will comment now the slide show that you can find on Internet. And I will start with the Page 4. So in this period, compared to last year, which was partially damaged by the semiconductors, but of course, figures should be much better for the next quarter. We posted, I would say, growth of sales by 21.6%, 16.3% if we exclude ForEx. We have a very good performance in Asia, mainly China for us with ramp-up of new projects. And of course, you know that, a very good demand. And what I can tell you as well, our 2 automotive business are taking advantage of that. More electronics because we have new ramp-ups made in Asia, but lighting as well. And you see the figures, but Bernard will comment them afterwards.

And Lifecycle, which is our part aftermarket, for the other part its special application, less cyclical, but anyway posting a very satisfactory growth. On results, margin at the same level of, I would say, in value and in percentage at 5.1% is not a bad result, I think, in the current period, but it is demonstrating the one key point is inflation. We have a strong inflation, of course, as a supplier. Inflation of, I would say, raw materials, including semiconductors, inflation of wage. We start to see some inflation on energy. This will accelerate. We can mitigate a part of it, thanks to the hedging, but of course, not all of it as we are, I will say, strongly based in Germany and East Europe, in countries which are consuming gas. So this capacity to pass through inflation, we are accelerating. And I can tell you, we'll continue to do our homework on that is key to defend our profitability.

Cash flow, slightly negative, which is a topic. This is the impact of inventories because we have, on one side, commitment of semiconductors to buy semiconductors. So it is -- as we say, the paradox. Now we have now a strong, I will say, inventory of semiconductors, not always, unfortunately, the right SKUs. And so we are suffering from that. We have launched a task force in

order to recover in the next weeks, next month with, of course, a basic, I will say, objective is to post a positive net cash flow for the 7 months period. Moving to Page 5. We want to illustrate, I will say the success of the order intake. I can tell you that we have -- in this period like the previous period, a very strong order intake. We are very successful with some new products. Potentially, I will say some products where we are really in advance. So we have mentioned the Smart Car Access for premium electronics. The converter high voltage, you know that it is key for the carmakers. And on lighting, we have this fantastic innovation at the front because of front physical shields. And we will have the opportunity to present to you that in the Investor Day. We have the headlamps, new HD headlamps for premium of the customer, and headlamps for mass market. So a lot of new innovation. We have made different publications. HELLA is demonstrating day after day that we are a leader in technology.

On this positive, we are mainly focusing on China, where we have fantastic growth. We have a new lighting plant with a joint venture partner for lighting, and we have the famous extension of electronic plants. We have, as you know, very big growth in electronics.

Page 6, going back to the day-to-day business and how we want to secure our performance. Of course, again, to continue to improve operations, we have some -- we are not completely at the benchmark of our standards. So we are accelerating our plan on these zones and pass-through is the motto of the company. We will accelerate the cost reduction. We have the program called Phoenix in HELLA. We have as well the synergies. And one of my duty with Bernard is to take advantage of the synergies to clearly feed a quick recovery on the margin.

Inventories, no discussion. Task force in order to reverse the trend. We have in the last 12 months a big increase of inventories. We have really to find the way to reverse that. And last but not least, of course, we continue to be selective. We will be selective on the portfolio management and portfolio of our business. But this is, I will say, what HELLA has always met.

Now I will give the floor to Bernard for the financial results.

Bernard Schäferbarthold: Thank you, Michel. Also from my side, good morning to all of you. Thank you for taking the time for this call.

I will continue on Page 8 of our presentation. You here see the bridge of our reported sales in comparison to last year. We are at EUR 1.8 billion compared to prior year. The FX effect is EUR 78 million in comparison to last year, mainly out of the U.S. dollar and Renminbi effect to the Euro. The organic growth is at EUR 240 million and comes out of all 3 segments. All in all, a decent growth, slightly above our internal expectations.

Important to note is that the reimbursements and especially on tooling and D&D were very high in the previous comparable quarter of last year. The effect out of that is around EUR 50 million as a difference. We expect a normalization comparable now if you would look at the full year perspective, so that should be comparable -- a comparable level overall to last year. But looking only at Q1, this had a significant effect.

If we look at Page 9, electronics and lighting are growing significantly compared to previous year, but by 28%, respectively, 22%. Both segments were benefiting of FX effects of around 6% in terms of the growth mentioned. The organic growth in electronics is at 22.5%. In comparison to LVP growth, the outperformance in electronics in Q1 is at 1%. Lighting growth is at 16.3% in comparison to the LVP growth of 21.5%. And have said, one main reason for the lower growth is that reimbursements on tooling, but also developments were over proportionately high in prior year, and this relates especially to lighting. And due to that, the outperformance in Q1 of last year was over proportionally high. So we expect higher levels, as said, in the following quarters. And with that, also looking at our sales predictions going forward, we expect also a normalization of our outperformance again to comparable levels you have also seen in the previous periods.

If we look at Page 10, regionally, we have a very decent growth in NSA and Asia Pacific. Both regions, both of these mentioned regions were outperforming significantly. Overall, NSA and Asia accounts roughly to 50% of our sales. We are, again, strengthening our global footprint and getting further more balanced throughout the regions, which is our clear ambition, which we already also stated sometimes. Europe is lower in terms of sales growth, also due to the mentioned lower tooling and D&D sales and still also

impacts out of the bottleneck situation mentioned by Michel, which had eased but somehow impacted Europe in the first quarter.

If we look at Page 11, EBIT in absolute terms is at prior year level. The EBIT margin is at 5.1% in comparison to 6.2% in prior year. The gross profit ratio decreased in Q1 in comparison to last year by 3 percentage points. The main reason are higher material costs, energy costs and logistic cost compared to last year. We expect in the months to come higher compensations also from customers, which will be then P&L relevant. And in addition, the reimbursements which were lower in comparison to last year had also a negative impact on our gross margin.

On the positive note, we have significantly improved the gross margin, again, in comparison to previous quarter. And we would and should see with higher compensations, higher reimbursements and expected volumes somehow a positive trends also going forward. R&D ratio and SG&A ratio have improved also with the with the improved volumes.

Reported EBIT is at EUR 75 million. EUR 10 million out of the negative adjustments we had related to the fair value valuations of our financial equity participations on 3 start-ups, which got stock listed via SPAC IPOs last year. If we look at the cash flow on Page 12. The adjusted free cash flow is at minus EUR 82 million. Main reason is a further production stock increase of around EUR 80 million in the first quarter. Michel mentioned the volatility in customer demand, which remains at very high levels and makes it very difficult to manage stocks. In addition, hard committed volume contracts on electronic part suppliers, especially agreed around 1 year ago on 2022 volumes contributed mostly to this high increase.

We have established a task force in all business segments to work on reducing the inventory levels. We are in discussions with all our customers, but also with the relevant suppliers to be able to better manage the situation also in 2023 in terms of higher flexibility, also in the supply chain and also towards our customers to come back then to normalized levels we had also in the past. CapEx was relatively high in Q1. We expect lower levels also in the upcoming quarters, which should support also our cash situation and should improve, as Michel was mentioning to the end of the year with positive free cash flows now in the months to come.

Reported free cash flow is at minus EUR 6 million, considering a new factoring program we have set up in Europe, EUR 97 million of factoring is including in that number, and we had some restructuring costs related to our execution of our Phoenix program.

With that, I hand back to Michel on the outlook and happy to take your questions afterwards.

Michel Favre: Thank you, Bernard. So outlook, Page 15. So there is no true sign of that on the volume. But volume is always a key driver for us to estimate our profitability. So we have put on this page what is the last IHS, if you prefer, S&P Global estimation. In this period and previous period, you have the deep impact of semiconductors. So of course, you can be surprised at the plus 12%. But any way, it is something that we experience. We have to say that the current months are quite good. We have decided to make any way cautious estimation with respect to the trend because, of course, uncertainty remain. So it is why HELLA between 80 million and 84 million is clearly, I would say, lower than IHS.

On the risk, I would say, semiconductors, we don't see for the moment a big risk respect to this volume. I would say this is our bet. Gas supply and staffing, measures have been taken, and I can tell you that HELLA has taken as well as the measures to secure everything this winter. I know that people are more and more speaking of the winter 2023. We will address point after points. But we have, I would say, an active energy plan. Last but not least, the famous corona, here I will avoid commenting. You know, likely that it is remaining. Something -- I will say, I am not sure that people are understanding why we have one moments pandemic my, like today, we have almost nothing. And to the almost nothing, with people, there were some people announcing some big disaster for end of September. So I don't know what will happen, but of course, I am first to mention it.

So I will say volumes today are with us. So on this basis, we can confirm our previous guidance for the 12 months, EUR 7.1 billion to EUR 7.6 billion of sales and adjusted EBIT, taking advantage, of course, of the pass-through of inflation, we say restoring between a level of 5.5% to 7%.

Page 18. So I propose you to make the conclusion. We have today a strong sales momentum. We're improving profitability. We need to accelerate, and synergies will help. We are globalizing the business. I think it is quite visual in the figures. So we are more, I would say, Chinese, we are more as well North American. And if you take the powerful JVs not fully consolidated, it is furthermore. We are improving, but we continue to accelerate the improvement of the performance. We have definitely to make the breakthrough on the cash generation. And I will say we can commit to a strong growth and stronger performance, thanks to the order intakes of the last years.

I would say synergy, pass-through inflation, performance will be key, and we have no problem today to confirm the outlook given mid-August. What I would like to add, there will be with the Faurecia a Capital Market Day, the 3rd of November. It will be as well, of course, HELLA Capital Market Day. And we will have the opportunity with our business group leaders, with Bernard to illustrate all our goals and guidances. And there will be the focus on ESG. Faurecia was probably one of the best advanced. HELLA is catching up, I can tell you. And I think with our portfolio of business, we have a lot to say about this. So please reserve these dates. I will be very happy with all the HELLA management team to receive you at this HELLA Capital Market Day. And of course, for the Faurecia Capital Markets Day.

Now I propose to go to the question session. Operator, can you launch the question session?

Operator: (Operator Instructions) We will now take our first question from Pierre Quemener from Stifel.

Pierre-Yves Quemener: Pierre from Stifel. Just one question on the organic growth. You've got a positive EUR 240 million. So that's EUR 40 million of positive organic growth in the first quarter. How much is the pass-through of inflation in that component? Is it significant for your first quarter?

Bernard Schäferbarthold: No, it was not significant. So as I commented, it was under proportionally and the main reason also on the drop of our gross margin. So

we had an increase in the material ratio of around 3%. And if you only look at, let's say, material prices only and there is some mix effect also. But the bigger part, so 2% is coming out of inflation in material. So it's by far under proportionally. And there, we expect a much higher proportion now in the coming months.

Pierre-Yves Quemener: Okay. And another one, if I may. The proportion of R&D has significantly dropped in the first quarter. Is the 10% plus sustainable into the remainder of the year?

Bernard Schäferbarthold: So the run rate of R&D should, not in absolute terms, will increase slightly, but not very much. So the ratio decreased significantly also with the better volumes and the increase in sales. So with the volumes we now see, we should even see a further slight decrease in the ratio. So we should come close to the 10% level, where, as you know, we are still above our internal target where we want to be between 9% and 10%. But until, let's say, end of the year, at least, we should reach close to around 10%. And hopefully, next year if volumes stabilize a little more, then come a little bit more down.

Michel Favre: We will be more secretive at the Capital Market Day because it's a key question, how much R&D, because we spend by activity. Clearly, electronics is minimum 10% and no discussion. But the rest of activity should be below, sometimes really below the 10%. So we will be more illustrative.

Pierre-Yves Quemener: Bernard, Michel, see you on the 3rd of November.

Operator: We will now take our next question from Giulio Pescatore from BNP Exane

Giulio Arualdo Pescatore: So on the divestments, I mean, on the last call, you seemed to the fact that you thought you were going to be able to share something more by the end of September on the divestment plan. It's the 29th of September. Just wondering if there had been some delays and what potential is causing these delays?

Michel Favre: Firstly, we have a decision to make. The second thing, you know that for M&A with the current period is not completely the easiest way to do. I'll repeat that, it's HELLA decision, I would say, the current pattern. So we need more time. But any way, potentially, there will be some decision by the end of the year, but I don't want to be more illustrative. We have to take the right time to make the right decisions and to optimize the balance sheet.

Giulio Arualdo Pescatore: Okay. But you can confirm that you still have offers on the table and that these offers have not been withdrawn or anything like that?

Michel Favre: I don't confirm anything for the moment, if you don't mind, I cannot. But I will say we will do something probably by the end of the year, yes.

Giulio Arualdo Pescatore: Okay. That's good to hear. The second question on energy. Can you give us some numbers to work with maybe the energy, how much is the cost of energy in percentage of sales? And how much are you hedged on 2023? What is the percentage of energy costs in Europe? I mean anything that can help us model the energy headwind next year.

Michel Favre: Bernard, you want to give some figures?

Bernard Schäferbarthold: Yes. So we expect energy cost to increase around EUR 40 million to EUR 50 million on a 12-month perspective on '23 in comparison to the, let's say, the full year 2020-2021. So it's a 2 yearS perspective. So coming from basically a basis where we were around EUR 90 million, we expect energy cost to increase to EUR 140 million.

Michel Favre: Which means slightly below 2% of the sales.

Bernard Schäferbarthold: Yes. So most of the energy cost increase now we see is hedged. So we have basically reached a certain, let's say, security at least on the levels I mentioned to you with that number. So basically, there will not be, let's say, big changes at least from what now -- how now we see it as it is hedged. For

sure, it's difficult to consider now any risk if there will be more disruptions. But let's say, this number is now quite clear for us.

Giulio Arualdo Pescatore: Okay. That's super useful. And maybe one last one, if I may. Is there any -- is there also like a big component of inflation coming from the rising energy costs for your suppliers? So I'm talking about energy costs rising for the Tier 2, Tier 3 suppliers then flowing through to your cost of goods sold as well? And is that easy to pass on to the carmakers or it's an ongoing discussion?

Michel Favre: It is an ongoing discussion. You have the same for the raw material. So we are tracking this. We have for the synergy, the fact that we -- in some cases, we avoid the cost increase. But anyway, we have to pass through because we have no reason not to give these synergies to the customers. So it is, I would say, the ongoing part that Bernard was mentioning. So clearly, I will not say that we will pass through 100%, don't think so, moreover. But to pass through at least 80% cost to our customers because we have no alternative, we have to defend our profitability, and you understand that 5% is not our target, and we have a target of much more. We need to accelerate this pass-through. And I think we are in a good way because anyway, we are strategic for our customers. And any way, it is a good balance of relationship.

Giulio Arualdo Pescatore: Okay. Great. Maybe just a quick follow-up. This 80% compares to what today? Is it 30%, 50%?

Michel Favre: More than 50%.

Giulio Arualdo Pescatore: More than 50%, going to 80%, okay.

Operator: We will now take our next question from Sanjay Bhagwani from Citi.

Sanjay Bhagwani: First of all, gentlemen, congratulations for the strong order momentum, particularly on the DC/DC converter side, on the high voltage. It's really interesting to see those plants are now coming into orders.

With that, I've got -- most of my questions are just around the material cost as well. So could you please maybe provide some color on, let's say, what's basically been the gross material cost headwind? I guess you mentioned 3 main components of the gross margin headwinds that is material costs, energy costs and logistics. So of this, for the full year, what is the gross impact you're expecting from material cost? And what is the kind of net you are expecting? And more importantly, when we think of the next year, because the picture seems to be quite mixed at least for your bucket of material costs given that, let's say, the prices of electronics probably could be -- are probably already normalizing, so there could be some tailwinds. But then indirectly, your suppliers are also going to see energy cost headwinds, which will reflect, again, in the price of the, for example, glass. So how should we think of these offsetting factors for the next year? That is my first question.

Michel Favre: Thank you. It's a very good question. If I can add the inflation, we have the wages as well. And you know perfectly that means that Germany is more above 4%. But when I take some of the East European countries, we are between 8% to double digit. So this is a critical point as well to manage with customers. And the last part, you know that the customers they have -- they are increasing as they have, I will say, pricing power, and they have all increased a significant part of their pricing, taking, of course, as the fact that inflation is a factor. So it is what I said is normal that we will pass through inflation in this sector.

I think for raw material, what we can give is the figure of guarantee for third quarter is 3%, something like that, 3% increase. Energy is coming. It was not the case until now, but energy is coming this quarter. So of course, we have wage coming because you know that trade unions are coming back, the inflation of early this year was not the one expected. So when we will take, it is what we are doing currently. It is to take 2023 and to compare to 2021, roughly in order to have, I would say, fair basis and to be sure of how much we will pass through.

Probably we will take all these figures. We have to pass through something like 5% inflation to customers, which is a big figure accumulated and different timing. That's a very big figure. This -- it is famous, I would say, more than

80% you want to pass through. This will mean that altogether, inflation will have a negative impact between 100 to 150 basis points globally in our P&L if you compare to 2021. It is what we want to limit with Bernard, the impact. It is today our view and how we manage carefully this inflation gap with customers.

Sanjay Bhagwani: So 100 to 150 basis points impact this year in '23 versus '21. Is that right?
That's the kind of...

Michel Favre: We compare that -- as in, we have 12 months. We compare effectively from the close end of May this year with the '23 expectations, because we need a 12-months basis to simplify the calculation. If we have an impact already in the first half, we correct the figures. But it is like this that we work in all our business group, including aftermarket and because aftermarket, they have inflation.

Now in your question, there were suppliers. Of course, we try to estimate and to integrate, which are the claims from suppliers that we try to postpone sometimes. But what are the claims of suppliers because, of course, we have to claim that to our customers.

Sanjay Bhagwani: So right now, the agreement, let's say, you are entering into with the OEMs, these -- how does it work? Let's say, if there is a further cost inflation from your Tier 2 suppliers, is the agreement already allowed you to pass that on? Or that will again require a renegotiation?

Michel Favre: It depends on the countries. So you understand what it means for Germany. It depends for the countries. Often for the other countries, it will be early next year, some negotiations or there could be some one-off end of this year, but mainly early next year. So we have this positive between premiums to bonuses to compensate if the actual salary increase will happen 1st of January. But anyway, the pressure everywhere is increasing.

Sanjay Bhagwani: And just one last question on this one. So let's say, on the positive side, you also see the electronics -- prices of the electronics starting to normalize, also

the freight seems to be also, rates -- I mean, at least the part rate for the last 3 to 4 months have been going down drastically. So these tailwinds, these are more going to be reflecting maybe after this May year-end. Is that fair to say?

Bernard Schäferbarthold: There's a kind of mixed picture if you look at electronic parts. Because on some parts, we see no price drop as of now. So on some microchips, especially, where we look at, let's say, specific generations, still, the demand is very high and price are not dropping so much. So it's -- you have partially prices which go down, but some prices also continue to stay at a very high level. So it depends really on the part. So in general, we expect, let's say, the peak of the price increases as of now to, let's say, to the end of this year and also going into next year, partially. In the logistics, you are right, we see some price drops. And also besides of electronics, we also see some price reductions. So fair to say that our base assumption now is still overall slight continuing inflation if we take everything into the beginning of '23. And from there, we assume that it should not further go up.

Operator: We will now take our next question from Akshat Kacker from JPMorgan.

Akshat Kacker: Akshat from JPMorgan. Just 2 left from my side. The first one on end markets and automotive production into the last 3 months of the year. Can you just talk about your expectations for Q4 versus Q3? And what are you seeing in OEM production schedules, specifically for Europe? I'm obviously seeing IHS forecasting 17% higher production in Q4, Q3, which is obviously because of seasonality. But then they are also forecasting a higher production versus Q2. So if you could just give some comments in terms of what you're seeing in Europe going into Q4, please? That's the first question. And the second one is on cash flow. Firstly, can I understand the net CapEx increase of more than 30% year-on-year. If you could just tell us what elements drive that CapEx number in the first quarter? And if you could also discuss your adjusted free cash flow forecast for the full year, what are you projecting for the full year? And if that includes any contributions from the higher factoring levels?

Michel Favre: We have 4 months exercise because, as you know, Q1 is ending end of August. So the 4 months, including the fact that September was totally depressed last year, it's probably -- I don't have the figure with me but probably a 10% increase that we are expecting. And it could be, I would say, today, I have no reason not to say that IHS is right for the last quarter. But as you know, we are delivering not all the customers. We are much more focused on the German customers. But as we said today, the call-offs we are receiving indicates this kind of figure, even better. That is what I can tell you as an approach.

For the cash, there was according to the closing probably some, I will say, cut off, which means that we have a small acceleration of the payment of CapEx in this first quarter. We'll go back to normal in the last 4 months. So I don't think that CapEx cash out will be, I would say, a big trigger. But anyway, we have some active CapEx due to the enlargement of the plant in China. We will have an enlargement as well in special application in Romania for the last 4 months. So CapEx for me is not a big trigger. The big trigger will be our capacity to recover on inventories between September and October. Of course, the fact that we have to, I would say, rebalance EBITDA respect to CapEx and R&D, with the goal that ex-factoring, we don't take factoring into account, will be positive or at least close to 0 for the 7 months.

Akshat Kacker: Understood. Any comments on free cash flow for the full fiscal year 2023?

Bernard Schäferbarthold: Yes, this is what Michel mentioned. So in the -- so factoring is not in the adjusted free cash flow. As I said, it's in the reported free cash flow, but adjusted factoring is not considered. And on the adjusted free cash flow, we think, on one hand side, higher profitability, but also, let's say, a lower run rate in terms of CapEx and the reduction in working capital. This should lead, let's say, to break even our free cash flow and recover our adjusted free cash flow. The biggest risk comes with the inventory level because also, if we look at -- you asked also for the production -- for our production view. If we look at customer demand, it's at a very, very high level in our systems. So it's increasing or it's much higher than it was in Q1.

The point is the reliability of these data. So in the last months, the deviation was 35% to, let's say, what really was then picked up by the customers. And so basically, what we see as the highest reliability actually is in China and also then second in NSA and the highest volatility comes from Europe. So this is why prediction to Europe is most difficult. But if I compare to last months, Europe should increase volumes. So as Michel said, we would not say that IHS would be wrong now. But with this risk, I mentioned. And coming back to the inventory topic with these very high volumes, if the deviation remains so high, it's very difficult to manage the stocks. So we are working intensively on it. And to come back to breakeven cash flow, we need to reduce inventories. This is the risk we have.

Michel Favre: And we need to reduce by the end of October because fortunately or unfortunately, what we will do afterwards will be for the cash of next year.

Operator: We will now take a question from Philipp Koenig from Goldman Sachs.

Philipp Konig: I want to come back very briefly to the energy topic, but not on the cost side, but rather really on the supply side. If we think about the chemical industry, we've seen shutdowns on some chemical plants, especially in Germany, just given that the companies are no longer able to produce under the current cost environment. How much visibility do you have in your upstream supply chain in terms of some of your key inputs? So even if the costs are going up, it just rather around having actual supply coming onstream. And just generally across your Tier 2, Tier 3 suppliers, we are also starting to see some getting into quite heavy financial distress. Are you thinking about supporting some of your suppliers in certain ways to secure the supply?

Michel Favre: Thank you for the question. Firstly, in Germany, not only you see some switch from gas to electricity. We are an example. We have still a gas-powered station in some of our plants. We have stopped them. We are switching to electricity, which has a cost, but whatever. So it is why the gas supply is less and less important at least for us and potentially for the country. On the opposite, as you said, some suppliers are struggling. We have a specific, I will

say, analysis and, of course, work on that. We have, in some cases, it will be very little, but we will have opportunities of inventories to make on some, I would say, components to be sure that with respect to this potential energy shortage, we'll have no problem mainly in January, February to be blunt.

We have not identified in the automotive business, because it is important, the automotive business, suppliers today showing signs of big problems. Of course, difficulties, but not big problems. Financial wise, not at all. If there is a need, of course, we'll do what we have to do to secure the supply. But it is a hot topic. We work closely with the suppliers. And of course, we have revised our plan on energy, and of course, we are on the [supplier situation, we have key supplier participating].

Philipp Konig: And then my second and last question is just on the wages. I think, again, in Germany, IG Metall are asking for increasing 8%. How do you think about labor costs into next year? Are you factoring that 8% increase into your guidance? Or do you think you sort of meet them halfway? What are your sort of expectations? And are labor costs probably, together with energy, probably the biggest item in your cost headwinds as we think about next year?

Michel Favre: It's a very good question. But as you know, the German companies are in negotiations, so I cannot completely answer. And of course, we are tailoring some increase in the budget of next year. But we are in negotiations. Please, if you don't mind, wait for the final result of negotiations for the sector, for the different companies. This will be mainly October/November.
Any other question?

Operator: There are no further questions in the queue at this time. I will turn the call back to your host.

Michel Favre: Okay. Firstly, I would like to thank you again for your presence this morning. As you see, the team, the management team, Bernard and myself, we are fully committed to continue to improve the performance, to continue to improve -- to restore cash generation. It will be one of, I would say, focus on the model of HELLA. We have a big rendezvous with you. Please reserve the 3rd of

November, the 4th as well for ESG. The 3rd, it will be in Paris. So we will be very happy to meet you in Paris, if possible. And in the very meantime, I wish you a very good day. See you soon.

Operator: Ladies and gentlemen, that will conclude today's conference. You may now all disconnect.

-- END--