



C: Dr. Rolf Breidenbach; HELLA GmbH & Co. KGaA; CEO and President  
C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO  
P: Christoph Laskawi - Deutsche Bank AG, Research Division - Research Analyst  
P: Kai Mueller - BofA Merrill Lynch, Research Division - Associate and Analyst  
P: Christian Ludwig - Bankhaus Lampe KG, Research Division - Analyst  
P: Akshat Kacker - JP Morgan Chase & Co, Research Division – Analyst  
P: Gabriel M. Adler Citigroup Inc., Research Division - Assistant VP & Senior Associate  
P: Henning Cosman HSBC, Research Division - Analyst  
P: Marc-René Tonn Warburg Research GmbH - Senior Analyst  
P: Sabrina Reeh UBS Investment Bank, Research Division - EMEA Equity Research Analyst of Germany  
P: Sascha Sebastian Gommel Jefferies LLC, Research Division - Equity Analyst  
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: Thank you all for standing by, ladies and gentlemen. Welcome to today's HELLA investor update. (Operator Instructions)  
Please be advised that today's conference is being recorded.  
I would now like to hand the conference over to your speakers, Dr. Rolf Breidenbach, CEO; and Bernard Schäferbarthold, CFO. Thank you.

Rolf Breidenbach: Yes. Thank you very much. Dear ladies and gentlemen, good day to all of you. Thanks a lot for dialing in. This is Rolf Breidenbach speaking. Welcome to today's investor update. Also, as always, of course, a warm welcome on behalf of my colleague and our CFO, Mr. Schäferbarthold.  
As you probably already may have seen, there are 3 main topics for this extraordinary call. First, we have published our preliminary results for the fiscal year 2019-2020. Second, we want to explain the company's outlook for the current fiscal year 2020-2021 in more detail. And third, this morning, we have also announced a comprehensive program, especially for our Lippstadt location, the location of our headquarter, to further enhance our long-term competitiveness. Let us, therefore, begin with the results.  
We closed the fiscal year with a decline in sales and earnings. In light of the overall market weakness, which already weakened our first half year and

which was additionally, of course, stressed by the tremendous corona effects, this came not as a surprise. And I think we also discussed this in our last call. On the preliminary basis, we have also achieved these targets. Our currency and portfolio-adjusted sales decreased by around 14.3% to EUR 5.8 billion. The adjusted EBIT reduced to EUR 233 million. And this corresponds to our adjusted EBIT margin of around 4.0%. Therefore, these preliminary results are fully in line with the revised company outlook updated in May. In the same period, global automobile production has collapsed by almost 18%. So in regard to the full fiscal year, our automotive business outperformed the global light vehicle market by some 3.2 percentage points. The detailed publication of the financial results will take place as planned on the 14th of August 2020.

Looking ahead, will the corona pandemic continue to burden the development of the automotive economy considerably? This is clear. Currently, the overall market development is largely determined by the further course of the COVID-19 pandemic. As a result, the current market environment is subject to exceptionally high uncertainties, particularly with regard to a possible market recovery in the course of the current fiscal year. But as said, the uncertainty is high. The stability of the different regions and supply relations is not clear. And therefore, of course, we are very cautious with regard to the forecast.

And our forecast for the current fiscal year reflects these market uncertainties and the low vehicle production. And therefore, for the current fiscal year, we anticipate only a moderate development of our sales and earnings.

For the adjusted sales, we expect a value in the range between EUR 5.6 billion and EUR 6.1 billion. For the adjusted EBIT margin, we forecasted a value in the range between 4.0% and 6.0%. Once again, how the market will develop is totally uncertain. Sales and earnings development at the upper end of the given range will only be possible if the market develops positively. I think Mr. Schäferbarthold will explain this in more detail, but the upper range of our guidance reflects currently more or less the IHS forecast. So we see the current IHS figures as best case from our perspective.

Of course, what we do not know is the development in the different markets. Will China stay stable? How is development in Europe? How fast can Europe

recover? What's going on in North and South America? What we do know is that the already high intensity of competition will undoubtedly increase further. This is clear. There are 2 factors. The first factor is that the automotive industry is undergoing a massive transformation. We all know this. We all are aware of that. Both manufacturers and suppliers must heavily invest in the trend topics such as electrification, digitalization and autonomous driving. And the money which is spent there, of course, is missing in other areas. And this, of course, increased the cost competition significantly. And even though this (#investment in trends) provides us great opportunities for the future growth, this results in even tighter budgets on the OEM side and higher price pressure. Numerous original equipment suppliers and manufacturers have announced massive saving programs in recent days and weeks.

Second, long-term growth prospects have weakened long term before corona. The coronavirus has massively intensified this decline. But we all know since 2017, the automotive market is shrinking. The long run global vehicle production will remain below previous assumptions. According to what we see, only as late as 2025 levels of the peak years 2017 and 2018 will be reached again, especially the European market shrinks particularly sharply. And as I said, with regards to the recovery of the markets, we see the European market as the one with the most difficulties in that regard. These 2 aspects are 2 sides of the same metal, and they will have strong effects on HELLA. Of course, high competitive pressure is nothing new for us as an automotive supplier. Thanks to a great number of improvements, cost control and efficiency programs, we have so far been able to withstand the pressure and the increase of our competitiveness. This was also accompanied by a headcount decrease by some 5,400 employees since August 2018. We think so far, we have done our homework. The reduction of employees is significantly -- and this is not only -- these 5,400 people are not only temporary people, we only reduced the permanent staff at HELLA significantly.

Despite all those efforts, there are first indication that these measures will not be sufficient in the long term. We need to improve our overall competitiveness even further in regards to our cost basis. And the competition

is increasing, and we have to do an additional step to really become -- or to remain competitive in many areas. Let me make one point very clear directly at the beginning. We are not doing this from a position of weakness. Quite the opposite is true. We are implementing the program to protect our strong position in the long term.

HELLA has an attractive business model that fits for the -- that fits for all the future challenges but also opportunities. We are a technology leader in our target business areas. Our order book for the coming years is well filled. But the general market environment has now changed significantly once again. There's a risk that we are not being competitive in the future. Therefore, we need to increase our cost competitiveness, especially with regard to our German locations as we have taken a series of similar actions in our international locations in the past already. I already mentioned these more than 5,000 people. And we do this as we have already done in the past early-on and proactively with a clear foresight and consistently. This especially involves 2 central levers. On the one hand, we maintained our high level of investments in research and development. We will not give up on this one single bit. And we will also intensify our investments in software, automation and processes. This, for us, is an important basis for the success in the future. On the other hand, we need to make sustainable structural improvements. Since August 2018, we have reduced our global workforce, as said, by around 5,400 employees, including temps but mainly in the Americas, East Europe and China. Now we will need to have a special focus on our Lippstadt location. This means that we will be reducing the headcount numbers here in Lippstadt by some 900 employees across all areas, mainly in the area of development and administration.

In addition, the existing programs for continuous improvement at the German HELLA locations are to be intensified, and depending on the market, also continued in the global network.

Provided that all structural measures at the German locations are successfully implemented, annual EBIT contributions of around EUR 140 million are expected. Most of this will probably take effect from the fiscal year 2022 to 2023 onwards. The nonrecurring expenses for these measures are expected to

amount to around EUR 240 million and will largely be incurred in the current fiscal year 2020-2021.

Again, and I would like to make this very clear. Once again, these measures are not only purely profitability driven. Their main purpose is to secure our long-term future as a well-positioned independent automotive supplier. Having said this, allow me to hand over to my colleague and CFO, Mr. Schäferbarthold

Bernard Schäferbarthold: Thank you, Mr. Breidenbach. Good afternoon, ladies and gentlemen, also from my side. I would like to add some more comments to our preliminary numbers. And I would like to jump to Page 4 of our presentation. Personally, I'm very happy to confirm on the basis of our preliminary numbers, the updated guidance. We have faced a very challenging fourth quarter, which started in the month of March. For the majority of this time period, most of our plants in Europe, but also in Mexico and the U.S. were closed. This led to a decline in sales in that respective quarter of minus 44% compared to previous year. For full year, as Mr. Breidenbach commented, the sale decline is at 14.3%. Our adjusted EBIT is at 4%. We were able to flexibilize, especially in this challenging fourth quarter around 75% of our costs, acting immediately from March onwards to the COVID-19 pandemic in a very consequent way and even enlarged the measures taken in comparison to previous measures already initiated.

Lastly, I would like to comment also that the cash flow, the free cash flow will be positive even in the fourth quarter. Despite the cost reductions, the initiated measures regarding working capital such as the stop of material inflow and other measures like also CapEx-related shifts and reductions we have done led to this, from my perspective, excellent result.

Coming to Page 5. Here, we have updated the slide on the noncash-affected impairments, which we have to recognize in Q4 due to the fact that we do not expect in our assumptions that the market volumes will recover to pre-crisis levels, especially in the midterm perspective. The extensive impairment tests were necessary also from IFRS accounting rule perspective due to the external trigger by the COVID-19 pandemic. Overall that you just get somehow a

flavor: nearly on all assets, so overall, 95% of all assets of HELLA impairment tests have been performed during the year-end closing. In general, the WACC used for the impairment tests increased also in comparison to last year and reflects basically the higher global economic risks we are facing, actually. For example, Germany increased by 150 basis points. And as said, on top, we have not expected any large market recovery in performing the impairment tests. The overall results are impairments of EUR 533 million, which mostly are related to the segment Automotive, and looking at the regional split, the largest share in North and South America. Considering these impairments in addition to restructuring costs overall of EUR 43 million, the reported EBIT on full year 19/20 is negative at minus EUR 343 million.

Coming to the guidance and going to Page 6. First, I would like to give you our perspective on the market outlook and our thoughts regarding our guidance for the fiscal year 20/21. The actual outlook of IHS regarding our fiscal year 20/21 reflects a growth of 2.3%, respectively, a production of vehicles in total of 77 million. The newest outlook of IHS in July has shown for the first time since many months a certain stabilization. But from our perspective, it is still too early to state that this outlook of IHS reflects a sustainable stabilization. We actually see a continuous improvement of the utilization of our plants. And if we look at the volume increases within our plants; we now see for Q1 that IHS numbers looks robust in our perspective. On the other hand, we still see a risk on the further volume increases in the upcoming following quarters. The visibility remains low and the probability of a further decline of the expected quarterly predictions remains from our perspective there.

Taking that market environment and the commented uncertainties under consideration, we assume from today's perspective that IHS volumes of 77 million reflect a kind of best case. On the other side, we see a risk that further volume increases, especially in the following quarters, so from September onwards, will not happen to the full extent. And this translates to a predicted sales range from our perspective of EUR 5.6 billion to EUR 6.1 billion. In terms of market prediction, we assume market to be between around 69 million to 77 million vehicles for full year 20/21.

The portfolio-adjusted sales in the previous year, 19/20, is EUR 5.74 billion. So looking at the midpoint of our guidance, we therefore expect only a slight growth from today's perspective. We do not expect any significant change if it comes to our outperformance. So we continuously expect to outperform the market as commented also in earlier calls.

In terms of adjusted EBIT, profitability, we expect a range of 4% to 6%. And the wider range reflects the uncertainty also in terms of sales, and also there, the wide range in sales volume we anticipate. We will continue, and basically, are still in the operational mode of strict cost reduction on top of the initiated additional program Mr. Breidenbach already commented in his initial comments and will further also talk about.

The reduced level of depreciation due to the impairments in 19/20 are reflected in the range of the bandwidth of 4% to 6%. Overall, we see a lower depreciation in total of EUR 75 million. In addition, we expect for the fiscal year 20/21, significant restructuring costs out of our long-term improvement program we published today, where at least the recognition of the costs will happen to a large extent in this (20/21) fiscal year.

Having said that, I would like to hand over back to Mr. Breidenbach for a few further comments on our long-term improvement program before then taking your questions. Thank you very much.

Rolf Breidenbach: Yes. Thank you, Mr. Schäferbarthold. I think many things are already said. Therefore, let's quickly go through the remaining charts. On the one hand, for us, it's clear that competition in the automotive industry will again increase. On the one hand, we have these investments into the new trends, which, of course, will limit the resources spend to other areas and parts and components. Of course, the entrance of new players also will intensify the competition and, of course, will lead to the clear need to improve HELLA's competitiveness. Be it from the software side or from the component -- supplier component side, new entrances are currently entering the market from China, but also from East Europe and here and there also NSA. And of course, the importance of the China market will also, from our perspective, significantly increase the competition in Europe; to be competitive for the Chinese market from Europe or with support activities from Europe will become more and more

challenging. Therefore, it is clear that we have to have a very close look on the competitiveness of HELLA in many areas. And this is one reason why we now have started this special improvement cost program with regard to the improvement of our footprint in Lippstadt.

The other reason is that, of course, the markets will not develop in favor for the whole industry. We just already discussed that the levels we have experienced in 2017, 2018 will perhaps come back in 2024, 2025, but this is still unsecured. And allow me to again point out, for all our assumptions, the IHS forecasts are best case. We are not so positive with regard to the mid- and long-term development of our industry. And therefore, we set up this improvement program. For Mr. Schäferbarthold and myself, it's very important to make absolutely clear that we are not talking about a pure restructuring program. Of course, this is one focus with a special priority on our activities in Lippstadt with regard to the admin functions and the R&D functions. But of course, we also have to continuously look, as in the past, to all other German locations and companies. And it's clear that we have to continue the, let's say, good tradition with regards to adapting our capacities also in these locations. But here we do not see the necessity of a special program but continue to adapt our workforce where necessary. And it looks as if the dialogue, the continuing dialogue between the workers' council, the unions and our management, our local management is intact and will deliver the necessary reductions overall.

This is not, of course, true for Lippstadt. Here, we set a special focus. We have already mentioned, we have to cut 900 jobs in the next 3 years. And we already informed the unions, the workers' council. We will start directly with the negotiations, and I hope that we can find solutions in the next months to hopefully immediately -- or as soon as possible, start with the implementation. On the other hand, of course, we feel us in a position to not only continue but to strengthen our investments in 2 key areas. On the one hand, we will maintain the high levels of R&D investments, but we will also now, of course, use the opportunity based on the coronavirus and the experience we have made in these times to change how we work together within HELLA. So we will increase our mobile working. We will, of course, also continue to invest in the automation of our production but also of our R&D and admin



processes. And also with regard to agile working approaches supported by IT tools, we will do the next steps to make sure that also with regard to the efficiency of our processes, we will continue to improve and to, here, also in this dimension, contribute for an improved competitiveness.

With regards to the program in Germany, Mr. Schäferbarthold already mentioned, the restructuring costs which, of course, largely will be affect our results in 20/21. The run rate of the program is at around EUR 140 million. And in this run rate, there are 2 effects included. On the one hand, our reduction activities in Lippstadt. But also at the other HELLA locations, we assume a reduction of 100 to 150 people per year in the years to come. Yes, having said this, allow me to now start with the Q&A session.

Operator: (Operator Instructions)

And your first question comes from the line of Gabriel Adler

Gabriel Adler: This is Gabriel Adler from Citigroup. My first question is on your volume outlook, and more specifically, your order book. Could you explain whether there's anything that you've seen in recent orders in June and July, but maybe informing the cautious outlook for volumes? Or is the outlook more just caution on IHS being too optimistic?

My second question would be on R&D and whether you could talk about your decision to maintain high levels of R&D? And how that squares with your view that volumes won't get back to 90 million units until 2024?

And then lastly, if I could squeeze in the third, please, on free cash flow.

Could you please comment on whether you believe HELLA will be free cash flow positive in 2020-2021 once we take restructuring cash costs into account?

Rolf Breidenbach: Let's start with the first question. I think we see IHS is a little bit too optimistic. So we have no signs in June, July with regard to our order book or other signs. But when we look at the current situation in the different markets, the possibility to recover and the stability of the recovery activities, for

example, in China, as I said, we see IHS as an upper line of our guidance. And this is also the assumptions which is behind that.

With regard to R&D, of course, we have to look when we now are acting in a smaller market, what does it mean for the areas where we are investing. But we are still seeing good chances also in the future that our R&D investments will pay off.

With regard to the free cash flow, perhaps, I can hand over to Mr. Schäferbarthold.

Bernhard Schäferbarthold: So free cash flow, we expect on one hand side, the normalization of our working capital. So as I commented on last year's free cash flow, we will be very close in free cash flow to our adjusted EBIT amount. So you can see to what extent we were able to, on one hand side, shift and also stopped CapEx programs, but where we shifted CapEx. And also, we were able to reduce working capital. So basically, the EBIT reduction is not reflected in actual numbers last year. So that will happen. So we will, on one hand side, have a normalization of working capital. And on the other hand side, some of the shift of CapEx, we will need to now to invest. For sure, we will see how to further optimize it, and case by case, look what needs to be done. On the other hand side, it will very much depend to which extent and where in the bandwidth of sales, and by that, in profitability, we will be. I would say if things -- in a positive scenario, so if we are at least at the midpoint of the guidance or even a little bit better, the opportunity is there that we will be positive, but it will be a challenge in this year.

Gabriel Adler And just as a follow-up on free cash flow, could you just remind us what impact reverse factoring -- the new reverse factoring program could have in 20/21 on working capital and cash flow?

Bernhard Schäferbarthold: So last year, it was 0. Now we are just ramping up this program. We expect around EUR 40 million positive effect for this year.

Operator: Our next question is from the line of Sascha Gommel.

Sascha Gommel: It's Sascha from Jefferies. My first question would actually be on the restructuring program. It sounds quite a lot of money, EUR 240 million for 900 employees. That's almost EUR 270,000 per employee. Are you kind of overbooking a little bit on the provisioning side in order you kind of see more scope to restructure? Or what's the reason for that high number? And then also, why are you only expecting EUR 140 million benefit out of EUR 240 million restructuring? A lot of your competitors or other suppliers tend to kind of reach the same level of benefit versus cost after a few years. That would be my first topic I want to discuss.

Rolf Breidenbach: With regard to the restructuring costs there, on the one hand, included is 900 people in Lippstadt, but in addition, 100 to 150 people per year in our other German plants. This perhaps, of course, reduces the cost per case. This is one answer. The other answer is that, of course, we have to make sure that the program is attractive enough so that we are able to reach a high acceptance rate within our staff. And therefore, we will -- of course, it's a question of negotiation. We will offer a quite an attractive program. For us, the quick implementation is key. And of course, we would like to avoid processes here in Germany, which will force us to get rid of our best people. And therefore, this, let's say, sum per employee is perhaps higher than at other competitors

Sascha Gommel: Sure. Okay. And why don't you think you can reach a higher benefit?

Rolf Breidenbach: Of course, we calculated this very -- exactly, we always -- we will, of course, try to be on the safe side. And we are careful with these benefits. We have calculated this measure by measure, job description by job description. We, of course, also included transfer costs. Therefore, I think this is the maximum we think we need with regards to efforts, and we are on the safe side with regard to the benefits. So of course, it's -- cautiousness is also behind this assessment

Sascha Gommel: That's very clear. And then my second question would actually be on your kind of the midterm potential. I think, historically, we've been growing 5% to 10%, and my understanding is you confirmed that today in a normal

environment. When should we expect and can we expect that you can go back to an 8% EBIT margin?

Rolf Breidenbach: When we carried out the restructuring program and when the market will grow between 2% to 3%, then I think our EBIT margin of 8% is realistic.

Sascha Gommel: Okay. So that's kind of then '24, '25 your horizon?

Rolf Breidenbach: Yes. Yes.

Operator: Our next question, it's from the line of Marc Tonn.

Marc-René Tonn : And my question -- first question would be on market volatility on how much risk you see potentially from markets developing little bit, particularly volatile, where you can see there's a quicker recovery but like this is very sharp wave, which we have seen in China now compared to other regions, which are still suffering, perhaps some indication on the flexibility you have there when it comes to your earnings, that would be helpful. Yes, that would be my first question.

Rolf Breidenbach: So with regard to the market volatility, I don't know whether I got your questions correctly, but of course, we see a lot of uncertainties. When you look currently at the corona situation in Mexico or the U.S., it could be from one day to the other, that a supplier or a car manufacturer will be closed. Therefore, there is a lot of uncertainty. And also with regard to the demand, we so far see a stable, sustainable demand in the U.S., which is by far most important market in NSA. But this also can, from our perspective, change from one moment to the other when the whole attitude, the stand, the motion of the end customers in the U.S. will change. And this is -- it's fragile currently. Of course, the activities of the U.S. government now with the new funding can help, but it's critical. And we are not so optimistic. The same is true for Europe. The second corona wave, is it already there? Or will it come? And this, of course, will have also an impact on the end customer behavior. China, of course, China looks for us quite stable and sustainable. What we

clearly see, and this is in favor for us, is that we see a separation of the market. Premium is by far, at least what we can see, stronger and more robust than the volume market. But overall, the uncertainty is significant. And the situation can change really from one week to the other. And we will see -- I think we will have a much better view end of August, beginning of September, how sustainable, especially in Europe, the demand -- the end customer demand will be.

Marc Tonn: Okay. And the second question would be more on, let's say, whether I got you right. You expect EUR 70 million to EUR 75 million relief on the D&A side compared to the previous year from the impairments that you've made?

Rolf Breidenbach: Yes.

Bernhard Schäferbarthold: Yes, the EUR 75 million was the number I mentioned.

Marc Tonn: Okay. And could you give us the base figure, which this relates to?

Bernard Schäferbarthold: Well, this reflects basically the impairments we have done where there is then less D&A now in the years to come.

Operator: Our next question is from Christoph Laskawi.

Christoph Laskawi: Christoph Laskawi, Deutsche. The first one would be on the guidance and, indeed, sort of a follow-up to the D&A question. In theory, it should be a decent tailwind on the margin side. You also mentioned that this is well included in the guidance. Could you elaborate a bit on offsetting factors? Is it, like you said, pricing pressure that is increasing? Or is it higher R&D spend that you affected to offset that? Or is it basically only the uncertainty on volumes that you have accounted for?

And then on pricing, you usually said this is something you deal with on a daily basis, nothing out of the ordinary, and now you highlighted a bit in the comments on the restructuring program. Has the environment changed a bit?

And has it become more challenging? Do you think that price pressure might increase going forward?

And last question on free cash flow into Q1. You mentioned CapEx shifts, and obviously, the working capital, which was positive in Q4. Should we expect CapEx then to pick up again quite decently in the first quarter and also working capital to reverse?

Rolf Breidenbach: Okay. With regard to the guidance, of course, we are quite cautious with regard to the volumes. This is, of course, included. And of course, we have to take into consideration when there will be a volatile market demand, we have to be very flexible with regard to the utilization of our plants, but also with the utilization of our R&D people. And here, we haven't so far reached the efficiency level before corona. We are working on that. But of course, you can imagine when the demand from the customer plants is fluctuating and you lose efficiency and the same is true when the one or the other customer stops projects or postpone projects, all this, of course, is also included in the guidance. So it's the volatile market, a cautious assessment of the volumes. I think both of this is mainly included into the guidance.

And with regards to the price pressure, yes, of course, we expect that the price pressure will increase. We are familiar with that. As you said, we also mentioned it as day-to-day business. But we now see that we have to set a special mark that we had to go a special extra mile here at our headquarter in Lippstadt. The other activities in the other German plants, of course, is following the same logic they followed in the last months and years. It's more or less day-to-day business, but this is not true for Lippstadt. Here, we have to make a special step to remain competitive also in the future.

Bernard Schäferbarthold: On free cash flow, Mr. Laskawi, Q1 will be significantly negative. On the one hand side, CapEx is one reason, which increases. So we were at quite a low level in Q4. And so there is a shift now into Q1. But especially the increase now in the working capital or the normalization is what makes free cash flow mostly negative. The reasoning here also why such a higher working capital or such a higher partially also inventory level we expect is that the possibility or the visibility and also the volatility in customer demand

remains extremely high. And we have to basically secure our operations in the way that we have no line stops. And for that reason, we need and have, from my judgment, too much inventory. But for sure, it's very hard on a plant level to manage that. And this normalization now in the ramp-up of our plants, we basically now see in working capital. And for sure, we also need to consider that the expected profitability in Q1 is -- on one hand side, we can see, and I mentioned that, that we are moving ahead if it comes to utilization. So volumes are getting better. That is good. So in comparison to what we have seen as an outlook for Q1 some weeks ago, we are by far better. And I would say, in the best case, perhaps we could also reach a breakeven in this quarter. But let's see -- but if you consider this, so no significant operational free cash flow would be also reached in Q1. So this is certainly also an additional burden, but this is just to give you an overall perspective on how our business also started in early in our new fiscal year.

Christoph Laskawi: One small follow-up, if I may, on CapEx and ramp-ups in the year to come. Is there any specific quarter where you would need to spend quite a lot just because there are ramp-ups coming up? Or is it basically now the catch-up and then usual seasonality afterwards?

Bernard Schäferbarthold: Yes. In general, it's a catch-up now. And there is also, I would say, the usual seasonality. But as orders have been very strong in the last 2 years, so I would say the flexibility to further shift will only be there if we have customers take decisions to postpone also their car lines. For sure, there also, we are in close discussions with our customers. But as of now, we expect I would say, the normal seasonality.

Operator: Our next question, it's from Henning Cosman.

Henning Cosman: This is Henning from HSBC. Sorry, I'm afraid I need to come back to the guidance, and I appreciate you want to be conservative. So I'm not going to talk about the underlying markets so much, but just with respect to your own outperformance. I think, Mr. Schäferbarthold, you said at one point that you remain consistent with your historic communication with respect to

outperformance. So even if I take the top end of your guidance relative to what you said, sort of optimistic IHS scenario, I think that only implies 3% outperformance, which is rather a bit less than what we had talked about historically. So I just wanted to ask you to discuss that for me again, please? The second question, yes, again, I think I need to come back on the EBIT element of the guidance. So if I just take both the midpoints of your guidance, right, and then adjust it for the EUR 75 million D&A relief, that basically implies a lower EBIT than in the current fiscal year that's just gone by. So I think Christoph also asked about the offsetting elements, but I just really find it quite extreme that you would make less EBIT considering that you already had some sort of disruption in the last business year already, so just from a bridge standpoint.

And then finally, maybe as the third question, your main French competitor, they've recently been quite excited about now the volume pickup, specifically in the electrified models on part of the OEMs. So they're speaking very constructively about business momentum on components going into these cars. So I was wondering if you don't really share that? Or if maybe market shares informed the enthusiasm on part of your French competitor a bit more than yours? Or what you could maybe say on that?

Rolf Breidenbach: I will start it with the third question. And then my colleague, Mr. Schäferbarthold, will take over. Of course, we see a tremendous increase in the demand of EV vehicles. And this will, of course, also support our sales. But percentagewise, of course, it's supportive, but it will not change the overall picture.

Bernard Schäferbarthold: On the outperformance, so we -- as you know, it's very hard to predict exactly the outperformance. But there's no reason why the outperformance should not be, I would say, around the 5% we envisaged also in the past and we also see for next year. If you see what is the comparison or what is the starting point? We mentioned the EUR 5.74 billion. But if you make it, I would say, to the point exactly, we also have to reduce the relay business we sold last year. And then we are, I would say, spot on, on EUR 5.7 billion, more or less.



We have not, I would say, mentioned that now because we didn't want to be too, I would say, detailed now and too complex then also in our reporting further on. But if you take that starting point, so basically, EUR 5.7 billion at the point. And from there, you take basically 2.3% on IHS market expectation and roughly 5% of outperformance, then you are very, more or less, very close to the EUR 6.1 billion we see as the upper range. So basically, that's somehow how we see it. No point of evidence that we see something which should reduce our outperformance looking at our order book and the demand for our products, whatever.

Your second point mentioning then this bandwidth and the lower end, considering also the D&A. Yes, if you would deduct that, that would mean a reduction compared to last year. On the other hand side, we also assume that it could be that we see a further decline in sales. So down to a level of EUR 5.6 billion. And in addition, there are, I would say, risks from our perspective related to this very high volatility and then how much can we then really stream our operations to the optimum. For sure, that is day-by-day business to see -- to bring it to an optimum. I would say, as of today, we have been able to, but we also have to see that in the last quarter, we were able also to fully shut down some plants. Then it's easier. If you need to run the lines and then you need also some, I would say, structures, where it's very difficult to flexibilize these. And this risk -- I would say, this is something which is somehow incorporated also in the bandwidth that this, let's say, high volatility remains, and somehow, we are not able to steer the operations to an optimum in this time period where the visibility remains as it is now.

Henrik Cosman: But you wouldn't say that we're maybe double counting them a little bit when you say -- I mean, if we take the midpoint of the revenue guidance, but then you said if we take the bottom end of the EBIT guidance, then, of course, that would already imply quite a big reduction when adjusted for the D&A. So you wouldn't say that we have sort of overcautiously double counting them at almost 3x the bottom end of every assumption?

Bernard Schäferbarthold: I would not -- certainly, you can say how big is the probability that at the end, we would end up on the lower end. But I think it's -- we are talking

different things. One aspect is we have today roughly 17 million vehicles. If we do not see now the increase to 21 million from September onwards, there will immediately be volume lost for us with a significant gross margin effect immediately for us, which we are not able to recover. On top, we have the inefficiencies because we have somehow to run -- continue to run our operations. So that's, in addition, I would say, an effect with additional costs we have, how now you do the split? How much is incorporated in what? And the third aspect is that the volumes would even be lower in comparison to last year. So I -- from my perspective, I think still, if nobody knows exactly how market will be, but there can be a case if volumes are not now continuing to increase, that it will be very challenging for us to run operations in a modus that we are able to increase profitability in comparison to last year. This will be then very challenging. That is at least my perspective.

Operator: The next question, it is from the line of Kai Müller.

Kai Müller: The first one is on your restructuring program, the 900 jobs in Lippstadt. What I was surprised about that you obviously have admin staff as well as development functions. Within development, do you mean R&D functions? So are you also reducing R&D there and are building up in other regions? Or are they just being relocated in that regard?

The second question is really, a bit has been asked around this whole IHS levels and forecast, but I wanted to understand a little bit as well. Is -- you obviously have your order book. You said in a previous call that actually orders have been coming in nicely. When you get orders now and you assess them, how do you actually book them, i.e., what assumptions -- underlying forecast assumptions do you take?

And as the third question is really, you now obviously say IHS at the moment is your, call it, best-case scenario. What actually happens if your exceed those volumes? One is, is it fair to assume that through operating leverage, you can quite easily exceed your guidance as it stands? And the second point is what actually do you have the capacities in place and do you have the headcount to actually deliver on these demands? Or are your restructuring programs putting

you into a position where actually delivering a 5% better volume environment might become difficult?

Rolf Breidenbach: Starting with the third question. So with regard to our flexibility, we are well positioned. We have -- as I have already said, we have reduced our workforce by more than 5,000 people from August 2018 on, on the one hand, permanent staff but also temporary staff. And we are able in all regions to increase our temporary staff, I would not say from one day to the other, but let's say, from one month to the other. So there will be no possibility when the volumes would surprisingly increase our expectation. This would be an environment we would love to act, and we will have no problems.

With regard to how we are booking our orders, we book them project by project. And we are, of course, doing some reassessment of the volumes. For example, when we are talking about cars in the mid and low segment area, this also differs from customer to customer. When we are talking about premium SUVs, of course, our adjustments look quite different to the A car segment in the U.S., to make it clear. So we do this very individually. Of course, we do not transfer without any reductions of volumes from the customers into our calculation. We are here very -- I think we are -- we hope to put as much experience we have as possible into our calculation.

And with regards to these 900 people in Lippstadt, yes, we are talking about R&D people. We are talking also about admin people. And we will do the following, we will build up new capacities in best cost countries like Romania but also in Asia and Mexico. And from these 900 people, I think we will build up new capacities in a percentage of around 80%. The rest is efficiency.

Kai Müller: Okay. So basically, of those development functions, they don't fully go there just in different areas? And therefore, much is shifted. Okay. Because I was just trying to square up your orders and the cost-saving program. So that's not...

Rolf Breidenbach: Exactly. Nothing -- to make it again, very clear, the restructuring program in Lippstadt has nothing to do with our order book. It has to do with mid- and long-term competitiveness with our R&D costs. And here, we are talking

about factor costs. We have to reduce our factor costs, the mix of best cost to high cost, it's midterm. On a midterm basis, not competitive, and we are preparing this.

As you know, our order book was at an all-time high last year. And of course, we would like to again achieve a similar level or even a higher level. But to do this, we have to be competitive. And we see that here and there, our competitiveness has weakened a little bit. And the special focus we see in Lippstadt, our admin costs are too high, our R&D costs are too high, and therefore, our reaction of transferring capacities to best cost countries. We are not reducing our R&D capacities with regards to output. We see here and there some efficiency gains. Therefore, we are only relocating 80% of the capacity. The rest is efficiency. But with regard to the output -- the R&D output, there is no reduction.

Operator: Next question, it's from Sabrina Reeh.

Sabrina Reeh: This is Sabrina Reeh from UBS. I just have 2 smaller follow-ups that are left. So first one would be on the competition that you mentioned. I mean I get that it's a bit more broad-based, that you're seeing a bit more pricing pressure across the board. But do you expect this to be a certain business segment that is -- where you see a bit more pricing pressure, so more of the lighting or the electronic business? Or is it just very broad-based that you're saying you expect to see more pricing pressure? And then the second one is...

Bernard Schäferbarthold: It's broad based. Sorry to interrupt you. It's broad based.

Sabrina Reeh: Okay. Sorry. Okay. And then the last one is just, in the fourth quarter, how was the development in the lighting and electronics business? Was it similar to each other, so the drop or the sales decline? Or was one business more resilient than the other?

Bernard Schäferbarthold: It was very similar. I think there was one in customer demand, what we have seen, especially for China is that volumes in China regarding our lighting projects, but that was very much, I would say, project-driven and

customer-driven, were slower than in electronics business. But as I said, I think that was in relation to customers and where, from my perspective, the buildup of stocks on customer side before corona perhaps was to a higher extent, so that production restarted later or the demand picked up later. So that was somehow, in our view, where electronics was faster in the ramp-up in China. But other than that, it was very similar.

Operator: And your next question comes from the line of Akshat Kacker.

Akshat Kacker: Akshat from JPMorgan. The first one on restructuring, again. Most of what has been announced today is again linked to headcount and redundancy payments. Can you talk about capacity utilization across your plants and the structural adjustments that you might be considering to your production network on a worldwide basis? Like in your initial internal review, how many plants do you think in your global footprint that could see challenge utilization levels if you have done some work around that? And can you confirm if those restructuring costs and benefits will come on top of what is announced today? That's the first one. And then I'll follow up with a couple more, please.

Rolf Breidenbach: So we see no restructuring necessities with regard to our global footprint because the orders are there, the equipment is installed. And whether our utilization is 70% or 80%, it doesn't matter. So there is no huge restructuring activities planned within our plants. We feel quite well positioned with regard to that. Of course, the utilization is fluctuating. In China, we are at a very good level near to 90%, 95%. There are also some plants in Europe and in Mexico, which are at the same level. Some are a little bit weaker. But overall, we are quite okay with the utilization so far. But we do not plan any restructuring on our production footprint. Again, we also do not reduce our capacity in our R&D footprint. We're only transferring capacities from high cost to low cost.

Akshat Kacker: Sure. The second one, on near-term trading. We are already in the end of July. I think you have good clarity on your Q1 automotive sales. Is it fair to say that they are trending 10% lower year-on-year?

And I'll just put my third one as well. If you could confirm the amount of raw material tailwinds that you're expecting in FY '21? And if there has been any change in your absolute CapEx and R&D guidance for the year as well?

Rolf Breidenbach: So we see a reduction between 10% to 15% for Q1. That, of course, remains on the last days of July and August, but this minus 10% to 15%, I think, is a fair guess. With regards to CapEx and the guidance...

Bernard Schäferbarthold: Yes. No change to what we have said, Akshat. So CapEx, we assume to be roughly around EUR 600 million. And so we assume that also there, we will be able with this shift I mentioned, also to shift somehow or skip different other CapEx plans so that we stay in the limit of EUR 600 million. And for sure, R&D somehow depends on where at the end, we would be in terms of sales if we look at percentage. But in absolute terms, we assume to be around the number we had in the last fiscal year. So it basically in percentage would be very similar if we are close to the midpoint, a little bit better.

Akshat Kacker: Yes. And the last bit on raw materials, please, if you expect any material tailwinds in the year?

Rolf Breidenbach: No. I think here and there, we have some bottlenecks. But overall, no significant change.

Operator: The next question is from Christian Ludwig

Christian Ludwig: Yes. Just one quick follow-up as well. On the headcount reduction, is there a difference in the split between lighting and electronics? Or is it very similar?

Rolf Breidenbach: Perhaps a little bit more at the lighting side, but significantly at both sides.

Operator: And there are no further questions now, sir.

Rolf Breidenbach: Okay. Then thank you very much, again, for spending the time. Thank you very much for your questions and have a good day. All the best. Stay healthy. Bye.

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

END