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C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO
P: Christoph Laskawi - Deutsche Bank AG, Research Division – Research Analyst
P: Henning Cosman HSBC, Research Division - Analyst
P: Sabrina Reeh UBS Investment Bank, Research Division - EMEA Equity Research Analyst of Germany
P: Sascha Gommel - Jefferies LLC, Research Division – Equity Analyst
P: Akshat Kacker - JP Morgan Chase & Co, Research Division – Analyst
P: Jürgen Pieper – Bankhaus Metzler, Research Division – Analyst
P: Gabriel M. Adler - Citigroup Inc., Research Division – Assistant VP & Senior Associate
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the extraordinary HELLA investor update. (Operator Instructions) I also must advise you that this conference is being recorded today.

And I would now like to hand the conference over to your first speaker today, CEO, Dr. Rolf Breidenbach. Thank you. Please go ahead, sir.

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Rolf Breidenbach: Yes, thank you. Dear ladies and gentlemen, good morning to all of you. Thanks a lot for dialing in on short notice. Welcome to this extraordinary investor update call. Also a warm welcome on behalf of my colleague and our CFO, Mr. Schäferbarthold.

There are 2 main reasons for this call. On the one hand, yesterday's announcement of our preliminary results for the second quarter, and thus also for the first half of the fiscal year 2020/2021. On the other hand, the update of our company's outlook for the current fiscal year.

Let us start with our preliminary results. We had, yes, a very good start into the fiscal year 2020/2021. Our sales and also the earnings developments were better than what we had expected at the beginning of our fiscal year. And also better compared to our expectation at the end of the first quarter. The Automotive market improved step by step. According to the latest IHS market data from November, about 42 million light vehicles have been produced in the first half of our fiscal year. These are around 3.6 million more than assumed in summer. Thus, the market declined only by 4.3%, instead of an originally expected decline of around 12.4%. In the second quarter, the market even showed a slight growth around 0.7%. This development is, of course, also reflected in our preliminary figures we announced yesterday. In the second quarter, our currency and portfolio-adjusted sales grew by 4.4% to EUR 1.8 billion compared to the previous year. Thanks to this growth, we achieved sales of EUR 3.2 billion in the first half of our fiscal year, which is only 2.7 percentage below the previous year. We were also able to improve our earnings significantly. Based on our strict cost control approach, the higher sales volume led to a considerable increase in the EBIT, especially in the second quarter. We achieved a preliminary adjusted EBIT in the second quarter of EUR 212 million, which comprises a growth of 49% compared to the prior year. The preliminary adjusted EBIT margin increased by 3.8 percentage points to 12.1%. In the first half of our fiscal year 2020/2021, our preliminary adjusted EBIT grew by 5.9% to EUR 268 million, which translated into a preliminary adjusted EBIT margin of 8.7%, an increase of 0.9 percentage points. Even these results are, yes, let's say, quite satisfying, they are only a snapshot. In particular, we are now benefiting the fact that we set the right priorities in the past. Due to a very strict cost control, pausing of projects and clear customer as well as technology focus, we improved our cost basis significantly. We will continue to work on this in the future. The final results for the first half of the fiscal year 2020/2021 will be published as planned on the 14th of January 2021. Given the better-than-expected business development so far and the current market outlook, we have also raised our forecast for the full fiscal year 2020/2021. We now expect currency and portfolio-adjusted sales in the range of around EUR 6.1 billion to EUR 6.6 billion. And an adjusted EBIT margin in the range of around 6.0% to 8.0%. Added to this is the expected income of the approximately EUR 100 million before taxes from the sale of the camera software business to car software of VW, which was initiated in September. This effect will increase our adjusted EBIT, of course.

Previously, we expected currency and portfolio-adjusted sales between EUR 5.6 billion to EUR 6.1 billion and an adjusted EBIT margin between 4.0 and

6.0 percentage. This means, of course, we significantly improved our guidance. And therefore, let me make some additional remarks concerning our updated company outlook.

First, our forecast also implies that we will continuously restart and ramp up our activities in the coming months, which will impact our overall cost structure. As you perhaps remember, we have -- went down, stopped more or less all our activities with the start of the corona crisis, we only concentrate on the absolute minimum activities, acquisition of projects, the development of projects and, of course, the production and the delivery of the parts and components to our customers. This is, of course, something we cannot do for too long time. Therefore, we now step-by-step will increase our activities, especially internal projects, trainings, the improvement of processes and products. Of course, these activities will make sure that we also secure and strengthen our competitiveness in the future. Of course, we'll be monitoring this ramp-up very closely. And we are very selective with the areas we are investing in.

Second, it is expected that we will continue to have COVID-19 related costs in the coming weeks and months.

Third, the continuing recovery of the overall market, which is currently expected, is largely determined by the further course of the COVID-19 pandemic. Neither the course of the pandemic nor its impact on the Automotive industry is foreseeable at this stage. There are even additional risks, especially when we look at the stability of the supply chain and the managing of bottlenecks. Especially the bottlenecks with regards to electronic parts and components have significantly increased in the last weeks. We have a special team who is managing this. And so far, we were able to continue the production of our different plants and the deliveries and to our customers. But from our perspective, this will also be an important challenge we are facing in the days, weeks and months to come. This will not stop from our perspective until the end of the first quarter of 2021.

Thus, the overall market development is still subject to uncertainties and volatility, particularly with regard to Europe and NSA. Also for China, we cannot rule out that there are setbacks with respect to the recovery during our current fiscal year. Against this background, our forecast is based on the assumption that there will be no further COVID-19 lockdowns, as we have seen in the spring this year that might have a material impact on our business. Also, we have not considered a deep impact of the bottleneck of electronic components in the weeks to come.

Finally, regardless of the current short-term market recovery, both the intensity of competition and price pressure will continue to increase further. On the one hand, this is due to our unchanged expectations that the production levels of the peak years 2017 and 2018 will be reached again only in medium term. On the other hand, as you can easily see, the transformation of mobility has not stopped and will accelerate, too. This makes it even more important that we now adhere to the structural measures we have introduced in order to secure our leading industry position. In the past, we had a special focus on our international locations especially in China, Mexico and East Europe. We have significantly improved our structures there. As mentioned in one of our last calls, we have already reduced our headcount by around 5,400 positions between mid-2018 and mid-2020. We have to and we will continue our continuous improvement measures in our international network, for example, by further expanding our global business service organization.

With regard to our German locations, and the special focus on Lippstadt, we are in the process of reducing headcount numbers across all areas, mainly in development and administration. Important progress has already been made in recent weeks. For example, we have concluded an agreement with the Workers Council on a part-time retirement program. We are currently conducting numerous individual discussions with employees. In addition, we will now also try to reach agreement with the employee side on a voluntary severance program.

Already at the last call, we emphasized that we are doing this from a position of strength in order to secure HELLA's long term viability.

Having said this, allow me now to hand over to my colleague, Mr. Schäferbarthold, the CFO of HELLA.

Bernard Schäferbarthold: Thank you, Mr. Breidenbach. I would continue in our presentation on Page 4. And add some more details to the introductory comments and the summary Mr. Breidenbach just did.

So overall sales development in second quarter was very strong. Overall, the second quarter shows on the basis of our preliminary number, portfolio and FX-adjusted growth of 4.4%. We had a decent development of all 3 segments of our business in comparison to the first quarter of our fiscal year 2020/21, with a much better development of all segments, I have to say, compared to our previous expectations. Especially in auto, we outperformed again the market in the second quarter in relation to the IHS November prediction numbers. This we already expected and commented also in our last call. For the half year, FX-adjusted sales are still negative at minus 2.7%. But at this point, much better than what we expected at the beginning of our fiscal year in summer. Our preliminary adjusted EBIT in the second quarter is at EUR 212 million, respectively, 12.1% EBIT margin. All details would be presented beginning of January with the release of our full number set. Overall, I can state, as also Mr. Breidenbach said that our strict cost and continuous cost measures plus a good utilization of our plants led to this very decent profitability. Within this numbers, an amount of around EUR 19 million, this is roughly 1 percentage point, is positively considered in our EBIT, which comes out of the reversal of an impairment related to a joint venture in Asia. In H1, our preliminary adjusted EBIT is at EUR 268 million, slightly above previous year's adjusted EBIT level. Preliminary adjusted EBIT margin in first half is with that at 8.7% in comparison to 7.8% in the previous year. Segment-wise, all 3 segments were performing better in Q2 compared to previous year. For H1, in total, we see, in absolute terms, a higher profitability compared to last year in Aftermarket. Special Applications is around previous year's EBIT level and Auto is also overall in H1 slightly better. Free cash flow will be around EUR 200 million in the second quarter. Overall, this would lead us to a total H1 number related to adjusted free cash flow, which still would be negative but only by around minus 40 (million EUR). Having commented also within our last call that this very bad start into the year, what we also expected, but would be followed then by stronger following quarters. We continue to expect also positive adjusted free cash flow development in the following quarters to come.

Coming to the next page and our actual market outlook. The IHS predictions related to our fiscal year 2020/21 have improved month by month significantly since summer. Based on the latest IHS November numbers, the outlook shows now a volume growth of 10.4% compared to our fiscal year 19/20. We actually see continuously a high uncertainty related to the market development in the upcoming quarters. Mr. Breidenbach also commented on that. The risks related to COVID-19 in the upcoming months, where especially we see risks for Europe and NAFTA remains high. In this context, also the stability, as also already said, of the supply and also logistics chain is an important element. A disruption here could have a massive impact on volumes in the upcoming months.

Taking the market outlook into account and also our strong first half, I would come to the next page. We decided to upgrade our company outlook. This revised outlook reflects the high uncertainty in the market with a wide bandwidth in terms of sales, we are now seeing for the second half of the year. This bandwidth reflects the risks on one hand side we especially see in Europe and NAFTA. And also the risks related to the stability of the supply chain on the logistics chain. On the other hand side, we also see an opportunity especially for China, that the market and the volumes could even be better-than-expected now in IHS November's numbers.

With that, we now see FX and portfolio-adjusted sales in the bandwidth of EUR 6.1 million and EUR 6.6 million. The FX number in that range is EUR 118 million to your reference. And an adjusted EBIT of between 6.0 and 8.0 percentage points. And in addition, as already said, the gain out of the sale of our camera software business to VW, where we expect closing most probably within now our third quarter.

Having said that, we are now open to take your questions.

Operator: (Operator Instructions)

We now have our first question, and this comes from Akshat Kacker.

Akshat Kacker: Akshat from JPMorgan. And congratulations on a very strong quarter. 3 questions from me, please. The first one is on your upgrade to your revenue guidance. Can you talk about your underlying market assumptions for FY '21 versus IHS at 83 million units? And also, if you could highlight key product launches and SOPs that will drive the increasing outperformance into the second half, either by product or by region? That's the first one. Okay. I'll follow-up with the other 2 after this.

Rolf Breidenbach: With regard to the launches, we will have significant launches in the area of -- or currently are in significant launches in the area of energy management in Europe as well as in China. We also have -- will realize additional sales in the area of ADAS, and we will have a specific focus on lighting headlamps launches in China. These are, let's say, the main directions where we see over proportional growth with regard to the regions. With regard to the market assumptions, Mr. Schäferbarthold will give you more detail.

Bernard Schäferbarthold: To the market, as I said, we see, especially Europe as, let's say, volume-wise, the region with the highest risk, there, we would see the risk up to 20% in our market view from today's perspective at the maximum. We also assume that related to the U.S. and NAFTA market, there could also be a risk where from today's perspective, also, I would say, somehow in that range, we could also see, let's say, a risk in the same area. For China, we see, let's say, in both directions. On one hand side, as I said, volume could be even higher. So but on the other hand side, volumes, especially due to risks on the supply chain, but also logistics chains, but also related to pandemics could also go into the other direction. So all in all, from our perspective, if you come from today's IHS November numbers, which are actually at around 83 million vehicles. It could be from our perspective around 1 million or 1.5 million more, but it could also be that the market drops down to a level where we are also 5 million to 6 million lower.

Akshat Kacker: Understood. If I could just confirm on the launches, you expect outperformance by region to pick up in the second half versus the first half?

Rolf Breidenbach: Yes

Akshat Kacker: Understood. The second question is more on the medium term. This strong second quarter will most likely mean that you are at the high end of your margin guidance probably 8% at the end of this year which will be very comparable to FY '19 levels. So as we look ahead, have you essentially freed up capital to pick up spend on your energy management portfolio? The question is, how are you thinking about portfolio positioning towards high-voltage and your R&D spend going forward?

Rolf Breidenbach: Our R&D spend will continue to be at a level of around 10%. And of course, one focus will be the high-voltage energy management product area because here, we see significant growth opportunities, and we will continue to invest into this area. With regard to our cost position, as I said, we now have to, on the one hand, continue to invest into our processes and structures, for example, our IT infrastructures, also continuous improvement programs are already relaunched. This, of course, will put a kind of burden on our cost structure. But at the same time, we are now thinking about how to even lean up our overall activities because we learned a lot in the crisis with regard to mobile working, less traveling, doing internal projects much more efficient than before. So to at least partly balance out now the additional investments we now need to do.

Akshat Kacker: Understood. And the last one is on M&A. If you would like to highlight any progress that you have made on that front? And if you have zeroed down on any specific targets in Special Applications or any other areas that look interesting?

Rolf Breidenbach: Yes. Unfortunately, nothing spectacular to announce today, but we are continuously searching in the area of Special Applications. The NAFTA region and Europe are here in the focus with regards to lighting or electronic players. And we are also already in contact with some interesting Asian electronic suppliers here also, we can think about some concrete steps in the future, let's see, but we are quite optimistic with regard to at least the one or the other additional cooperation, perhaps an M&A activity. But electronic on the one hand, in the area of components, actuators, sensors, energy management suppliers on the one hand and Special Applications on the other hand, are still in the focus and, let's say, the sequence and also intensity of the discussions have significantly increased.

Operator: And the next one comes from the line of Gabriel Adler.

Gabriel Adler: This is Gabriel Adler from Citi. Thanks for taking the time this morning for the presentation and congratulations on a good quarter. I'd like to start with cost savings in Q2. Could you provide some more detail, please, on the temporary cost savings that drove the beat? And are you expecting to see any of this benefit at all carry over into Q3 from things like short time work, project delays, or the lower SG&A? Because as you mentioned in your presentation, the margin guidance does suggest quite a significant deterioration in the second half due to costs ramping back up. But in terms of the phasing of this, should we see anything in Q3 still coming through in terms of temporary support? That's my first question.

Bernard Schäferbarthold: Regarding SG&A, you will continue to see that the SG&A ratio -- and this please, I would ask you to be a little bit patient because I also personally not have the exact numbers now, but you will see that in relative terms, SG&A is again coming down. Two elements for that. As we have said, we really paused a lot of activities. As you know, in Germany, we're also able to have this element of short time work, so “Kurzarbeit” so with that also, we had, I would say, somehow a lot of flexibility also regarding our activities to be careful also in restarting these. Late in the second quarter, we decided also to restart some of these activities. But most of the second quarter we had a big relief out of these cost savings. Same was also for our operations where a lot of these activities especially in the indirect areas, we also tried really to save as much as possible. So there also, we have seen that the personnel cost ratio but also the, let's say, let's say, other operating expenses regarding, for example, maintenance and all different other costs within our operations were by far lower compared to, let's say, the normalized operational level. So and that in addition, let's say, to then higher sales and higher volumes let then really to this profit levels.

If we now look now to the upcoming months and quarters, I think on one hand side, we have now seen that some of the activities we have stopped that we will also not restart. So we really try, on one hand side, to benefit from but now also we have learned within that crisis so that we can then also maintain this reduced cost level. On the other hand side, we now switch on, as Mr. Breidenbach has said, really to the point, the activities where we think they are important, like RDTC (*re-design to cost*) measures, some also structural topics as said, which will also have improvements, for example, related to automation, within our facilities, but also if it comes to development processes in engineering and so on, just to give some examples, and these are now also investments we are now doing where we restart activities, where we will have some let's say, where we will have the cost level increasing again.
And last element, I want to address here is that still, we also have costs related to now the COVID pandemic. Which are also significant, which, on the other hand side, one day, we do not expect now for our second half, but also looking to next year, where we think one day, we will also have some I would say, area of improvement if these costs are not any longer needed, especially related to our operations, but also logistics, where the COVID, I would say, measures we also now have to take are a cost burden for us..

Gabriel Adler: Okay. My second question is on the electronic component bottlenecks. I was just hoping you could give us a sense of maybe how many weeks of supply you currently have and whether you're seeing higher prices for these components already? Or if the higher prices are something that you expect to come through in the coming months?

Rolf Breidenbach: With regard to the prices, we see no significant impact so far when I look at the piece price. Of course, additional costs for special freights also here and there, a disruption of our production, a very flexible shift model, we have now to realize due to the bottlenecks, these of course, are additional costs.
With regard to the coverage, it belongs to the different components, but of course, bottlenecks components, which are really in our focus and here I speak perhaps so far about a handful where we only have a view of some days, perhaps a week, but not more. And we are in discussion with our suppliers

every day to get the necessary components into our plants. We also here and there involved our customers. But so far, we were very successful in keeping the lines of our customers running. But from our perspective, this is really currently a real industry challenge due to the, let's say, very positive sales also in other areas than Automotive, like consumer goods. But also the fast ramp-up of the whole Automotive industry, especially in Europe and NSA in the last months, here and there our real bottlenecks we now have to handle.

Operator: And your next question comes from the line of Henning Cosman.

Henning Cosman: I was just going to ask you a clarification in Dr. Breidenbach your introductory remarks. I think that the second last point was partly about the component shortages that we just talked about, but also about the possibility for further lockdowns. And of course, we've partly seen that in November now. With France and U.K. being sort of partially locked down back to only click and collect. And accordingly, of course, the sales were down a bit. So we're getting lots of investor questions around this and how you effectively see this playing out. So November was, of course, included in your quarter already. So if you could just talk a bit about current trading, I believe, in your comment, you said there's now no assumption of further lockdowns in your forecast and implied in your increased guidance. I think Mr. Schäferbarthold, of course, painted a -- well, I mean, not of course, but painted a slightly different picture with these wide ranges that you're expecting also with respect to IHS. So I mean, it's a very long question, but ultimately, I'm just hoping you could talk a bit about current trading and how you manage the flexibility that you need to have?

Rolf Breidenbach: Yes. With regards to the flexibility, I think we have all means in our hand because we are now very experienced how to ramp down all our activities worldwide in days. Therefore, short time work and similar measures in all the other countries in Europe, in the U.S., Mexico, in China are, let's say, ready to implement, if necessary. Here, we are very flexible and the same is true for all, let's say, the internal activities. And we can, of course, switch off all these activities from one day to the other. And this flexibility, when it's necessary, it will come. And I think the margin development also in the very difficult months of March, April and May. But also now, I think at the first half of this fiscal year shows that this is totally under control. So our operational system is very transparent and for us worldwide and very flexible.

With regard to the outlook of the market, and this, of course, is also reflected in the huge range here of our guidance. It's unfortunately, very difficult to assess. So far, we see, as Mr. Schäferbarthold said, China very strong, therefore, we see here an upside, but also, when, of course, it comes worse in a downside.

With regard to Europe and NSA, we only compared to IHS, we only see a downside, and this has to do, of course, with the COVID discussions, which is currently going on. We do not know what Germany will decide in the days to come and some European countries already have strengthened its and increased the number of measures. So it's uncertain. So far, the demand in our systems are high. But this, of course, can change.

And with regard to these electronic bottlenecks, it's very difficult to assess. There is a structural problem that we are facing from my perspective in the next 3 months. And usually, the Automotive industry is able to avoid significant lockdowns, but it will be a tough fight. And therefore, here, we also see a risk. But as both Mr. Schäferbarthold and myself try to explain, it's so difficult to really forecast this and to also assess the impact of the one or the other measure. What we can see, of course, is that in the Aftermarket, the business in the different workshops country-by-country is going a little bit down, not significantly, but we see first signs of less activity, especially, for example, in Spain and France and also with regard to the Auto market, you know the figures, the one or the other European market starts to weaken again. So the first signs of, let's say, reduction of demand can be seen at the horizon. I try to be very careful because it's so unsecure.

Henning Cosman: Sure. I mean, if you allow me just to clarify sort of 2 specific numbers. The IHS, I think they're going for about 1% contraction or so in global production in Q4. So you're basically saying that's more ceiling, especially for Europe and the risks are clearly geared to the downside. That's the first clarification. And the second one is on Mr. Schäferbarthold 20% risk to Europe in 2021. So you're basically saying again, the 13% growth or so on part of IHS, that's more the ceiling, but it could be up to a 7% decline instead of the 13% increase that IHS is currently forecasting. Is that both correct the clarification?

Rolf Breidenbach: Yes. And to be very precise, we see, unfortunately, for our fiscal year, worldwide, let's say, production vehicle range between 77 million cars and around 84 million, 85 million cars. And this is then reflected in the different assumption of this minus 20[%] in Europe, 20[%] in NSA, this upside potential of 10% in China. Yes. And this comes all up to the market range of, as I said, 77 million to 84 million, 85 million cars.

Operator: And the next one comes from Sascha Gommel.

Sascha Gommel: It's Sascha from Jefferies. My first question would also be a clarification question on your opening remarks. Can you repeat the reversal of impairment? And how much of that was and where you booked that.

Bernard Schäferbarthold: It was EUR 19 million.

Sascha Gommel: 19?

Bernard Schäferbarthold: EUR 19 million, yes. So around 1 percentage point on the EBIT margin in Q2, and it's within our adjusted EBIT number we released. So within the EUR 212 million adjusted EBIT we announced for Q2.

Sascha Gommel: Perfect. That's very clear. And then my second question would be on your guidance. I think at the time of the old guidance, the implication was from the midpoint or higher. On the old guidance, you had expected positive cash flow or at least breakeven. So should we assume now with this upgrade of about EUR 150 million at midpoint that if you end up at the mid -- of the new midpoint, did you have at least EUR 150 million? Or are there any effects that are more positive or more negative that we should consider?

Bernard Schäferbarthold: I think it's a fair assumption. For sure it depends a little bit also on the further working capital development. As we said in these days with all these restrictions we have related to logistics and supply chains. We try now to manage it best possible. So that we are not really trying now to optimize also inventory levels. Just as a remark, that's why it is difficult now to predict exactly working capital levels. But your assumption is fair. In addition, we will then also see the incoming cash from the disposal of our camera software. This would then come on top.

Sascha Gommel: Perfect. Understood. And then very lastly, I think the question has been asked in many different forms, but I'll really try to understand this 12.1% margin in the second quarter. I think that's the best quarter you ever had in terms of profitability since you're a public company. Can you just roughly quantify how much of that you think was unsustainable short-term cost benefits that will go away? And how much of that is more kind of structural and is here at the last?

Rolf Breidenbach: As Mr. Schäferbarthold said, one point is this, let's say, special improvement due to the fact that we revised some money in the balance sheet. This was one point due to this Asian joint venture. And then I would say it's in the ballpark of perhaps 3, 3.5 percentage points

Operator: And the next question comes from the line of Christoph Laskawi.

Christoph Laskawi: It's Christoph from Deutsche. A bit of a follow-up to what Henning asked on short-term trading. We get the statement from OEMs that they are restocking in Europe and the U.S., which would give us the feeling that the near-term production level should be fairly secured despite the registration momentum we've seen in November in Europe, for example. Would you share that view that for December and January, for example, the order books are quite good, and you will expect too much volatility, so that the risk that you have been highlighting are more, say, for your Q4 or exiting your Q3? That will be the first question?

Rolf Breidenbach: We are very optimistic for China and also for the U.S. It looks as if here, there is really a sustainable demand, also the inventory level of vehicles at the dealership, especially in the U.S., they are at a very low level, which, from our perspective, is currently not sufficient. Therefore, here, let's say, midterm, and this was your question. December, January, perhaps February. Here, we look very optimistic to both markets. Let's see what's coming out after Chinese New Year. But until China New Year, we see a sustainable, very stable demand, which is so far every week increasing. And in the U.S., also due to this very low inventory level of vehicles at the dealerships, yes, sustainable. Europe is, from our perspective, the highest risk. So we do not exactly know how this will go on. What we can see is that premium is still very strong. So we saw good order books at our customer side at the premium area at, let's say, at the volume car manufacturers, it's getting a little bit less stable in Europe.

Christoph Laskawi: Thank you. And considering the project ramp-ups and the start of production that you are having, most of them are as I said, in China or that region, a couple of them in Europe, do you see risk that they might be postponed? Or are they more on the premium side in Europe, for example?

Rolf Breidenbach: We saw some postponements in the last months, especially, of course, at the fourth quarter of the last fiscal year. Currently, we see no significant delays.

Christoph Laskawi: And last question from my end. When you point towards cost coming back, I would expect that not to be a very drastic step-up in 1 quarter, but more phasing since you can control most of them quite nicely. So should we think about cost returning in H2 more as a gradual ramp? And then in Q4, exiting Q4 to be completely normalized again or will the come back and normalization of operations last into Q1 next year?

Rolf Breidenbach: I think your first assumption is more realistic. So now step-by-step, we will increase our activities and I assume when nothing special happens that we will have this, let's say, normalized level in the fourth quarter.

Operator: And the next question comes from Sabrina Reeh

Sabrina Reeh: This is Sabrina Reeh from UBS. I just have 2 follow-up questions. So the first one is on the margin development as well. Was this margin also supported by product mix, so higher-margin products, such as electronics faring better than the lighting side? Or is that not the case? And the second question is, we spoke about it already in a couple of other questions, but maybe I'm just trying to wrap my head around the fact of how much exposure you really have to these electronic components where you're seeing supply chain issues. Could you maybe give us a bit more guidance on how much exposure your products have exactly to these electronic components? That would be super helpful.

Rolf Breidenbach: To your first question with regard to product mix, there was no -- no special effect in the last 2 quarters. This is true for the first quarter, but also for the second quarter. With regard to our electronic components here, we are especially talking or one important group are, of course, microchips, and this affects a large range of our products, body electronics, sensors, radar, energy management products like DC/DC, battery management system. So of course, these electronic components are important for all our products in the electronic area. But as I said, we have this so far, totally under control.

Operator: And the next question comes from Jürgen Pieper

Jürgen Pieper: It's Jürgen from Metzler in Frankfurt. Yes, great. Great quarter. I have just 2 straight quick questions. The first one, it looks like the headcount reduction is probably the strongest margin driver. And you mentioned the 5,400 people you have laid off so far. So where do we stand in terms, let's say, of percentage of the total program at maybe around 70% or 80%? Is that the right assumption? And is the further process a rather steady one, let's say, over the next 12 or 18 months? And the second question is on the battery expertise. It looks like in these times, everybody is searching these specialists. So if you have mentioned certain bottlenecks, is this already a bottleneck that battery expertise now is becoming expensive and becoming a very rare thing to find, is this already beginning to be a problem?

Rolf Breidenbach: Yes. Starting perhaps with your second question. Of course, it's this battery expertise is a very, let's say, valuable know how currently in the auto industry, but we have 3 development hubs, 1 in China and 2 in Europe, 1 in Germany, 1 in Romania. And we are constantly increasing our R&D capacity. And so far, the buildup of the people and the know-how is on track. It's a challenge, but nothing we are currently afraid of to handle.

With regard to our reduction program, you mentioned this 5,400. Of course, we -- and this is most of the reduction we have planned outside Germany. Of course, here and there, there will be some adoptions, especially some transfers from high cost to best cost countries. But now our focus is on Germany. Here, our reduction efforts with regard to our headquarter in Lippstadt, these 900 people. As I said, so far, everything as planned, the early retirement program is negotiated. The talks have started. I hope we can finish this program end of January, mid of February, let's see. We will now start the negotiation of a severance package. And so everything on plan, but the reduction of these 900 people in Lippstadt is valid for a time frame of, let's say, 2.5 to 3 years. And the same is true for the reduction we are also planning in Germany. Here, let's say, additional, perhaps 600-plus jobs will also be reduced. This is also totally in line what we have planned. And here, we also expect an implementation phase of let's say, 2, 2.5 years. So your assessment was 70% to 80%. With regard to the total numbers, this is true with regard, of course, to the financial impact, I would say, perhaps we are 60% the way down because, of course, the reduction in Germany will bring us to a tremendous improvement with regard to our cost base.

Operator: No further questions that came through, sir. You may continue.

Rolf Breidenbach: Okay. Then thank you very much again to all of you for your time, for your interest in HELLA. Have a good day and stay healthy. All the best. Thank you.

Operator: Thank you. That concludes our conference for today. Thank you all for participating. You may now disconnect.

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