C: Dr. Rolf Breidenbach; HELLA GmbH & Co. KGaA; CEO and President
C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO
P: Akshat Kacker; JP Morgan; Analyst
P: Michael Punzet, DZ Bank; Analyst
P: Raghav Gupta-Chaudhary; Citigroup; Analyst
P. Harald Eggeling- ODDO BHF; Analyst
P: Henning Cosman- HSBC; Analyst
P: Operator

COMPANY EDITED TRANSCRIPT

OPERATOR: This is Conference #: 8877296.

Operator: Thank you all for standing by, ladies and gentlemen, and welcome to today's HELLA Investor Update FY 2018 and 2019 Conference Call. (Operator Instructions). Please be advised that this call is being recorded, that is Friday, the 9th of August 2019.

I would now like to hand the conference over to your speakers, Dr. Rolf Breidenbach, CEO; and Bernard Schäferbarthold, CFO. Thank you. Please go ahead.

Rolf Breidenbach: Yes. Dear, ladies and gentlemen, good morning to all of you. Thank you a lot for dialing in. This is Rolf Breidenbach speaking. I would like to welcome you to the HELLA Investor call on our full year results. Also, of course, on behalf of my colleagues and our CFO, Mr. Schäferbarthold.

And before we go to our investor update presentation, please allow me to make some general remarks. With today's publication of the final results of our fiscal year 2018/2019, we confirm the statements we made 2 weeks ago. In the last fiscal year, we were able to show a very good performance despite the challenging market environment. We significantly outperformed the market again and fully achieved our guidance targets.

So our portfolio and currency adjusted sales grew by 5%, and our adjusted EBIT margin reached a level of 8.4%. We are also very satisfied with the development of our adjusted free cash flow. With the measures we initiated, we reached our working capital targets. So we were able to increase the adjusted free cash flow by around 27% to a record level of EUR 284 million.

And the growth driver in the last business year was, again, the automotive segment. On lighting business, we go with several launches. The electronics business was, again, driven by a strong development, for example, in the field of energy management and radar products. Of course, we benefited also from our global setup. We could show a significant growth in North, South and Middle America, and from our perspective, a very solid development in Europe. In China, of course, we were also affected by the declining market environment. In particular, since the end of 2018, we are confronted with the negative market momentum, which we cannot fully withdraw from. In addition, several projects have reached the end of production, and this is leading to a slowdown in growth, especially in China in Q4.

In addition to the Automotive segment, the other business segments made an important contribution to our results. They especially supported the profitability of our business with a very solid underlying performance. Furthermore, some special topics drove the business, which will be explained by Mr. Schäferbarthold later in detail.

All in all, we are very satisfied with our development in the last fiscal year. Going forward, we see a very weak market environment with negative revisions of expected production volume. So here, also no change with regard to the statements we have made 2 weeks ago. This led us come to 2 main conclusions. So the originally expected recovery for the second half of 2019 will not come from our perspective. We also do not see any significant recovery in short term. Thus the current fiscal year 2019, 2020 will expect even stronger headwinds from the market. Our expectations are based on the current run rate of around minus 6% market development compared to the IHS July forecast of minus 1.3%, both figures related to our current fiscal year 2019/2020. Especially considering our second half of the fiscal year, starting December 2019, we are more reluctant. Furthermore, we faced slower ramp-ups and volatile call-offs. And in addition, the weakness of single customers is affecting us more severely in certain areas.

Not only in automotive, but also for the other segments, the environment becomes increasingly challenging. In the aftermarkets, on the one end, we see weakness in certain countries as well as ongoing consolidation and a general reduction of inventory levels. On the other hand, the Special Applications business faces a slowdown in agriculture and in the construction business.

These are the main reasons why we are more cautious with respect to our outlook for the fiscal year 2019/ 2020. So we expect that the first half of our current fiscal year will be weak. For the first quarter, we expect a negative growth, also compared to a strong first quarter in the prior year. For the second quarter of the current financial year, we expect a certain stabilization, but on a low level. The development in the second half of this fiscal year is, as of today, quite hard to predict. However, we do not expect any market recovery for the second half of our current fiscal year.

Nevertheless, I want to repeat what I have said during our preliminary call as it is of most importance. We do not see any structural issues with regards to our strategy and our business model. Our growth will be lower only due to the weak market environment. We have all prerequisites to further outperform the market based on the strong order book and our proven strategy along major automotive market trends like electrification and autonomous driving. We will further invest in new technologies, and we will intend to continue our fundamental approach to strengthening investments into research and development. These investments, which, of course, are currently on a high level, with reduced sales expectations and higher material as well as personnel costs, let us assume in total a lower profitability level in the current fiscal year. And of course, here, especially in automotive is affected. However, we have a very efficient cost control program already in place since 2018. Thus, we have our costs under control. Furthermore, we continuously work on structural improvements, for example, further automatization, especially in the lighting segment, the implementation of a fully-fledged shared service organization as well as portfolio improvements and regional optimizations.

Let me now move to Page 4 of our presentation, starting with our financial results. So our currency and portfolio-adjusted sales increased by 5%, and our adjusted EBIT improved by 5.9% to EUR 585 million. Thus our adjusted EBIT margin and is now at a level of 8.4%. This is approximately at the level of the previous year, a little bit better. And our adjusted free cash flow improved by 27% to EUR 284 million. And especially the improvement in the working capital consumption, is the reason this, from our perspective, quite encouraging improvement of our cash flow is based on.

At Page 5, you can see the development of the different markets compared to our own growth performance. So with regards to this outperformance in single regions, especially in Europe was 10.6%, but also in North and South America, with around 14.6%. So we again were able to outperform the market. This is also true for Asia and rest of world, but of course, the difference is not so significant. All in all, we outperformed the market by 10.8%, which also show that, all in all, the demand for our lighting and electronic products is still high. And we are from our perspective, well positioned with our customer portfolio, our product portfolio and also our regional setup.

Yes. Having said this, allow me to now hand over to my colleague, Mr. Schäferbarthold, our CFO, who will now explain you in more detail our financial figures.

Bernard Schäferbarthold: Thank you, Mr. Breidenbach. Good morning also to all of you from my side. Before continuing with our presentation, please also allow me to start with some introductory remarks.

First, as said, there were no changes to the preliminary numbers already published 2 weeks ago. Second, we achieved the guidance in all respective financial KPIs, meaning sales, EBIT and also related to the absolute EBIT increased what we promised. On an additional positive note, and I'm personally very pleased about the adjusted operating free cash flow, we reached EUR 284 million. I have to say that on one hand side, in this number, also the first adoption of IFRS 16, the leasing standards (is included), EUR 27 million out of this EUR 284 million is one reason for the improvement, but on the other hand side, we were able to realize a significant improvement in our working capital, which is due to the initiative of our cash improvement program we started. In addition, our sale of our wholesale business increased significantly our position in liquidity.

So that overall we turned into a net cash position of EUR 66 million, even including (out of the IFRS 16) liabilities of roughly EUR 140 million. Without taking that into account, we would be at EUR 200 million. This overall result in the last FY 2018/2019 has again strengthened our balance sheet significantly. This taking into account leads to our proposal regarding the dividend payment of overall EUR 3.35. And even taking that, this keeps our balance sheet very solid even after the payment and makes us very robust even in this difficult market environment. Last comment, the first-time adoption also of IFRS 15 makes also the comparables in the balance sheet very difficult. So if there are also any questions after the call, we are happy to take them and also our IR department to answer if any questions will stay open.

Coming back now to the presentation on Page 7. Sales, as Dr. Breidenbach commented, are at EUR 7 billion. The strong outperformance in the automotive market of 10.8% for the full year was key to this overall sales group in the group. This led to an automotive growth of 6.1% on a year-on-year comparison. Aftermarket driven by a strong growth within our workshop product business grew by 2.7%. Special application, also positive in our core business without taking into consideration the closure of our plant in Australia.

Page 8, our gross margin improved in absolute terms in all 3 segments. In relative terms, automotive was negative, as mentioned several times, on one hand side, due to higher investments in R&D, supported by a very solid order book as well as higher material and personnel expenses also commented in several calls before. Aftermarket and special applications developed positively overall. Thus overall, this positive development in that both segments couldn't compensate the automotive decline in gross margin overall. Page 9, development of R&D expenses and the related ratio is illustrated over the years, the R&D investments have increased, as already explained in several calls, the R&D ratio increased by 0.2 percentage points to 8.8%.

I'm also here with the adoption of IFRS 15, some reclassifications have been done and in the presentation, numbers are comparable, especially to the last year. More details are also within our full annual report also with more explanations and comparables.

SG&A on Page 10, declined by 0.7 percentage points, mainly improvements we were able to reach in our distribution costs were here the driver, administration costs were in relative terms flat on the level of 3.6%. Within the other operating income, especially the book gain realized in Q4 of the sale of our plant in Australia of EUR 12 million supported here this positive development.

Overall, on Page 11, adjusted EBIT as already said at EUR 585 million, aplus of EUR 33 million. Adjusted EBIT margin improved slightly to 8.4%, the decrease overall in our gross profit margin, and slightly higher R&D and was compensated as said by the lower SG&A ratio.

Coming to Page 12. And the net profit improved significantly to EUR 630 million. Besides the positive effect out of the disposal of our wholesale business, improvements could also be realized in our financial result as well as in our taxes.

On Page 13, Q4 numbers for the different segments are shown here. The growth dynamic as also commented before, has decreased in the fourth quarter in automotive, as already communicated also in the 9-month call. Profitability in automotive was impacted, especially in Q4 by higher material prices, especially also on electronic components, but also higher material and raw material prices overall in this quarter. And in addition, higher personnel expenses and as well as higher R&D. On a positive note, aftermarket and special applications, we're very positive with a strong product mix effects here, especially in aftermarket. And overall optimized cost structures we could achieve and some special items, as already commented.

As already said, also in my introductory comments, operating free cash flow is on the next page, significantly driven by our cash improvement program. Be aware, and I mentioned that on the first-time adoption of IFRS 15 that, especially also on the CapEx, the year-on-year comparison in CapEx is not valid here due to the fact that tooling is now accounted differently, and especially all toolings which are under construction are now in our inventories. Without that effect, CapEx we would slightly see an increase of around EUR 30 million on the full year. Finally, some further comments to the segment and automotive growth was again driven by lighting and electronics growth, as already said, regionally strongly was driven by Europe, but also Northern South America. The EBIT margin decreased by 4.7 percentage points to 7.8% as already mentioned due to different aspects.

Aftermarket is showing a slight growth of 2.7% year-on-year, driven by a very solid and good development in our workshop products. The EBIT margin was excellent, a very strong product mix with a good development in workshop products with decent profitability, but also thermal products contributed to this very good result. We do not expect this margin performance going forward, especially considering actually a weak environment in the aftermarket business overall, but also the exit out of our thermal business in aftermarket end of this calendar year, will certainly have some impact on our aftermarket business overall. On the other hand side, it's very good to see that we were able to adapt our cost structures in this segment rapidly after the disposal of our wholesale business, which also supported the overall results. Special Applications was again able to improve the EBIT margin even without considering the book gain of Australia, which is, from our point of view, a very good result for that year.

Having said that, I now hand back to Dr. Breidenbach before also taking your questions.

Rolf Breidenbach: Yes. Mr. Schäferbarthold thank you very much. Allow me to make some comments about the outlook. So according to the latest IHS forecast the industry environment has worsen significantly compared to the January estimations. We saw a deterioration from January to July from plus 2.2% to minus 1% in July 2019, which, we think, is mainly driven by a correction with regard to the expectations in China and in Germany. The same tendency, we can see when we look at the current fiscal year of HELLA. So the fiscal year 2019/2020 here as of today, IHS estimated decline of the market by 1.3%. They saw Europe by around minus 2.1%, NSA by minus 0.4% and Asia, including China, by minus 0.7%. I think the special number for China is plus 0.6%. As I already said, in contrast to these figures, we do not see this recovery in short term. Thus for our financial year 2019/2020, we expect an even stronger headwind from the market at around minus 6% and this assumption is based on the negative run rate of minus 6.6% we saw in our second half of our last fiscal year and the negative market momentum also in Q4 of minus 6.2%. And as I said, we do not see currently, that this trend is stopped. As this leads us to the guidance, we have already announced. So the currency and portfolio-adjusted sales, here we see the range between EUR 6.5 billion and EUR 7.0 billion. And with regards to the EBIT margin, we see a range of 6.5% to 7.5%. With regards to the profitability side, of course, the reduced expectation together with continuous investments into R&D, higher material, as well as personnel costs let us come to these figures. Yes, having said this, Mr. Schäferbarthold and I have finished the presentation, and I'm now looking forward to your questions.

Operator: (Operator Instructions)

We got the first question now. It's from the line of Raghav Gupta.

Raghav Gupta: This is Raghav from Citigroup. Three questions. The first, on your market assumption, again. In your outlook statement, you say that you expect the first 6 months of the year to be challenging and you're fighting the impact from WLTP, in particular. I can see why that would hurt you in Q1, but it seems you're also calling out Q2 in that statement. What are you seeing that others are not? That's the first question. And I know we talked about this a lot a couple of weeks ago, but I think it's really important. And secondly, capitalized R&D seems to have provided 30 basis point tailwind in the year to margin. I'd just like to understand your expectation on capitalization going forward, particularly in the backdrop of this lower volume environment that you're talking about? And then finally, on free cash flows. Adjusting for IFRS 16, free cash flow was $257 million in the year. And if I understood correctly, your CapEx was EUR 30 million lower due to IFRS 15. So all in all, no cash flow improvement year-over-year. Just like to clarify that. And when I look at the moving parts in the working capital. The bulk of the improvement is from inventory management. Can you just describe some of the initiatives you've taken there? And how sustainable that is?

Rolf Breidenbach: Yes, let me start with the first question. So we not only see no recovery in our first or second quarter of this fiscal year. We also see no recovery in the third and fourth quarter, and we are assuming, on average, a negative market development of minus 6%, and this is on the one hand based on the current figures we have with regards to the development of our Q3 and Q4 of the last fiscal year. So the development from December 2018 on now to May 2019, the demand we see in our systems and the discussions with our customers. And we know that this is different to many institutes who do these market assessments, but we do not see any positive sign on as the horizon. Therefore, we made our guidance and our forecasts and our planning scenarios within the company based on this market development.

Raghav Gupta: But could that be the timing of your own, what kind of ramp-up?

Rolf Breidenbach: No. Here, we are talking not about our sales development, but market development.

Bernhard Schäferbarthold: Okay. Your second question was related to the capitalized R&D. So first, there is no change in our accounting policy. So we have clear criteria. On one hand side, that we need to have the order booked and volume, but also then profitability expectations need to be so good that we are able then to capitalize. And overall, if we look how the situation basically has changed to last year, basically, it's reflected that our order book is stronger. So we have booked, especially in the last 2 years, significant volumes and are now intensively in our R&D working on these projects. And basically, the financial metrics as we see them, also considering the actual market environment, basically leads to the fact that we have actually a higher capitalization. But your basically rough assumption in numbers is right, it has a positive impact on this year's EBIT. We do not expect as of today, really a change for that year. So it should stay around that number also this year. On CapEx, perhaps, there was a misunderstanding. It was an increase of CapEx. So really, on a like-for-like basis of EUR 30 million. And working capital, we improved on the inventories. But again, please note that I said the comparables, it's very difficult with the IFRS 15 implementation. So we have seen an improvement in inventories, but not as significant, slightly, really, if we take IFRS 15 out the part, but also the sale of our wholesale, where some of the inventories also were taken out. But we have also seen improvement in our DSO and DPO also on the payables and receivables side. Going forward, we are working on an additional 1% improvement for this year in working capital. So that's our clear some internal target. And as of today, I would say that we are in a good way. And that should support this year's free cash flows.

Operator: And the next question, it's from the line of Akshat Kacker.

Akshat Kacker: Akshat from JPMorgan. First, on your R&D, obviously, the high R&D bill supports the strong order intake that you just mentioned over the last 2 years. Can you just discuss broadly how your -- how the composition on that order intake within your key products changed. In another way, what areas product are you really spending on more -- just some more details and color around the product portfolio, please? The second question -- apologies, if I'm missing something on aftermarket. What drove the solid EBIT in the fourth quarter in aftermarket? And thirdly, as you mentioned, you're trying to generate more cash on working capital next year. Is that coming from further improvement in payables? I see that payables have improved this year year-over-year.

Rolf Breidenbach: Okay. Coming to our R&D spending, of course, we are currently spending a lot of money in energy management, battery management systems, DC/DC converter. The same is true for our radar components. We are currently entering the market for 77Ghz. We just get one additional order in. So this is also one focus and we also, of course, continue to investing into our LED technology. We just got the first order for HDSSL. So from our perspective, the highest, advanced and most efficient LED technology for headlamps. These are, let's say, 3 main areas where we are spending our R&D.

Bernard Schäferbarthold: On aftermarket, there were several reasons, I mentioned, on one hand side, the product mix. So especially on the workshop products. This is a very decent business for us. So the growth was above 20% overall, decent margins. So overall, that improved gross margin significantly. On the other hand side, a very good development now in n our thermal products, which on one hand side, you can also see in our at-equity result, which improved by EUR 1 million, but also then the sales in our distribution companies was also positive. So that overall, in addition to also volume effects led to a very good gross margin development. On the other hand side, we had, as I mentioned, cost efficiency, so we reduced the structure after the disposal, the cost structure of this segment, after the disposal of the wholesale. And on top of that, due to also lower overall volumes in the independent aftermarket the bonus payment on the customer side, were lower than already accrued in the period also before, so that especially in Q4, you have also seen some kind of positive effect, which was on a level of roughly EUR 2 million. So there were several reasons, and that overall, led to a very strong Q4 performance and above 10% EBIT for the full year.

Akshat Kacker: Just a follow-up -- quick follow-up on that. One, do you think it a sustainable number going forward on EBIT margin on aftermarket

Bernard Schäferbarthold: That is now very difficult to predict due to 2 reasons. On one hand side, on a positive note, we see that especially the core business there, it comes really to lighting, but also workshop products, I think that is really sustainable, how the setup is now, and it's a further good development. What we now will have to see is the impact of the exit of our terminal business, which impact this would have on our overall product portfolio and on the also the customer reaction. On top of that, what we actually see, and this is more general in the aftermarket business is that the markets actually are very weak. Overall in the independent aftermarket, what we actually see is the certain kind of effect of the consolidation, especially with the transactions, you have also seen on the wholesale side, where we now see basically within the integrations that markets are slow, perhaps, also due to the fact that the large wholesalers are trying really to benefit now and reducing also their stock levels. So that is why markets are pretty weak now. I think we need some more months now to get also a better transparency. So it will be lower than this 10%. But it's hard now to say where really a sustainable number would be.

Akshat Kacker: Just on the payables and your 1% working capital improvement target over the next year?

Bernard Schäferbarthold: Yes. We expect the largest improvement this year on the payable side. And this is backed by already negotiated improvements, which now with the invoicing will then be visible in the balance sheet in the next further months to come. So there in my opinion the largest contribution, but we also see some more improvements on the inventory side. That, I think, on the receivables side, it will also depend a little bit -- I would say, on China. With weaker market in China it's there more difficult, really, especially on the overdue side, but I do think that we can stay at least flat, for sure, we are working on improvements. But overall, as I said, driven by payables and inventories, overall, we believe, 1% improvement is possible.

Operator: We'll take our next question, it's from the line of Henning Cosman.

Henning Cosman: I'm afraid I have to come back to the Allison in the room with the outperformance and the underlying market assumptions again. If you could just remind us how you think about this -- how you think about outperformance in markets because I appreciate that you have a certain visibility on your own business. But most of the competitors always say you almost take your own business performance and you take the forecast agency profit outlook and the difference is the outperformance. And it's not always consistent. How we think you take that market is something you add an outperformance, and that's the organic growth? Or you walk it down the other way around? So if you could just remind us how you're thinking about this now this, of course, the deviation to consensus market growth is very extreme. So I just remind us, if that's okay

Rolf Breidenbach: Yes. With regards to our market assumptions, of course, we are looking in detail to the different forecast of the different institutes on the one hand. This is a very important source of our forecast and our scenario, but we also, of course, look to the historical data. We tried to find out patterns, which we can then forecast into the future. And of course, we are discussing the topics with our customers and we do this regional wise, we do this week wise, and as I said, customer wise. And based on all this, we do our own forecast, which is and this you already stated, today, quite different from IHS. So this is a pure market. And based, of course, on the market development, we try to also build up our models with regards to our own sales development. And here, the thing is to -- we try to find out vehicle line by vehicle line, region by region, customers by customer, what will be our run rate and what is a realistic forecast with regards to our own sales figures. And as I already stated, I think, 1 or 2 calls before, to really find out how the run rate, how the sales development, how the top line development in automotive will be in with regard to our perspective in weeks, months or half a year has become more and more difficult. And because we see customers who planned the end of a production of a car line, and from one moment to the other, they stopped. The same is true for high version and low version of some of our products where they skipped one version from one moment to the other. We, of course, see structural weaknesses at some of our customers with regard to some of their car lines, which we have never seen before. Therefore, yes, these kind of forecasts and assumptions are very difficult to do, but we try to do it of course, as precise as possible and based on very negative general market development, we see, of course, also our growth perspective, we reflected in our guidance is not so positive

Henning Cosman: So I appreciate that it's very linked to individual models, and especially where you have a lot of exposure. But if we were to assume that ultimately, the market growth is more aligned with what IHS is forecasting as compared to your own market forecast, how would you like us to think about your outperformance? Would you say you can maintain a similar outperformance over the less negative market development? Obviously, being conscious of the fact that it would very much depend on which particular models will be better. But just quickly, could you maintain off the order of 6% outperformance over a less negative market development?

Rolf Breidenbach: This is very difficult to predict because, as I said, if you have had asked me 2 or 3 years ago, I would have said yes, this is a statistic topic. And when the market is growing, also our outperformance will develop in the same way and no problem. But today, and the performance of our customers is more and more volatile, so we see well running customers, customers who have difficulties in the market. This also then depends on the regions. And unfortunately, it is also a dependence on the vehicle lines. Of course, this was also true in the past. But today, patents, which were valid in the past are no longer something we can count on. And therefore, today, this is very difficult to predict, and if I would now give you a precise number-driven answer to your questions, this would be more a speculation. And therefore, I cannot tell you this. The automotive market is currently so volatile, there are so many factors of influence, be it with regards to the general political and trade situation, with regards to customer preferences, with regard to new weaker lines where and new launched car lines, where nobody really knows how the market perception will be, that is, of course, is currently something on the one hand, we are trying to assess in detail, and we are working hard to get this much better understood, but all in all, I cannot precisely answer your question because the basic conditions and the current market situation is too difficult to really make a good prediction between the general market development and our market outperformance. Of course, we have the clear target, and we see more than good chances. And this, we could also show in the past that we outperformed the market business here.

Henning Cosman: Okay. And maybe as a remark, if I may, I mean, some of your competitors are sharing a slightly more granularity with respect to the customer exposure in the form of a pie chart, either by region or even identifying the customers. So if you could maybe then in this more uncertain environment provide a bit more granularity, I think that would help us make our own assessment, just as a remark. And if I may, a final question. So if we just assume that we're looking at a more flattish market environment for beyond your first half of fiscal year, more flattish than maybe for another 1 or 2 or 3 years and assuming you continue to outperform in the same way as you're doing. Without asking you for enough guidance, can you just help us to think around how you see your margin developing? Do you in a flattish market environment, do you think the margin remains under pressure from wage and raw material inflation and continued high R&D costs? Or can you start to compensate and overcompensate that even in a flattish market, thanks to your outperformance?

Rolf Breidenbach: Of course, we are working hard on this to compensate the developments, as you have described. But of course, we have to handle as Mr. Schäferbarthold said, especially price increases with regard to electronic components. We further increase in personnel costs, and we will continue with regards to the investments into R&D. Yes, I cannot give you now a new guidance, but one thing is clear, of course, when the sales are developing in a bit more positive way. Then, of course, due to scale effects, our efficiency will over proportionately increase and will, of course, also positively influence our gross margin.

Operator: The next question, it's from the line of Michael Punzet.

Michael Punzet: Michael Punzet DZ Bank. I have 2 questions. First one is, once again, on your outlook. What are your underlying assumptions for the trade dispute between U.S. and China? And secondly, do you expect any incentives from the Chinese government to support the market? And the second one is, have you seen any change in the focus of your customers towards hybrids or e-mobility, any shifts that the companies are looking to higher production figures for e-mobility compared with combustion engines, let's say, to 1 or to a 0.5 year ago or something like that?

Rolf Breidenbach: To answer your second question first. We do not see currently a change. We know that our customers have different, let's say, electrification strategies, some are counting more on 100% e-vehicles other are following a combination of mild hybrids, full hybrids and e-vehicles, but we do not see a change in the last, let's say, 6 months. With regards to incentives in China and how the trade negotiation, we'll develop, it is very difficult to assess. But the uncertainty with regards to the trade discussions, we expect that this will remain, and this, of course, is also included into our forecast with regards to the market development. And with regards to incentives in the Chinese market. We have not considered any additional incentives, the Chinese government hasn't already launched because I think we all know that they have already done something. But we do not expect additional incentives. But it's our company view, we do not know...

Michael Punzet: Yes. No, no. What I would like to know, how I have to think about what will happen with your company guidance when there will be a solution between

U.S. and China on the trade dispute, for example, or whether you have already included, let's say, some kind of solutions in the second half of your fiscal year, for example

Rolf Breidenbach: We leave this here.

Operator: That next one, it's from the line of Harald.

Harald Eggeling: So one question, please. On tangible CapEx, how would you see the development in the current fiscal year and probably near-term ahead? And second question is on your other operating income in Q4. Could you please elaborate on the elements that might probably be have been some provisions?

Bernard Schäferbarthold: Tangible, CapEx, we expect this year to be on the same level as the last year. So CapEx overall will remain basically on the same level. Other operating income, I already also mentioned, the largest amount is within the sale of our business in Australia, but there were also some re-allocations, functionally with year-end closing, which, at the end, there was no positive EBIT impact that you have been seen than the expenses in other lines. So that has also an effect. And in addition, some, I would say, insurance claims also, which were considered on the other hand side, also the expense side and the provisioning accrued then within the cost of goods sales, within the gross margin. So overall, also no significant impact. But overall, due to the need to show it in as gross amount, so no netting, leads then to a higher number in this other operating income.

Operator: There are no further questions now at this time.

Rolf Breidenbach: Okay. Thanks very much to all of you, and have a good day. All the best. Thank you. Bye.

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

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