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P: Christian Ludwig; Bankhaus Lampe; Analyst
P: Christoph Laskawi; Deutsche Bank; Analyst
P: Julian Radlinger; UBS; Analyst
P: Lello Della Ragione; Intermonte; Analyst
P: Manuel Tanzer; Equinet; Analyst
P: Viktoria Oushatova BofAML; Analyst
P: Operator

COMPANY EDITED TRANSCRIPT

Operator:

Good morning, ladies and gentlemen, and thank you for standing by. And welcome to the HELLA Investor Call.

(Operator Instructions) I must advise you the webcast is being recorded today, on Thursday, the 11th of January 2018.

And I'd now like to hand the webcast over to your presenters today, Dr. Rolf Breidenbach, CEO and President; and Bernard Schäferbarthold, CFO. Please go ahead, and thanks.

Rolf Breidenbach^

Yes, thank you very much for the introduction. First of all, to all the participants, happy new year. We both wish you a very good start into 2018. And we really appreciate that you take the time for this telephone conference to discuss with us our first half year results. And of course, I would like to welcome you also on behalf of my colleague Mr. Schäferbarthold, the HELLA CFO.

I will start the presentation by highlighting some items of our first half year, then Mr. Schäferbarthold will give you more details about the financial figures. And I will end with an outlook.

Overall, we are very satisfied with the first half year in 2 dimensions. First of all, with our growth rate, we were able to achieve 9.3% on an adjusted basis. This is, by far, better than the automotive market development. And I think it shows the strong demand and the good positioning of the HELLA products in the market, and this is true for both our lighting products and also our electronic products. But also, I think it's a positive sign that the growth accelerated in the second quarter, which also makes us quite positive with regards to the development in the months to come. When we look at the profitability, we are also quite satisfied with the gross profit margin development. 28.1% is an improvement by 0.3%-points compared to the last year. I think this figure shows that with regard to operational excellence we are continuing our good performance rate. And here also we are quite optimistic to further develop this into this direction.

When we look at the adjusted EBIT margin here, again also a quite encouraging result, a plus of also 9.3% on a year-on-year basis comparison. We reached EUR 293 million. And also when we look at the adjusted EBIT margin, we could show an improvement to the last fiscal year, 0.1%-points. It's, yes, also quite encouraging. We are especially satisfied that the margin in the Automotive segment could be increased. When we look at the development in the first quarter compared to the second quarter, here we also see an improved development, of course taking into consideration that compared to the last year the utilization of our plants and also the FX effects are a little burden in this area. But here also we see a clear improvement.

Last topic, liquidity. I think all the efforts we are currently doing to increase our cash conversion rate are step-by-step paying off compared to the last year. We were able to increase the free cash flow by EUR 17 million, plus 23%, good development but this correspondent to a cash conversion rate of 31%. Here we expect an improvement in the second half of our fiscal year. So a good start with regard to the cash conversion, but we hope that we can still improve our figures in the second half.

This is an overall assessment from my side. As I said, I'm very satisfied with the first half of our fiscal year with regard to the financial figures.

In Page 5, you can see the adjustments we had to make due to the currency fluctuations. 9.3% on an adjusted basis was the growth rate we were able to achieve. We have to deduct this EUR 42 million, and then this results into a growth rate of 8%.

And when we look at the different segments. Automotive was very strong, 9.1% first half year, and as I said, second quarter was even stronger. So in

my perspective, very good positioning of our product portfolio with regard, on the one hand, to our LED products; but also our energy management products; our radar solutions pays off. And it looks that the attractiveness of our portfolio can also support the outperformance of our growth rates in the months to come. Within Aftermarket, we are specifically satisfied with the development of our spare parts business and our wholesale business, external sales a plus of 3.6%. It's, also compared to the general market development, very good. And of course, we are very satisfied with the development in Special Applications, plus 13%. We comment last year on the very difficult market situation in agriculture and construction. This has turned absolutely to the positive. We see a strong demand and a very positive development in these markets. And this results into a very good, double-digit growth rate in Special Applications.

When you look, and this is shown in the next page, about the Automotive segment and the growth rates we could achieve compared to the general market development, it's good to see that we are back on track with regards to outperforming all the automotive markets by far. This, of course, is especially true when you look at the figures in North and South America, though. We were able to grow by around 20%. And this is an outperformance by 23.6%, so this is of course really, great. But also, in Asia the growth rate of around 14% is much better than the market and shows our strong product portfolio, as I mentioned.

Yes, perhaps last remark with regard to the growth perspectives in the months to come. We see no, let's say, dramatic roadblock or market development which could hinder us to continue our growth development. Of course, we have to consider that the first half of the last fiscal year was very weak. Therefore, we are not sure whether we can again show such a strong outperformance of the automotive markets, but we are quite positive with regard to the general development.

Having said that, please allow me to hand over now to my colleague Mr. Schäferbarthold, who will give you more insights with regard to the financial figures.

Bernard Schäferbarthold^

Thank you, Mr. Breidenbach. So good morning also from my side. I would continue the presentation on Page 7.

First of all, also from my side, I'm also pretty satisfied with the results of the first half year. We are pretty much in line with our internal plan. And that's also taking into account, and Mr. Breidenbach mentioned that, that we had

not really a significant tailwind from the market but also from the FX development, especially also on the U.S. dollar side but also on the renminbi. Both currencies have weakened. And as you have seen, we have grown significantly in both of these markets. That's, overall, I can say that these effects we had there were purely translation effects. They have been more significant in Q1 than in Q2. Overall, it's an amount of EUR 8 million. We have seen EUR 2 million in Q2, so negative. So this has softened in Q2, overall roughly 1% impacts of translation in Q2; and in the first half of the year, 2.7% related to our adjusted EBIT. In relative EBIT margin terms, we have not seen any impacts because, as I said, it was a pure translation impact.

Going more into details on Page 8, gross profit, a decent, good development with increase in absolute terms but also in relative terms. That underlines also basically what we said also during the last quarters but also in our Capital Market Day that we expect gross margin to increase over time. On one hand side, we have seen, especially also in Q2, a good capacity utilization, also with strong growth dynamics but also a good product mix. And that also despite the fact that we have invested also in the ramp-ups of new product lines, in new plants, new facilities we are just establishing. So that's a very positive elements. Also nice to see that we have seen all 3 segments of our business contributing to that good development.

Page 9. You see we have invested more in R&D; as we also outlined several times, in relative terms, more or less a stable R&D expense ratio. So a continuous investment in our new products following the market trends, but also here some of these costs reflect also the support of new product launches and also the establishment of new plants. So overall, pretty much stable and also in the range we also outlined and guided, around 9.8%.

On the SG&A, on Page 10, a slight increase, under-proportional, looking at the growth rate we had, so that 0.2% reduction here in our expense ratio in the first half year. Nevertheless, as I said also in prior calls, we need to continuously work on modernization of our system architecture. And we are working on that also to do then the next step also if it comes to reduction of complexity and of efficiency gains in our globalized network, so that's something we need to closely look at. But overall, we expect no significant change also going forward on that ratio, but again it'd be prudent to assume that it will continuously go down by 10, 20 basis points on a quarterly base.

So all in all, on Page 11, as Dr. Breidenbach stated, very descent EBIT development, an increase in absolute terms of EUR 25 million, overall 8.5% adjusted EBIT margin. And that's also despite the fact that our JV income is significantly down on a year-on-year comparison by EUR 9 million. And that's especially due to the fact, that's the impact, as we said also before, of

the geopolitical conflict between China and South Korea which started more or less 1 year ago, where we have seen significant impact more or less 1 year ago, with a very significant drop at this point of time. So we compare our numbers now this year with a very strong also first half last year. Since the second half of last fiscal year, quarter by quarter, we have seen improvements, but we are still not back to this very strong level we had in H1 last fiscal year.

Looking at the complete P&L picture on Page 12. Reported EBIT improved significantly, even much more than adjusted EBIT, by EUR 45 million to EUR 289 million. That's a reported EBIT margin of 8.4%. The adjustments are significantly lower, EUR 3.4 million in the first half, and are fully related to our ongoing restructuring programs in Germany. Our net financial result is slightly higher in the first half. Even we have been able to close that increase a little bit also in Q2, and that's related to significantly higher investments in countries with much higher local interest rates. And what we see here is an increase due to the hedging volumes we have in the swap rates, which are reflected then in our financial results here.

All in all, a good development also bottom line in our earnings per share; a very decent, nice increase of 14%, EUR 1.78 earnings per share we have in the first half of the year.

Looking at Q2 only on Page 13. We have seen even a more significant growth in that single quarter, a reported growth of 10.8% and currency-adjusted sales growth of even 12.6%. I have to say that we compare certainly ourselves with a very weak second quarter last year. You'll remember certainly that, last year, we mentioned is an exceptional transition year where we had a lot of ramp-downs and ramp-ups or more ramp-downs than ramps-ups in parallel. And that had an impact on sales, and certainly that supported that very significant growth in that single quarter. All 3 segments contributed to that very, very solid growth, but I would like to highlight especially the important auto segment with a very nice and significant double-digit growth and also special application growing at a very significant double-digit number.

EBIT, Q2 only, with a reported increase of EUR 37 million overall to EUR 166 million, a 9.1% EBIT margin; and adjusted increase of EUR 18 million in Q2 only to EUR 168 million, 9.2%, which is a very good development overall.

On cash flow, as Dr. Breidenbach said, a good development, with EUR 91 million now in the first half. We have seen an improvement in our cash conversion rate of 3.5 percentage points to around 31%. And we are pretty

optimistic also going forward that we are continuously being able to increase that number even in H2. So we see also all the measures we are working on our cash flow improvement program, that we are realizing basically the improvements we are planning to do. Looking at reported free cash flow numbers, the improvements is even higher with plus EUR 73 million compared to black 0 last year, a very good development.

Coming to the segments on Page 15, starting with the Automotive. A nice, good growth, as mentioned, in the auto segment; and supported by a decent growth in both important product segments lighting but also electronics. And as I've said, here you see very clearly also in comparison to last year the very low comparable growth numbers in the first half of the last fiscal year.

Adjusted EBIT increased in H1 on a year-on-year comparison in absolute numbers. In relative numbers, you see a slight decrease of 0.4%-points to an EBIT margin of 9%. Q2 only it's a good and better improvement there. We have even seen a slight margin increase of 10 basis points to 10.4%. And that's certainly here you see in the auto the lower contribution of the JVs I mentioned.

Here in the auto segment you certainly see on one hand side a good development related to volume if it comes to profitability, a good capacity utilization with decent and good productivity levels which led to a higher gross profit margin which then supported this development.

On the other segments. Aftermarket with a good growth development related to our external sales in our independent aftermarket business and in our wholesale business, which led to a 3.6%. You see only a very low growth overall, the EUR 610 million to EUR 611 million. That's related to the fact that we have restructured the segments between Aftermarket and special application end of last fiscal year. And within the intersegment sales the comparability is not fully given, so that the important growth, especially the external sales, which shows the improvement of the business. EBIT-wise, you see a pretty constant development on a year- on-year comparison. We have invested also in that business to continuously grow. And also, in our product portfolios we are quite confident that these investments, which are reflected now in our profitability negatively, will contribute to a higher profit now also going forward, so a positive outlook also here.

And as Dr. Breidenbach stated in Special Applications, certainly a very nice and good development. We also commented in our call in the first quarter that especially the important segments agriculture but also construction had picked up significantly with double-digit growth. Overall and especially also in Q1, we have seen a very nice growth or over-proportional growth,

especially also in Australia, so overall in H1 in special application, driven by higher volumes and a strong sales increase, a massive profit increase to around EUR 24 million compared to a very low base last year. But again, please allow me to mention that, last year, certainly we had also these onetime expenses out of our closing of our airports business. So that's certainly also in the comparison something you need to reflect, but good margin development overall with around 11% in special application. And remember we said a margin around 10% is something we expect on the full year for that business segment.

So that's all from my side. And with that, I hand back to Dr. Breidenbach with the outlook.

Rolf Breidenbach^

Yes, Mr. Schäferbarthold. Thank you very much.

Allow me to close this call with a short outlook, on the one hand, with regard to the Automotive market. You can see this in Page 18.

We do not expect a special tailwinds with regards to the market development but also no specific setbacks, so we expect regarding our fiscal year, a solid growth in Europe, in NSA more a flat development and in China a small growth, which results in a global market development we have considered also in our guidance of around 1.7%. This has not changed significantly over the last months.

With regard to our guidance, here also nothing new. Although the start into the fiscal year was very good and solid, we will stay with our guidance. With regard to sales growth, we expect a range on adjusted basis between 5% to 10%. And the same is true for the adjusted EBIT growth, and we expect an adjusted EBIT margin of around 8%. Here again no change with regards to our statements at the beginning of our fiscal year and also after the first quarter.

Why haven't we changed the guidance? There are, let's say, 4 main reasons. In the end, we cannot assess the negative exchange rate effects which may come. Also, with regard to the market developments, we see some insecurities in China and the U.S., nothing specific but in the end very difficult for us to assess. We will continue to invest into the R&D area. And whenever we have the opportunity to acquire a new business or to start attractive predevelopment projects, we will do this to mid- and long-term secure our growth strategy. And the last and fourth factor is that, the ongoing capacity extension Mr. Schäferbarthold already mentioned, of course will

continue to lead to a kind of underutilization of our assets. This is true for our machines and equipment, on the one hand, but also with regard to our people to, first of all, have to be trained and have to be prepared to handle the new launches. And therefore, we think this will also be a fact we have to consider with regards to our guidance. And overall, we came to the conclusions that we are very optimistic to reach our guidance, but although the start was from our perspective very strong, we will not change it.

Yes, having said that, I would like to finish the, let's say, presentation part of our call. And now Mr. Schäferbarthold and I look forward to answering your questions.

Q&A

Operator^

(Operator Instructions) The first question comes from the line of Julian Radlinger.

Julian Radlinger^

Two questions from my side. Number one, talking about the planned openings, the capacity utilization that's going to be a little bit lower because of that in the next 12 to 18 months and the gross margin, am I missing something? The narrative is still the same, as far as I understand, that because of the planned openings the gross margin will be a little bit lower, but in Q2, the gross margin both in Automotive and on a group level was pretty strong. And it was actually up year-on-year, unless I got my numbers wrong, so my question is does that still hold true that this year we're probably going to have a lower gross margin, particularly in Automotive, than last year. Or has that changed? And how should we continue to think about that? And then my second question is regarding free cash flow. Here, if you could just maybe give us an indication of how satisfied you are with free cash flow. In Q1, you were very happy with it. You were saying it was a little bit better than expected maybe, and we were able to see the first results of the net working capital reduction. Is that net working capital-to-sales ratio reduction still fully on track or even ahead of what you had planned? And are you again positively surprised by the free cash flow in this quarter, or was it more in-line?

Rolf Breidenbach^

Yes, thank you very much for your questions. Allow me to answer your first question with regard to the gross margin. Yes, we expect a little lower gross margin in Automotive compared to the last fiscal year. You are right. And the start into the fiscal year, the first 6 months, also with regard to the gross margin, were very positive. And we are very satisfied with that, but we are careful. A lot of new launches are coming, on the one hand. We have to train the people. We have to handle this capacity increase, all over the world, of a lot of plants and extensions. And therefore, your assumption is absolutely right. We expect a little bit lower gross margin in Automotive on a year-on-year basis in 17/18.

Bernard Schäferbarthold^

On the free cash flow, I can say that I'm very satisfied with the progress we are doing, so that looking at all the different measures we are working on, which should at the end also lead to basically a very, I will say, continuous also improvements. And I think there we are fully on track.

What you need also to see and to take in if you look really at pure numbers is that certainly we are balancing basically our operational needs also to basically our optimization measures. And what do I mean by that? If you look especially in the inventories, you will see an increase especially also in Q2. And that's related to you can say, to a lot of safety stocks also we have taken in, especially also for a lot of new product launches we are in, where basically we say that we want to be really safe to support also our customers and not really to have a risk that we have then a stop in our production. And that is something where, especially now in Q2, we have seen, due to that fact, a significant increase, especially in the inventories in some regions and in plants where we see a significant increase. And that's we expect also in the second half to go down. And so that's basically also why we are pretty confident also that, in the second half, we will see a continuous improvement also in our cash conversion and which will then also have an impact on the full year.

Operator^

Your next question comes from the line of Akshat Kacker.

Akshat Kacker^

Akshat Kacker, JPMorgan. My first question would be within the electronics division. How is the uptake of 48-volt DC-DC converters in China and

Europe? And any other update on a strong uptake of energy management systems? My second question is on the internal profitability target in the Aftermarket division. And my third question will be on the CapEx as percentage of sales, it came in pretty low in the second quarter. Do you see any improvement in this fiscal over last year?

Rolf Breidenbach^

Yes, allow me to start with the first question. The second and third questions will then be answered by my colleague Mr. Schäferbarthold. With regard to this 48 volt development, although the development was also very strong with regard to market demand during the first quarter of the fiscal year, this has accelerated. So, we now see the tendency that there are many of our customers which will totally switch to 48 volt due to the energy efficiency advantages. And therefore, the demand of this technology, I would not say, is exploding, but it's accelerating and accelerating. And we feel very well positioned to benefit from this overall development. And this is true, of course, especially for Europe, but we now also see the signs that this will also become true in the U.S. and especially, of course, also in China.

Bernard Schäferbarthold^

On the aftermarket, as I said, we expect due to also our investments we have done now also on new products, we expect even a slightly higher growth rate in the second half. And that will, on one hand side, drive our gross profit margin. This will increase. And by that also, we will see an increase in adjusted EBIT, so I would say we will certainly, actually, we are at 6.1%. we'll be above 7% in the second half, so that should then drive overall our profitability full year.

The low CapEx is related to a higher reimbursement rate we have especially seen in the second quarter. If you look at gross CapEx, gross CapEx is basically in-line what we expected. It has grown also with the investments in our new plants and our new product lines. And I mentioned already it's volatilities which can happen also if you look at the net CapEx number. So overall, we assume net CapEx, as we mentioned, around these 7.5%. This is still our expectation also for this year on a full year basis.

Operator^

Your next question comes from the line of Christian Ludwig.

Christian Ludwig^

Just to follow up basically a little bit on the CapEx. For one, you mentioned, I think, in your text, that you're also building a part of a new headquarter in Lippstadt. Could you give us an idea how much CapEx that will require? And then just to get it right: You mentioned these 3 or 4 new plants that you're currently building, which are I assume part of your CapEx guidance of 7.5%. And I understand that, that will lead to a potentially lower gross margin in the short term, but when these are done, shouldn't we expect that the gross margin should, at least starting mid of your next fiscal year, improve again as these plants ramp up? And thus we should have basically a stretch ahead of us where we should see a continuous improvement of the gross margin as these plants are filled with capacity. Is that the way to look at it?

Rolf Breidenbach^

The short answer is yes. And the longer answer is, of course, when the plants are ready and the equipment is there, we clearly targeted a higher gross margin in Automotive which will lead also to a overall higher gross margin of the company. So your assumptions and your thinking is absolutely right. And another part of your question was whether the new plants and the CapEx we are spending are included in this CapEx rate of around 7.5%. Yes, this is also true. With regards to the CapEx investments in Lippstadt, this is not so significant. Of course, we are using business models which will not in the end lead to a fact that we have to spend too much CapEx. The CapEx burden comes, on the one hand, of course from the new plants; and on the other hand, of course from project investments in tools and equipment we have to do.

Christian Ludwig^

Okay, perfect. And then just a follow-up on your joint ventures. I mean you mentioned, I think, already at Q1 that we have issues with with the Korean joint ventures due to issues with Chinese OEMs. Do you think this is basically structural and is here to stay, so that we should going forward not assume too much contribution from the JVs or at least not a return to previous levels?

Rolf Breidenbach^

I think, with regard to these, let's say, Asian-specific issues, we see a kind of bottom line we have achieved. I think we have now the first weeks where a very negative development seems to be stopped, and hopefully, from now on

we can at least see a stabilization or perhaps also an improvement, which we expect. So difficult to say, due to the fact that we are talking about, from our perspective, political reasons, how this will develop, but the negative development is stopped. We see a stabilization, and yes, with a little bit of optimistic or optimism, the situation should improve.

Operator^

And your next question comes from the line of Manuel Tanzer.

Manuel Tanzer^

I will have 3 questions. The first one is can you shed some more light on the strong growth, especially in the NAFTA region? And did you see any adverse effects in production from the current cold weather for your Q3? The second question would be on the U.S. tax reform. Can you just comment on some implications of that for HELLA? And the third one, can you give us some more insights on the Special Applications margin, which was in my view rather weak as the growth rate was very strong and we have the absence of the restructuring costs? So the restructuring costs alone, if I add those back, should have brought the margin to around 8%.

Rolf Breidenbach^

Yes, thank you very much for your questions. I will answer the first one. And then the second and third one will be answered by my colleague Mr. Schäferbarthold. The strong growth in NAFTA is related to the high attractiveness of our product portfolio. We now see a clear demand also in the NAFTA market for LED lighting products, on the one hand. And this is true for headlamps, tail lamps and also interior lighting but also with regard to our strong sensor and actuator portfolio. Also, our radar components play an important role. So very attractive product portfolio, high take rates of our electronic products, a high attractiveness of LED technology. These are, I think, the keywords behind this growth. With regard to the cold weather, no. Currently, we do not see this. And of course, nobody knows what will come, but so far, no important, significant effect on the sales figures so far; and nothing we can see in our systems that the weather conditions will influence our sales in the, let's say, days and weeks to come.

Bernard Schäferbarthold^

On the tax reform, 2 points. One is that we have on the deferred tax assets, we will have, I will say, a very minor impact, which is I would say not relevant, where we have to revalue the tax assets. On the positive note, and that's the second, is that we will benefit from a lower tax rate. And also, especially due to the fact that our business in the U.S. is growing significantly, the lower tax rate is a very positive aspect for us going forwards. On the special application, yes, the Q2 was lower, but basically as planned, I have to say we guided also after Q1 that this very strong Q1 profitability will not continue. We expect in the second half the profitability again to increase also compared to Q2. Q2 only has to do, on one hand side, with the product mix we had and with some investments also we have done also in preparation now of new products being then sold also going forward. So that's why we see now also profitability also from the second half of the year going up again compared to Q2, so that overall we see this around 10% on the full year.

Manuel Tanzer^

Okay. Very clear. Just maybe one more question on the NAFTA market. You were mentioning the strong demand for LED; and the growth rates picking up, take rates picking up. Was there a change in legislation in the U.S.? Because from what I remember, at least for matrix LED beams, they were not allowed in the U.S. Did that change? Or do you see any pickup effects there? Or is that still in place?

Rolf Breidenbach^

No, the legislation hasn't changed. So we are not talking about matrix systems but, let's say, standard full-LED headlamps, for example interior lighting and tail lamps, but no matrix beam or advanced systems like glare free high beam or something like that. Full-LED standard headlamps, for example.

Operator^

And your next question comes from the line of Lello Della Ragione.

Lello Della Ragione^

Lello Della Ragione from Intermonte. Just going back to the gross profit margin, I wanted to be sure that on the lever reporting, especially in Q2, there are no impact of of the hedges on that line as it occurred in the past.

And the other element, you were very clear on the evolution of the capacity utilization given the expansion that you're planning. And I was wondering if these, okay, you said that it will have an effect in the coming quarters. And I wanted to be sure that, at the moment, these didn't play a role on the second quarter, meaning that you had just positive effect rather than of the positive effect of volumes and the negative of a lower capacity utilization on the new plants or fixed costs or whatever.

Bernard Schäferbarthold^

So coming to your first question, I can confirm that there was no basically no significant onetime effects out of prior periods. And to your second question, certainly we have already started with these investments, so that we see already for these new product lines we are setting up and also for the new plants we are just building up that we have costs which are already in our P&L in the first half. But this will now be a little more significant in H2. That's why we say we have been able to overcompensate that with a very high growth rate in the first half. In the second half, we expect that it should have, because of higher costs, an impact on the gross margin.

Lello Della Ragione^

Okay, just a clarification on the first question: I was wondering. In the past, it happened that, when you added headwinds on the top line, the effect of the hedges in place might have played on a quarterly basis a role on the margin. I was wondering if that any effect on that line coming from hedges on ForEx or not.

Bernard Schäferbarthold^

No.

Operator^

And your next question comes from the line of Christoph Laskawi.

Christoph Laskawi^

Christoph Laskawi, Deutsche. They will be also on utilization and somewhat related to the gross margin in the second half. I understand that you continue to ramp up plants that you're currently building, with a continuous headwind

on the margin, but do you expect, I mean, you still grow the mix of products as I took it, it was quite good in Q2. Any reason that, that should change in the second half? And since you see strong demand for certain product groups, any reason why we should think about of a material slowdown of growth in the second half although your comp base is getting a bit tougher? Then on revenue growth as well, your outperformance in Europe is significantly lower compared to NAFTA and Asia. Obviously, we can see very strong growth in the level-2 markets, but do you have any specific outperformance target in Europe as well? Since you ramp up new products, could we expect that to go up? Or are you fairly happy with the outperformance that you currently show and don't see that going up strongly the future?

Rolf Breidenbach^

Allow me to start my comments with regard to the high growth rate we have shown in the first half of the fiscal year. And I think Mr. Schäferbarthold already mentioned it, but allow me to repeat it. Please have in mind that the growth rate of the second quarter of the last fiscal year 16/17 was very, very, very low. And the increase of our growth dynamics we now see have already started in the third and fourth quarter of the last fiscal year. Therefore, we do not see any kind of setback or interruption of our growth development, on the one hand, but on the other hand, when we compare now the third and the fourth quarter and the expected growth rate, we have to consider that the growth rate already in the third and fourth quarter of the last fiscal year were significant higher compared to the first and second quarter. And so this is perhaps one thing at least we consider and take into consideration when we assess the gross margin. And as I said, and I can give you no, let's say, additional information, the mix of building up capacities in all over the world and hiring the people, training the people leads to a reduced utilization of our resources. And this is true for our equipment and also for our people. And this related into a, let's say, short-term reduction of the gross margin in Automotive. And when you compare this to the last fiscal year, you could see that we could reduce the gap by 0.5%-points, considering the development of the second quarter, but we cannot close this gap, from our perspective, in the quarters to come. So there will be a difference in the gross margin when we compare 16/17 and 17/18. With regard to our growth aspirations, of course, they are also true for Europe, but overall of course we have a special eye on NAFTA and also on China because we have the clear strategy that we will play a relevant role in all the markets where we are acting. And we would like to balance out or to be in a position to balance out a negative development in one of these markets by, hopefully, a positive development in the other 2 markets. And therefore, when you look at the size of our European market, of course, we have a special focus in growing in

NAFTA; in NSA, North and South America; and in China a little bit more than in Europe, especially due to this risk management perspective.

Operator^

And your next question comes from the line of Viktoria Oushatova.

Viktoria Oushatova^

This is Viktoria Oushatova from Bank of America. And I have 2 questions, please. Going back to your outperformance in the NSA region, I just wondered. Is this actually driven by the total market growing, or HELLA gaining market share from its competitors? And also, do you see this going forward given that there has been a declining trends in the market recently? And my second question is basically on your participation in the camera software field. Do you have any updates in terms of new customers or maybe new planned partnerships that you want to share with us?

Rolf Breidenbach^

Yes, first question, we are growing significantly faster than the market. Therefore, we are gaining significantly market share, from our perspective, in both electronics and lighting. And with regards to partnerships, we will continue this network strategy. I think, for example, announced already this, for example, open cooperation with ZF and NVIDIA; other smaller cooperations we also started and communicated in the last months. And we will continue doing this because we think that the very fast-developing and fast-changing automotive market with regard to technologies, trends, customer taste and demand needs these kind of very fast-buildup partnerships and conglomerates. And the partnership with ZF is a good example. And we will continue doing this, having in mind that, of course, both is true. We can build up these partnerships very fast, and the one or the other partner can also go out of this partnership very fast when perhaps the fit or the expectations are not as they were perhaps at the starting point of such a cooperation. But we've made very good experience with it. It fits the market demand. It fits the customer demand. And it especially fits, let's say, the new requirements you have to fulfill as an automotive supplier in this, let's call it, new automotive world. So we will continue doing this with other partners in other fields.

Operator^

Thank you. There are no further questions on the line. Please continue.

Rolf Breidenbach^

Okay, when there are no further questions, allow me again to thank you very much for participating in this call, for asking the questions and overall for your interest in HELLA. Also of course, on behalf of my colleague Mr. Schäferbarthold, we both wish you, as I said, a good start into 2018. And we look forward to working with you together.

Thank you very much.

Operator^

Thank you. That does conclude this webcast for today. Thank you all for participating. You may all disconnect. Speakers, please stay on the line.

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