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P: Christian Ludwig, BHL - Analyst  
P: Christoph Laskawi, Deutsche Bank - Analyst  
P: Emily Lui, Haitong Securities – Analyst  
P: Florian Treisch, MainFirst - Analyst  
P: Lello Della Ragione, Intermonte - Analyst  
P: Kuldip Shergill, Cheyne Capital  
P: Michael Raab, KeplerCheuvreux - Analyst  
P: Nikhil Bhat, JPMorgan - Analyst  
P: Operator  
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COMPANY EDITED TRANSCRIPT

Operator: This is Conference # 959939.

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Hella Investor Call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time. If you wish to ask a question during that time, you will need to press star and one on your telephone keypad.

I must advise you that this conference is being recorded today, Wednesday, September 28, 2016.

And I'd now let to hand the conference over to Dr. Rolf Breidenbach. Please go ahead, sir.

Rolf Breidenbach: Thank you very much for the introduction. And from my side a very warm welcome to all the participants of our investor call also on behalf of our

Finance Director, Mr. Pohlschmidt, who will join me in this call from the Hella side. Overall, from our opinion, we started just successful into the new financial year. We are really happy to show very solid financial figures for our first quarter.

With regards to sales, on the bottom line we could show a sales growth figure of 3.8 percent. This figure was negatively influenced on the one hand by the foreign exchange rate effect of 1.2 percent and due to our restructuring work we have done in special applications also a negative effect due to the sale of our activities of 0.2 percent so that on an adjusted basis, we are showing a figure of 5.2 percent growth rate.

We are very satisfied with our profitability situation. This is on the one hand true for our gross margin. We could reach a figure of 27.6 percent. This is 0.9 percent more on a year-to-year basis compared to the last fiscal year.

And I think the good message is that we could, let's say, pull this improvement through all the lines of the P&L up to the EBIT line so to increase our adjusted EBIT figure up to 7.6 percent.

Mr. Pohlschmidt will of course go into detail but although we have significantly increased our R&D ratio, due to much better joint venture contribution which compensates this significant R&D spending, we could show this, in our opinion, quite satisfying profitability level of 7.6 percent.

With regard to liquidity, we have -- could show also a positive operative cash flow of EUR27 million. There are some temporary effects in the quarter. Nothing which makes us nervous or concerns us although the cash flow is lower compared to the first quarter of the last fiscal year.

At the next slide, you could some additional information with regard to our growth. As I said, there are two effects which are worth in our opinion to mention: this negative foreign exchange rate effect of 1.2 percent and in addition, this 0.2 percent negative effect with regard to our restructuring work in special applications.

Therefore, we grow by 3.8 percent, automotive by 3.2 percent. This has a lot to do with some project ramp-down activities which have occurred in this first quarter but again nothing which concerns us. Our guidance with regards to this mid-single-digit growth rate for the whole Group will remain.

When we look at the aftermarket division we are very satisfied with the development in this segment. Growth of 7.3 percent on the one hand in our wholesale business showed a very strong quarter and is also true for our workshop development activity.

Special application is of course in this quarter a special case. The core activities have grown by more than 2 percent but due to the sale of our airport lighting and industry lighting activities, this negative growth rate of 2.4 percent had to be shown for the quarter.

This is an overall overview. As I said, financial-wise we are very satisfied also with regard to our growth perspective. We think we started well into the first quarter.

And now I would like to hand over to my colleague Mr. Pohlschmidt who will lead you through the details of the P&L.

Carl Pohlschmidt: Yes, thank you very much. Also welcome from my side. On the next few slides like usual I would like to guide you through a few of the details of our financials. First of all, we were really satisfied in the first quarter with our profitability level which we can see in the gross profit. So we were able to increase our gross profit margin by 90 basis points which we were also able to bring down to the bottom line. We will see later in the EBIT margin.

A major reason for this is that we had really a high leverage in our plant due to the fact that we have not started yet the already-announced activities for our footprint extension. You might recall that we reported about our further investment activities that we in our electronic division want to extend the global footprint. This will start later during the business year, but has positive impact in the first quarter due to the fact that pre-running costs have not

started yet. So that we were able to increase the gross profit overall to 27.6 percent which is really a high level.

Apart from this high capacity utilization, we had also a positive product mix within our aftermarket segment, which has also contributed with 10 basis points to our gross profit margin improvement.

So when we look on the cost side, on the R&D, we are pretty much in line with what we have explained you in our Q4 call. So the R&D ratio, cost ratio, with 9.9 percent is still on a high level. This is a high increase compared to the first quarter last year, but when you compare with the last quarter in the last business year, so quarter on quarter, it is pretty much in line, and also considering the slightly lower growth basis on the sales side. So we are on the right track for a slight reduction of the cost ratio.

What we have also announced to you, that we see certain inefficiency due to the ramp-up of extended network in the development, so therefore costs will slightly come down so that we expect for the R&D cost margin that we keep in line with what we have told you also in the last quarter.

Looking to the overall cost base and the SG&A side, so the sales, general and administrative costs, there's not too much to explain because we have a stable cost base, although the cost ratio has slightly gone down by 10 basis points, but this is normal deviation which can happen in the quarter.

So overall we see that we are in line with the expectations for all the cost contributors in the section. Especially in administration, we are continuing to invest in our capabilities there, especially for our global footprint and to ensure that also the regions, our regional activities, our regional employees, are really able to support the high growth path also in the future.

Looking to the EBIT line, you can see that also the EBIT margin, same as the gross profit margin, has been increased by 90 basis points. So we were able to bring this productivity increase down to the bottom line. Of course there are also some other effects. As I already mentioned, R&D costs have been

increased, but this is compensated by higher JV income of 0.4 percentage points and some other cost benefits we had.

On the JV side, we had a very low basis in the last business year because we had basically two negative impacts. One was additional tax payments due to the outcome of an audit we had at that time and a weaker demand from the market, especially in Korea. So that has been increased again so that with this contribution we were really able to compensate this higher R&D cost ratio and to bring down the higher productivity to the EBIT margin line.

When we look to the cash flow, on the first view it seems that it has significantly weakened, but we have to take in consideration time shifts because in the cash flow of the first quarter last year of more than EUR60 million we were benefiting from time effects we had at that time because we had higher procurements and payments in the fourth quarter of the year before which has contributed positively then to the first quarter in the previous year. And this has not happened in the current business year.

You might also recall, in the Q4 we already commented the pretty much higher liability level in our balance sheet due to the fact that a lot of procurements happened in the fourth quarter, and this has been partially paid out also in the first quarter of this business year, which leads to the final result of an adjusted operative free cash flow of EUR27 million.

Like Mr. Breidenbach already said, this is in line with our expectations and therefore nothing else to comment except about the adjustment. We have told you last time that we have decided to give up our factoring program due to the fact that we think economically it does not make sense anymore.

When we have set up this factoring program it was more optimization of financing costs, but what we currently see in the market is that such programs are very expensive, and due to the fact that we have already a high availability of liquidity, we thought it doesn't make sense anymore now as it was a true sale, so meaning that receivables were gone out of our balance sheet. You see now operationally an impact in the cash flow but of course as we have adjusted due to the fact that this decision of course is financially driven.

Other adjustments have no major impact so for our restructuring program there was only a minor impact on the cash flow.

Net CapEx is more or less on the same level like in the previous year.

When we look to the segments, you can see that we had on average in automotive a growth of 3.2 percent. Major contributions were coming from electronics. In lighting, with 2.6 percent, it was a bit lower. This is due to the fact that we had some products running out in the first quarter which has reduced the sales in the lighting business, and of course after now the introduction then of -- following the success of this product, the growth will go up again. But this takes some time now so we expect most of the ramp-ups in the second half of this business year.

The adjusted EBIT also in automotive, we were able to increase our gross profit margin. So this was like then seeing in the Group the major effect of increasing our EBIT. In automotive business we achieved an EBIT margin of 8.4 percent after the 6.9 percent in the previous year.

Looking to the other segments, so in Aftermarket we had a growth rate of 7.3 percent. So after good growth we had already in the previous year we were able to continue. We had good demand from the market, especially in our wholesale business and also in our workshop products which have then contributed also to margin improvement, which we have seen in aftermarket. So also in aftermarket we were able to improve the EBIT margin from 5.8 percent to 6.3 percent.

Special applications. There's a major impact coming from the sale of our industries business, so therefore compared quarter on quarter there is a negative growth shown and reported. When you take out the industries sales from the sales of the first quarter last year, we have slightly positive growth of 2.6 percent. Usually it should be more but currently we see continuing weaker demand from the agriculture sector on a global basis. So this is a bit affecting our growth rate for the special applications to the effect that it is then moderate on an around 6 percent level.

EBIT margin of course is also affected by the sale of our industries business. Some post-running costs from the sale of this business which leads to this lower margin with only 2.6 percent. So we expect for the next quarter that these post-running costs are really running out so that the margin of the remaining special applications business or the special OE business will be much more visible than it is currently.

So, so far through the details of our financials and now Dr. Breidenbach will give you a short outlook what we see for the next quarters in the sector and also for Hella.

Rolf Breidenbach: Yes, Mr. Pohlschmidt, thank you very much. With regard to the market outlook, we refer to the VDA figures when we talk about 2016 numbers. In general, the VDA sees a market growth worldwide of 3 percent. When we look at other reports, like the IHS for 2017 there was a 1.5 percent growth rate mentioned. So overall for us, no let's say strong tailwind from the market but also no significant negative impact, as we have expected.

VDA sees West Europe to remain strong in 2016. They didn't change their estimation over the last months. China, very positive assumption of 10 percent. And with regard to the US market, they downgraded their expectations over the last month now to a figure of minus 2 percent.

So, as I said, no surprise for us. These were -- these are more or less also the assumptions in line with our expectations and the basis of the guidance we have given for our fiscal year 2016/2017.

I also again can confirm what we have said three months ago. So we expect sales growth in the mid single-digit percentage range, especially due to this swing in project launches we already have mentioned. We expect a growth of our EBIT margin due to of course the fact that these significant one-off charges due to the supplier case will not occur in this fiscal year, and of course will lead to this significant improvement in our bottom-line profitability. And also the adjusted EBIT margin will remain more or less at the same level compared to the -- to last fiscal year.

In the case of the negative foreign exchange trend, let's say it will continue. The sales growth for the year as a whole might continue to weaken, but -- and this I would really like to point out -- this development should not have any negative implications for the adjusted EBIT margin.

Mid and long term, I also can again confirm that we see a clear acceleration of our growth dynamics after the fiscal year 2016/2017 based on the booked business which is already in the pocket due to our activities in the last two fiscal years. And also with regard to the currently running fiscal year, we are very satisfied that the good acquisition performance also seems to continue also in the fiscal year 2016/2017.

So this was overall our introduction words with regard to our first-quarter results, and now we look forward to answering your questions.

Operator: Thank you very much. Ladies and gentlemen, please be advised that due to the large number of participants on the call you are limited to asking a maximum of three questions per-person.

And as a reminder to ask a question, you will need to press star one on telephone keypad and be prepared to state your name when greeted by an operator. That's star one to simply ask a question or make a comment. If you wish to cancel your request, you may press the hash key. Please stand-by while we compile the Q&A queue. This will take a few moments.

As a reminder ladies and gentlemen, you will be limited to asking a maximum of three questions per person. To ask a question, please press star followed by the number one on your telephone keypad.

Your first question comes from the line of Nikhil Bhat. Please ask your question.

Nikhil Bhat: Thank you for taking my questions. My two questions would be both over the coming quarters. How should we think about revenue growth over the next quarters given the timing impact that you mentioned, and excluding the



foreign exchange impact? How should we think of revenue growth over the next quarters?

And in connection to that, my second question is how should we think of the gross margin to progress over the next quarters given the investments -- capacity investments that you mention? Thank you.

Rolf Breidenbach: Coming to the growth perspective, we see no general change. So we stay with our guidance of 5 percent and, as I said -- let's say not 5 percent but this mid single-digit range. We are currently adjusted at 5 percent and when this impact of the foreign exchange will not significantly develop into a negative direction. So we see no general change in this perspective. So a similar development as in the first quarter.

With regard to the gross margin, the same. Of course we will do everything we can to now run the Company at this very high gross margin, and currently we see no obstacle to -- that could hinder us from this performance.

Nikhil Bhat: Sorry, just to clarify. So on the revenue growth you said excluding FX you still expect to continue the mid single-digit revenue growth range over the next quarters. Is that correct? That's how I understood it.

Rolf Breidenbach: This is correct. We do not change our guidance so that our guidance remains the same, excluding the foreign exchange effect of course.

Nikhil Bhat: Understood. Thank you so much. I'll get back to the queue.

Operator: Your next question comes from the line of Bjorn Voss.

Bjorn Voss: Bjorn Voss, Warburg. I have a question with regards to the further development or quarterly development in the year, I mean after you posted 19 percent, sorry, 18 percent adjusted EBIT growth in the first quarter and you're guiding for a mid single-digit percentage earnings growth in the full year. This basically means that you're guiding for declining earnings in some of the next quarters. Is this due to the plant expansion and associated costs with it or why should we actually see earnings declining going forward?

And secondly, we now see that the OEMs are probably accelerating their targets or ambitions to bring electric cars and also fully automated driving cars. Are you actually seeing any order intake in this regard for your products, which are, let's say, associated to these new megatrends already? Thank you.

Carl Pohlschmidt: Coming to your first question, it's important to compare the adjusted EBIT margin with the adjusted EBIT margin. Also our guidance is for the adjusted margin. Of course, the high improvement in the first quarter is due to the fact that we have major impact from the supplier case in the first quarter of previous business year, so this is of course not so much comparable. Therefore, we have also adjusted for this in the previous year and of course now also in the comparison.

So when we guide on a more or less stable EBIT margin, this is of course on an adjusted basis. We had a contribution in the first quarter, like I have explained, but you shouldn't expect now a huge impact coming from pre-running costs for this footprint expansion, which I have mentioned.

So therefore, of course we do not expect major decline in the margin for the next quarters but in the quarters it can go a bit up and down, and overall, like we have guided, we expect it on the level of the previous year. It can be in the range, a bit more or a bit less.

Bjorn Voss: Sorry, maybe a follow-up in this regard. I was not speaking about margin but more on the, let's say, year-over-year change. So earnings growth at adjusted EBIT was 18 percent but full-year guidance was just let's say mid-single-digit percentage growth.

So this means after having posted 18 percent in the first quarter that in the next quarter the earnings growth will materially decline or even turn to negative. And I was wondering why this should happen.

Rolf Breidenbach: But of course, as we said, we are very satisfied with this financial start in the first quarter. This of course will give us a tailwind to reach our guidance but today when we look at the whole year, we feel very comfortable to reach our

financial targets but we will not change now the guidance. But, as we said, we were strong in the first quarter.

Bjorn Voss: Thank you.

Rolf Breidenbach: Coming to your second question with regard to the electrification of cars and the launching of e-vehicles and the activities of our customers, we see a clear acceleration of their activities to now launch new car platforms, full e-vehicle platforms around the calendar year 2020 plus/minus, and this is not only true for one customer segment, this is really true for in our opinion all the global customers or many of the global customers we are doing business with.

This of course also leads to very good business opportunities for us, especially in the area of energy management, products like DC-DC converters, battery management systems, intelligent battery sensors. What we also see perhaps in addition is a clear development to the 48-volt network architecture and here we also feel very well positioned with our DC-DC converters. Just last week we got two important orders on hand and it shows that our strategic decision to set at a very early stage on this technology now from our perspective is paying off.

Bjorn Voss: OK understood. Thank you.

Operator: And your next question comes from the line of Lello Della Ragione. Please ask your question.

Lello Della Ragione: Hi, Lello Della Ragione from Intermonte SIM. The first question is on gross margin. If you can give us an idea of the magnitude of the effect that you got from the ramp-down of the activities and the operating leverage? And if you can specify if you had any impact on the ForEx or on the hedging debt level this quarter and if -- what should we expect in the coming quarter coming from the hedging side if the currency remains more or less at this level?

The other question is on the tax side. On the bottom line there is a huge decline compared to the usual tax rate that you post and I was wondering if

there is something going on there or it's just an effect of this quarter? These are my two questions. Thank you.

Rolf Breidenbach: With regard to our gross margin and the ramp-down effect, it's very difficult to quantify the specific aspect. We see no real impact on that. The ramp-down has led to let's say moderate growth of our business but the gross margin was not a factor.

When you talk about the ramp-down of our industries business, of course there is a special burden also reflected in the gross margin of around EUR4 million approximately.

Lello Della Ragione: But on this point, if you will publish a bridge and you have to define just in magnitude, so you can say one-third, one-fifth or whatever. If you can there differ between operating leverage effects and for instance ForEx headwind or tailwind that you had on this level?

Rolf Breidenbach: With regard to the foreign effects, we had no tailwind on (indiscernible).

Lello Della Ragione: So at this time -- during this quarter it was zero the effect on gross margin and the expansion was mostly mix and operating leverage? Is that correct?

Carl Pohlschmidt: We have an effect of course from our hedging, like we explained also over the last business year where we had positive tailwind for the sales but not for the gross margin due to the fact that we are hedging. And this is also valid in the other direction. Of course, hedging is never perfect 100 percent level but we have also hedged for the current business year and this will lead to the fact that negative impacts on the currency side, in case it continues to be negative, will not impact directly at a 100 percent level our gross margin.

Rolf Breidenbach: And the same is true for our EBIT.

Lello Della Ragione: OK. While on taxes?

Rolf Breidenbach: When we look on the income taxes, of course especially on a quarterly basis this might be impacted from time to time by extra effects resulting from tax audits. You might know that currently, and this is valid all over the globe, tax authorities are very keen on audits, especially in the transfer price sectors, and this can have impact on the quarterly basis on the ratio which is then higher than the impact and the average on the whole business year.

So overall we can say of course taxes have increased, due to the fact that we are more profitable. In the first quarter this year we hadn't impact from additional other effects but, as I said, it's difficult also to forecast tax rates on a quarterly basis because once you have an impact from finalization of a tax audit, let's say, which covers two or three years, then of course the impact on only one quarter is much higher than in the reality the taxes you pay for the quarter.

Lello Della Ragione: So percent-wise on a full-year basis, even for this year you should be more or less at the same level of last year. Is that correct to infer?

Rolf Breidenbach: Yes, actually it could be slightly below, so what we expect over the time, due to the fact that faster growing countries typically have lower tax rates than we see in Germany and other countries. There is potential that the tax rate could come down, but overall you are right, yes, it's more or less on the same level like for last fiscal year.

Lello Della Ragione: Brilliant. Thank you.

Operator: And your next question comes from the line of Kuldip Shergill. Please ask your question.

Kuldip Shergill: Yes, hi. It's Kuldip Shergill phoning from Cheyne Capital. My question's on cash flow. You talked about the impact from less factoring impacting Q1. Can you give us some guidance for cash expectations for this year and also the coming years? Does your CapEx come down materially like some analysts give a guidance) or not? So just some guidance on that front will be great. Thank you.

Rolf Breidenbach: With regard to the CapEx, due to the expansion we are planning for our product -- production and D&D network, the CapEx will at least stay at the same level or will slightly increase. So we discussed also last time in this round we will stay in a range between let's say 7 percent to 8 percent, depending on the year and the specific investments especially in new plants we are projecting and carrying out as you know.

For example, we plan to build up three new electronic plants in the next two years and therefore we do not expect a reduction of CapEx, but more or less it's the same, as I said, in the range between 7 percent to 8 percent of our sales. And this of course then will have a -- there's a corresponding influence on the cash flow.

Kuldip Shergill: So just to be clear, CapEx is going to be around EUR550 million to EUR600 million over the next few years. Is that right?

Rolf Breidenbach: No. I said between 7 percent to 8 percent of sales.

Carl Pohlschmidt: The net CapEx, yes.

Kuldip Shergill: Yes, but your top line's growing, so is EUR550 million a sensible level?

Carl Pohlschmidt: Yes, it's...

Kuldip Shergill: So my question is, will you generate cash flow over the next couple of years? Or will there be an improvement in cash flow for the next couple of years?

Carl Pohlschmidt: Basically we do not guide on a specific cash flow figure, yes, because with time effects it's always difficult but what we expect is that we are able to achieve our targets in generating operative free cash flow, especially on this adjusted basis, on a level which you can already see, yes. So this could be some indicator, yes. But we think we can achieve this, yes.

Kuldip Shergill: All right. So cash flow over the next couple of years similar to 2016 level? Is that a...

(Multiple Speakers)

Rolf Breidenbach: So we have -- I think we already announced that --I think half a year ago or a year ago that we have clear Company target to at least achieve a positive adjusted cash flow of EUR100 million.

Kuldip Shergill: But not going to quantify how much?

Kuldip Shergill: Oh, you said EUR100 million. Oh, very good. OK, thanks very much. Bye.

Operator: And your next question comes from the line of Mike Raab. Please ask your question.

Mike Raab: Yes, hi gentlemen. Mike Raab, Kepler Cheuvreux. Apparently you benefited significantly from the very high level of capacity utilization in the first quarter of this fiscal year. Could you perhaps put this into numbers, if possible, please? And tell us what the level exactly has been as a percentage number?

And then secondly, what do you expect this number to do in the quarters ahead? Thanks.

Rolf Breidenbach: I think it is very difficult to calculate, therefore allow me not to speculate on this figure. But due to the fact that we now step-by-step start the increase of our capacities, we do not expect a significant negative effect in the quarters to come.

Mike Raab: OK, so you ramp up capacities because you have product ramp-ups and right now those capacities are still more or less idle, but as the respective product ramps up they'll be better populated and there is not going to be a major negative impact on utilization because of fresh capacities. That's what you say?

Rolf Breidenbach: Perhaps let me be a little bit more specific...

Mike Raab: Please, yes.

Rolf Breidenbach: With capacity utilization we mean especially our plant utilization -- so utilization on a plant level. So when we're talking about different product lines, these lines are -- we try to plan these line capacities with a high utilization, but now we have to build up three new plants, for example, in electronics.

And then of course when you ramp up these plants you have over a specific time frame underutilized plant let's say this way, because you have to launch project by project, although for all the plants I have mentioned, we have a more or less all the business already booked.

But in such a launch there is of course the plants are not 100 percent utilized and currently we have a very good plant utilization, for example in electronics, and this is the reason why we are now building up this single plant.

So when we talk about this utilization topic we are not talking about a line utilization but a plant utilization.

Mike Raab: OK, but that's why I'm asking. So essentially what you're saying is there is additional capacities coming on stream, which I fully understand in the beginning are not going to be as well utilized as the rest currently is, but still, accounting for that, the overall level of plant utilization across all of your activities, is still going to be fairly high.

Rolf Breidenbach: Absolutely. Because we are growing and growing and growing.

Mike Raab: OK, good. Thanks.

Operator: And your next question comes from the line of Florian Treisch. Please ask your question.

Florian Treisch: Yes, hello. Florian Treisch from MainFirst Bank. I have two questions. The first is around China. On the automotive slide you've stated that one reason for



the moderate growth was weaker business development in China, while at the same time you're stating 8 percent growth on Group level. Is there simply a mismatch or were your expectations higher than the 18 percent reported?

The second question is around the lighting segment. If you're only look into number it may mean that you have lost some market shares to others, or is it really just a timing issue that you are basically have won all the follow-on orders as well but there's only a shift of one or two quarters to ramp up the volumes here as well? Thank you.

Rolf Breidenbach: Thank you for your question. First answer is our expectations were higher, so what we have significantly grow but we thought here and there the growth could be a bit -- a little bit stronger.

And with regard to lighting you are also right with your assumption. We only expect a shift from let's say two or three quarters, but here also with regard to lighting our order books are full and we also expect significant growth in the lighting area. It's only a question of start up production of different products and of production. So mid-term, nothing which concerns us. And we don't think that we are losing market share.

Florian Treisch: Thank you.

Operator: And your next question comes from the line of Christian Ludwig. Please ask your question.

Christian Ludwig: Yes, good afternoon. Christian Ludwig from Bankhaus Lampe. Two questions from my side. First of all, could you give us an idea how the take-up rate of your full LED headlamps is currently? As far as I know you are supplying both the LED as well as halogen to the Mercedes E-class vehicle -- give an idea of what the take rate is for LED?

And secondly, I think you mentioned that you had a EUR4 million let's say one-off cost in special applications which still stems from the sale of the business last year. How much more should we expect to come this year,

burdening special application results and when will this finally be digested?  
Thank you.

Rolf Breidenbach: Starting with your first question -- with your second question -- not much. So nothing compared to the first quarter. Here and there perhaps some large spendings we have to do, but not comparable with the figure I mentioned for the first quarter. So in our opinion the burden of this special effort should be more or less finished -- not 100 percent, but for a big percentage.

With regard to the take rate, please allow me not to talk about specific customers or products, but overall we see a very high take rate for the -- especially high functionality LED headlamps. Sometimes these headlamps are also competing with simple products the customer can choose for one vehicle. And we see very -- how should I call it -- promising take rates for this high tech LED headlamps, which sometimes also surprise us and gives us some challenges to produce them. So we think these headlamps are very well-received by the market.

Christian Ludwig: OK, thank you.

Operator: And your next question comes from the line of Emily Liu. Please ask your question.

Emily Liu: This is Emily from Haitong Securities. Thanks for taking my question. I have two questions. First of all, I wonder whether -- because you mentioned you dropped factoring programs and I wonder whether you can quantify the impact of the suspension of this program? How much of the account receivable were covered by the factoring program?

And my second question is I think previously analyst -- the previous analyst question, they asked that -- I think in one of your answer you were guiding the adjusted operating cash flow will be roughly EUR100 million per quarter and CapEx will be around EUR520 million to EUR550 million. Does that mean before financing cash flow it's possible to have a negative cash flow on an adjusted basis? Thanks.

Carl Pohlschmidt: Yes, coming to your first question, so the remaining volume of the factoring program was EUR70 million.

Emily Liu: OK.

Carl Pohlschmidt: So we were coming from a long-term level of EUR100 million, but we have already reduced over the last quarters and now we decided to completely give it up.

Emily Liu: So EUR70 million is on a quarterly basis?

Carl Pohlschmidt: It's EUR70 million. This was the impact on this quarter and this -- it's a misunderstanding, yes. We have not said that we achieve EUR100 million per quarter.

Emily Liu: I see. OK.

Rolf Breidenbach: On a yearly basis.

Emily Liu: OK. OK. But the CapEx guidance is roughly EUR500 million, basically 7 percent to 8 percent of revenue for this year?

Carl Pohlschmidt: Right. To 7 percent to 8 percent of the revenues.

Emily Liu: Revenues here. OK. OK. Thanks for taking my questions. I'll jump back to the queue.

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

Christoph Laskawi: Hi. Christoph Laskawi, Deutsche. Thank you for taking my questions. Not much left. Just you mentioned that we'll actually see a pick-up in growth in H2 on the lighting side. I was just wondering if you could give an indication if we will see some ramp-up costs prior to that? And also, giving

that you guide for an acceleration in growth next year, if we will see some further or accelerating ramp-up costs in Q4 or later this year? Thank you.

Rolf Breidenbach: With regard to let's say ramp-up costs, of course we have a clear target to minimize these impacts and when we currently look at our performance with regard to launching full LED headlamps we are improving and improving. Therefore, we hope to see not much, let's say special burden. Of course, whenever you launch a program then you start at a lower productivity and quality level and then you can -- then you show some improvements. But we do not expect a significant burden with regard to that. We hope -- I hope that we are through that period.

With regard to our, let's say growth perspectives, please allow me not to give you more details than we have already given. We stay with our guidance and this of course also includes our lighting expectations for this fiscal year of this mid digit range. And we see an acceleration based on the business we have already booked in the next fiscal year.

Christoph Laskawi: Good. Thank you.

Operator: And we have just received a further question. We are currently taking their name.

And as a reminder if you wish to ask a question, please press star one on your telephone keypad.

And your question comes from the line of Kuldip Shergill. Please ask your question.

Kuldip Shergill: Hi, I just have one follow-up, a housekeeping question. Just on depreciation, I think depreciation run rate's currently about EUR400 million. Does this trend to EUR500 over the next few years? Is that a reasonable number that we should be considering, given the difference between depreciation and cash flow -- sorry, depreciation and CapEx in the statements currently? Thank you.

Carl Pohlschmidt: Yes, for depreciation, of course, yes, this should be the increase of depreciation should be in line with our investments. What you have to take in consideration specifically for the last business year that we had in context with the supplier case higher impairment, which is impacting also our depreciation. But on the normalized level of course the depreciation are expected to grow in the same way like we are investing.

Kuldip Shergill: So maybe on a three-year view depreciation goes to EUR550 million or something? Is that all right?

Carl Pohlschmidt: Yes, good guidance could be when we increase CAPEX, we see a a same percentage level depreciation increase.. And of course it's a bit deviating, yes, in what we are investing for, but this could be...

Kuldip Shergill: OK. EUR550 million. All right. Thanks very much. Cheers.

Operator: And your next question comes from the line of Lello Della Ragione. Please ask your question.

Lello Della Ragione: Yes, just a follow-up on the growth and on the pattern that we should expect. I mean, if we look at the comparison base, starting from second quarter for lighting and electronics and the statement that you made on ramping up program, shall we -- I mean expect a growth acceleration in line with your guidance organically?

So in the mid-single-digit range already in the second quarter, or as you said at the start, we should expect these later during the year?

Rolf Breidenbach: Please -- I know that this answer will not satisfy you, but please allow us not to guide now on growth rate in quarters. As I said, we stay with our guidance for the whole fiscal year. We comment also on possible impact with regard to the foreign exchange rate. And therefore, please allow us not to give you more details about this topic.

Carl Pohlschmidt: Maybe one further remark with regard to the specific rates of one quarter. As you know that we have also this topic of reimbursement, yes, from our customers, which are also impacting the sales, and this is not coming from demands from the market.

So therefore, this figure on the quarterly basis anyway cannot give you 100 percent reflection of the market and when we can issue invoices for reimbursement for several reasons there could be always a time shift effect. It makes it much more difficult for us to forecast also exact quarterly growth rates and therefore we think it does not make much sense.

Lello Della Ragione: OK. Thank you.

Operator: And your next question comes from the line of Kuldip Shergill. Please ask your question.

Kuldip Shergill: Sorry, just one follow-up. I missed it from earlier on. In which year do you think you can achieve the EUR100 million of free cash flow?

Rolf Breidenbach: It's our yearly target to achieve adjusted operative cash flow of EUR100 million.

Kuldip Shergill: OK, and the adjustment is for -- just spell out what the adjustments are for, please?

Carl Pohlschmidt: The adjustments we have made, it's visible in the presentation. It's the EUR70 million from giving up the factoring program and there's a minor effect from the restructuring. And this will not increase.

Kuldip Shergill: OK, so we should be thinking about cash flow of about EUR30 million for this year and if you get your EUR100 million target on adjusted -- is that how I should interpret that?

Rolf Breidenbach: Yes.

Kuldip Shergill: OK, so EUR30 million cash flow for this year. Do you think you can get to EUR100 million cash flow next year, because the factoring issue will be -- will have annualized by then?

Carl Pohlschmidt: Yes, for next year we don't have a guidance. As Dr. Breidenbach said, we have an internal target and this is of course how we are also managing the business that we want to achieve at least this EUR100 million operative free cash flow on an adjusted basis. Of course on a mid- and long-term basis we want to have a better cash conversion or a higher -- let's say a higher cash conversion rate.

Kuldip Shergill: OK, I'm just looking at consensus forecasts out there and there's a massive step in cash flow for 2018. I'm just wondering, are you comfortable with those numbers? I've got EUR300 million in the report I'm looking at currently.

Carl Pohlschmidt: For 2018?

Kuldip Shergill: Yes. I mean, can you do EUR100 million in 2018? Can we at least do EUR100 million in 2018?

Rolf Breidenbach: The EUR100 million is a minimum target and we do not guide on the cash flow therefore we cannot give you more detail.

Kuldip Shergill: OK. All right. Very good. Thanks very much.

Operator: And we have no further questions at this time. Please continue.

Rolf Breidenbach: OK, when there are no further questions then from Mr. Pohlschmidt and my side, thank you very much for participating in this telephone conference. Thank you very much for all your questions and your time. And yes, I wish you all the best. Thank you. Bye.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect. Speakers please stand by.

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