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COMPANY EDITED TRANSCRIPT

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Hella Investors update for fiscal year 2019, 2020. (Operator Instructions) I also must advise you that this conference is being recorded today.  
And I would now like to hand the conference over to your speakers today, Dr. Rolf Breidenbach, CEO; and Bernard Schäferbarthold, CFO. Please go ahead.

Rolf Breidenbach: Yes. Thank you very much.

Dear ladies and gentlemen, good morning to all of you. Thanks a lot for dialing in. This is Rolf Breidenbach speaking. Welcome to our investor call on the full year results of our fiscal year 2019, 2020. Also, on behalf, of course, of my colleague, Mr. Schäferbarthold, our CFO.

Before we start with our presentation, I would like to begin with some general remarks. With our final results for the fiscal year 2019/2020, we confirmed the preliminary statements we made about 2 weeks ago. In the last fiscal year, we have been confronted with a massive downturn of the global lighting vehicle production. The production was already falling significantly in 2019. And so before the corona crisis significantly affected the markets, we were on a shrinking path of around minus 6%. Of course, the COVID-19 pandemic has additionally placed an unknown burden on the industry. HELLA has, just like the entire industry, faced a very challenging fourth quarter, which started in the month of March. For the majority of this period, most of our plants in Europe, but also in Mexico and in the U.S. were closed. And what we all

should not forget, the industry is still in a transformation phase: electrification, autonomous driving, digitalization play an important role and force the whole industry to significantly invest into new technologies and new business models.

Against this background, we are satisfied with the results we have achieved for the FY 2019/2020. Especially on the cost side, we have been able to compensate for the loss of the business as far as possible by taking consistent actions. We already mentioned that since August 2018, we have reduced the HELLA staff by more than 5,400 people.

In terms of our free cash flow, cost reduction as well as initiated measures regarding working capital and CapEx led to a very positive result. Mr. Schäferbarthold will present this in more detail in the charts to come.

Looking forward, there are still high uncertainties, how the market will develop. On the one hand, the newest IHS figures from July indicate a certain stabilization for the first time since many months. We believe that the anticipated numbers for the first quarter of our fiscal year 2020/2021 are quite robust. On the other hand, the volatility is still high and the visibility for the full fiscal year is limited. Therefore, we assume, from today's perspective, that the recent IHS forecast with a production volume of 77 million cars reflects some kind of best-case scenario.

With respect to our outlook for the fiscal year 2020/2021, we already announced end of July, we are rather cautious. For the adjusted sales, we expect a range from EUR 5.6 billion to EUR 6.1 billion. In terms of adjusted EBIT, we expect a range of 4% to 6%.

Let me also give you a kind of indication of our current business development. We started well into the fiscal year. The utilization of our global production network continues to grow. Our plants are ramping up with increasing OEM activities. With sales picking up again, the expected profitability seems to develop better than we anticipated some weeks ago. Thus, we will probably close the first quarter with a positive adjusted EBIT. At the same time, the increase in capacity utilization will lead to a significant negative cash flow in the first quarter. The following quarters will develop significantly better. As mentioned in our last call, in a scenario where we are at least at the midpoint of our guidance or even a little bit better, there is an opportunity that

the adjusted operative free cash flow for the full year will be positive. But this will be a challenge, of course, in this fiscal year.

In our last call, we also explained that we initiated a long-term program to improve our competitiveness and to protect our market position. As discussed, we expect annual EBIT contributions of around EUR 140 million, mostly taking effect from the FY 2022/2023 onwards. Currently, the discussions with the workers' councils are starting to secure the successful implementation of the measures at the German locations.

Let me emphasize again, all measures are not only purely profitability driven. Their main purpose is to secure our long-term future and our position as a successful independent automotive supplier. Therefore, we will also further invest in new technologies from major market trends and intensify our investments in software, automation and processes.

Having said this, let me now move to Page 4 of our presentation, starting with our financial results for the FY 2019/2020. As already known, our currency and portfolio-adjusted sales decreased by around 14.3% to EUR 5.8 billion. Our adjusted EBIT declined by around 60% to EUR 233 million. Thus, our adjusted EBIT margin is at a level of 4%. This is a decline of 4.5 percentage points compared to the previous year. Our adjusted free cash flow declined disproportionately by 6.3% to EUR 227 million.

On Page 5, we give you an overview of our automotive outperformance in the single regions, and you see that we were able to outperform the market on a global basis. Globally, our automotive business outperformed the market by around 3 percentage points. The outperformance in Europe was quite solid. We outgrew the market by around 2 percentage points due to the ongoing project ramp-ups and the higher volumes in East Europe.

Business in the Americas was very strong, outperforming the markets by nearly 13 percentage points, especially due to the new product launches and ramp-ups in lighting and electronics. In Asia and the rest of the world, we outperformed also more than solidly by around 7 percentage points.

So overall, we are quite satisfied with the results of the last financial year 2019/2020, under the given circumstances. Our order book was very strong. We outperformed the market with regard to our growth performance, and also

our adjusted EBIT and cash flow figures from our perspective are quite satisfying.

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

Bernard Schäferbarthold: Thank you, Mr. Breidenbach. Good morning also from my side. I would like to continue on Page 7. Sales is at EUR 5.8 billion. And there was no change to the prelims. we have communicated. The different development in our business segments shows that Automotive and Special Application show a very similar decline, whereas Aftermarket is less affected in the decline of sales.

If we look at the start into the new year as Mr. Breidenbach stated, we had certainly a slightly better start than we expected 8 weeks ago. So we feel that after a very challenging fourth quarter, now volumes are coming back, basically in line with IHS. And the first 2 months shows also that we continue to outperform the market, which is good, and this will certainly bring us back to positive numbers. And similar trends, we also see in Aftermarket and Special Application where demand is coming back step by step. Nevertheless, we will stay behind sales numbers compared to prior year, for sure.

Coming to Page 8. The gross profit significantly lower, certainly, volume driven. Highest impact, if we look at the margin decline, comes from the underutilization and there from D&A ratio being significantly higher. This certainly, with the impairments we have now done last year, will be different if we look at this year. On a positive note, the material ratio full year was even slightly better on the year-on-year comparison. So that shows also that we have been able to come to better results also on the overall supply chain compared to last year. If you also remember here, especially high prices on electronic components were hitting us.

If we look at Page 9 on the R&D, we already stated that the level will be slightly or will be around the same level, which we had in '18/'19. So overall, a slight increase compared to prior year. Certainly, the expense ratio due to lower sales is, by far, higher.

Looking at this year, we expect a very similar level also this year, as we already stated now compared to the number '19/'20.

On Page 10, SG&A. By far, lower expenses compared to prior year. We have been able to keep the ratio at 9.1%. Mr. Breidenbach mentioned the cost measures we have taken, we also commented these in prior calls, from my perspective, a very good result. The overall organization was able to reach here with a very high discipline if it comes to cost savings we were able to reach.

On Page 11, you also can see how we have adapted the organization on the year-on-year comparison to the end of our fiscal year. So the comparison has done end of May '19/'20 to end of May '18/'19. So a reduction of our personnel of 6.5%. Overall, we have reduced in all region. And basically, also in most of our areas, only R&D is stable if we look at the number of employees we have. This certainly reflects what we also commented before, that our strong order book and also the demand for our product shows here that we continue and are quite positive if it comes to our development activities and the work on actual products, which are in our order book. So this is reflected basically in these numbers. We will certainly continue to adapt globally our organization, depending on the market development. And as we commented, certainly, one special focus will be in Germany, as communicated, with our program we explained some weeks ago.

On Page 12, the development of our profitability. So no change also to our preliminary numbers, we come out with EUR 233 million and 4% EBIT.

Page 13, more details on the numbers. So reported EBIT, also no change to the prelims, minus EUR 343 million. The adjustments with the impairments of EUR 533 million are here considered with the mentioned lower D&A from this year onwards.

On Page 14, the fourth quarter, in details, showing the development of the different segments. Most affected in terms of sales decline is automotive with minus 47% and with that, a very negative result. Significant negative development also in Aftermarket, Special Application. But here, on a positive note, we stay profitable even in the fourth quarter.

On Page 15, the development of our adjusted free cash flow, from my perspective, an excellent result. We reached a positive EUR 227 million in this market environment. So the organization did here an excellent job. One aspect of this positive number was the reduced CapEx level where some of

this reduction certainly will now come, and we already have seen that now into the start of our new fiscal year, but also the working capital reduction we were able to do. As mentioned by Mr. Breidenbach, the first quarter will be significantly negative. We expect around minus EUR 240 million in Q1, driven by, on the one hand, high working capital or working capital normalization. So especially on the receivables side, only in the first 2 weeks, more than EUR 240 million of receivables were built up. Again, on the other hand side, the continuously higher volatility on demand makes it very difficult to optimize inventory levels.

And as mentioned, in the first quarter, certainly, over-proportionally high CapEx impacts us. But we also see, from today's perspective, that from now on, we expect to have positive free cash flows in the following quarters. So that overall, we see that in a good case, we can come back to a positive number to the end of the year.

Page 16, the Automotive segment in detail. We already have mentioned the different development of our Electronic segment and also the Lighting segment in the last year. So less new launches in lighting last year and the strong demand on our electronic products show a very different development. This year, certainly, we expect, I would say, also, again, a stronger or more new launches in lighting. And we actually see also a continuous good demand on our electronic products. But last year was certainly a very different development, which we assume now from now on to normalized again. Lower (sales) levels led to a very significant EBIT drop. Certainly also, driven by, by far, lower JV income in comparison also to last year, same reason, impact also from the market on the most important joint ventures from us.

Aftermarket and Special Application segment, as I mentioned, also impacted by the market. But from my perspective, a very good result in Aftermarket, even taking into account last year in Aftermarket, an outperformance in workshop products due to a legal regulation, which we have not had last year. But again, as I said, EUR 51 million, a good result. Special Application, one note perhaps to that the excellent result in '18/'19, certainly, as you remember, was also driven by an extraordinary profit from an asset sale in Australia. So this you need to remember if you do the comparison.

So with that, I hand back to Mr. Breidenbach with the outlook, and I'm happy to take your questions.

Rolf Breidenbach: Thank you very much Mr. Schäferbarthold. Only a few words to the outlook. Of course, everything will be depending on the volumes. We started, with regard to the perspective under a new fiscal year 20/21, in January, with a market assessment of more than 89 million cars. The low was reached in May '20. Therefore, our now new fiscal year, IHS forecasted 76.6 million, and we now see, for the first time, a kind of stabilization at 77.3 million vehicles. We are quite optimistic that the 17.4 million cars will come. This is quite in line with our demand and our sales figures. The question now will be, of course, the additional jump now to the level of more than 20 million vehicles in a quarter, for our quarter 2 and the quarters to come will happen or not. Nobody knows. But so far, this is the best estimation we can build on. Taking this into account, you can see at Page 20, the already mentioned guidance we have given for the currency and portfolio adjusted sales, it will be in the range between EUR 5.6 billion to EUR 6.1 billion and the adjusted EBIT margin in the range of around 4.0 percentage to 6.0%. Yes. Having said this, we can start with the Q&A. Mr. Schäferbarthold and I are happy to answer your questions.

Operator: (Operator Instructions)

And your first question comes from the line of Gabriel Adler.

Gabriel Adler: It's Gabriel Adler from Citi here. Just one question from my side. In the presentation, you mentioned that auto sales were impacted negatively by more EOPs this year and a slower ramp-up curve. Could you please give us a sense of how SOPs and the ramp-up curve looks for your products over the next 12 months? Split up by lightings and electronic -- Lighting and Electronics would be helpful. And if the pandemic has resulted in any major cancellations from your customers with regards to new SOPs?

Rolf Breidenbach: With regard to the cancellation of the SOPs, we do not see a relevant number of canceled SOPs. But of course, what we see is a postponement of SOPs in

both lighting and Electronics. And this is true for all the regions. We do not see a significant difference with regard to the regional spread.

With regard to the ramp-up curves, especially for the new products, they are in the range we expected for both Lighting and Electronics. Of course, what we have to look on is whether the demand will be sustainable or not. And with regard to the number of SOPs, we are carrying out, in the next months, many launches of new products in both Lighting and Electronics.

Operator: And we will now take our next question, and this comes from the line of Kai Mueller.

Kai Mueller: I think the first one was sort of a little bit on those SOPs. But when we just look back into Q4, you obviously outlined your lighting business was much weaker than Electronics. What was the real big impact in that quarter? I understand, obviously, on the curves going forward, it looks pretty much as expected. What was the big surprise there?  
And then if I think about your free cash flow again, obviously, Q4 came in better than you had initially sort of thought about a couple of months ago. Now Q1 is a lot weaker. Has anything substantially changed, though, in terms of payment terms from your customers? Or is it just simply a matter on payment timings that will lead to this big drop into Q1?

Rolf Breidenbach: With regard to the fourth quarter of our lighting sales development, some customers of lighting in the fourth quarter in 2 regions were surprisingly weak with the sales also compared to other competitors. And therefore, lighting was especially affected in that quarter.

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

Bernard Schäferbarthold: So in general, payment terms have not changed. Certainly, the focus on cash flow is very high I would say, overall in the industry. So on customer side, as also on our side. To get, again, the perspective we lost last year in comparison to the year before, around EUR 280 million in EBITDA. And this is now something, which I would say, gradually now we see in lower cash flows, where in Q4, we were able, really, to push this effect out with



immediate actions we have taken on CapEx side, but also on our working capital side. So there is no, from my perspective, negative change to the liquidity plan, we initiated on a weekly base when compared to, let's say, 2, 3 months ago. So even there, I was already seeing that in a good scenario, we are able now, really, to move this effect of negative free cash flow into the end of the summer period or into the summer period. And this now we are actually seeing from my perspective, so no change and no especially structural change to your question. We are even a little bit better so that I'm now optimistic, especially if I look now at the next months to come.

Kai Müller: Perfect. And then maybe just one. You mentioned earlier that sort of your current trading, what you're seeing is sort of in line with what you were expecting your outperformance and also what IHS is saying. Now we've, obviously, had the call almost 2, 3 weeks ago, has anything changed in terms of the summer shutdowns of any of your customers? Have some customers extended them or shorten them? Or is everything pretty much the same?

Rolf Breidenbach: Everything is more or less the same compared to 2, 3 weeks ago. Perhaps it's a little bit better. We see, here and there, customers, which are now using also the summer shutdown to a little bit increase their inventory, especially in the U.S. In some car lines, the inventory is very low. And therefore, it's compared to 2, 3 weeks ago, it's a little bit better, but no significant change.

Operator: And we will now take the next question, and this comes from the line of Akshat Kacker.

Akshat Kacker: Akshat from JPMorgan. I have 4, please. I'll keep it short and quick.

The first one again, on Q1 trading. There are a couple of weeks to close the quarter. You said it is trending positively and OEM sales are expected to be down 10% to 12% in the first quarter. On those numbers, should we expect you to hit the lower end of your guidance range in terms of margin? That's the first one.

The second one is on the automotive P&L for fiscal year '20. Can you tell us what lies behind the EUR 39 million in other income and expenses?

The third one is on total CapEx. The number is down EUR 100 million to EUR 475 million for the full year. Do we still expect it to pick up to EUR 600 million? If yes, where is the incremental spend targeted at, please?

And the last one, maybe for Dr. Breidenbach, a more medium-term question, when I look at your energy management and electrification portfolio, a lot of the growth comes from DC/DC, IBS, battery management systems and On-Board Chargers, and then we look at a new 48-volt portfolio as well a few years out. A few of your competitors, especially DENSO with Toyota, talk a lot about inverters on hybrids. Can you remind us where are you on inverters, whether on hybrids or high-voltage cars, please?

Rolf Breidenbach: Yes. Thank you for your questions. I will start with the first one and the fourth one. And the second and third one will be handled by Mr. Schäferbarthold.

So with regard to Q1, you know our Q1 is a weak quarter. Therefore, whether we would be able to reach the lower end of our guidance, this would be very, very challenging. Perhaps we come near to it, but it's perhaps a little bit too ambitious. With regard to our energy management portfolio, as you mentioned, we are currently putting all our investments into the DC/DC products, battery management systems, high volt, low volt, On-Board Charger. We have, so far, not entered the market of inverters. We are ready to go. But due to the variety of good business opportunity in all the regions at many customers, we haven't started to go into this business. It's not a question of ability. It's a question of resource spreading. And therefore, we haven't started this business.

Bernhard Schäferbarthold: On the other income in auto, it's -- let's put it like, that technical number accounting related, we had a very -- with the cost reduction, we were able to manage the allocations between the different segments, we were not really able to do it to the right line items systematically. So normally, the biggest part of this number you should have seen them in some other line items like SG&A but also partially within the gross profit. So overall, around EUR 20 million out of that should be allocated to different line items, but we

were not able to do it. And you can see that in the if you look at the group results, the number is lower and comparable to the year-on-year comparison. I have now to ask, Akshat, what was your third question?

Akshat Kacker: Yes, it was on CapEx. The total CapEx number. Yes.

Rolf Breidenbach: EUR 600 million CapEx in this year.

Bernard Schäferbarthold: Yes, yes, we remain to that number. If really then EUR 600 million would be cash relevant. I think there, I would see between EUR 550 million and EUR 600 million at the end.

Akshat Kacker: And where is the incremental spend targeted out, please?

Bernard Schäferbarthold: No, it depends. We will have then the CapEx, but sometimes the CapEx is then not already paid. So that the invoice is then booked and within the payables, but not paid out. So paid CapEx will be around EUR 550 million and EUR 600 million.

Akshat Kacker: Just one quick follow-up maybe for Dr. Breidenbach on inverters. Can we just dig a little deeper on why the market opportunity is not that attractive on inverters, please?

Rolf Breidenbach: It is -- sorry, this is a misunderstanding. It is attractive, of course. But we have to be selective with regards to our investment into this area. Now we have, and we will significantly invest into DC-DC, into battery management systems, On-Board Charger, and we said, okay, let's concentrate on this. Of course, the market for inverters is as attractive from our perspective as, for example, the DC-DC converters.

Operator: And we will now take our next question, and this comes from the line of Christoph Laskawi.

Christoph Laskawi: Christoph Laskawi, Deutsche. It will be a bit of a follow-up to Kai's question on current trading. You said it was a bit better than initially expected. Could you give a bit more detail on, say, the regions you already said that in Americas, it was a bit better. But also on the platforms or, say, the mix of the programs, where it's better? And should we -- given that, I think Lighting is a bit more platform dependent, should we expect, and in the first half especially, Electronics -- simply because it's more independent of mix and you can potentially leverage sales across various platforms, should we expect Electronics to outperform, especially in the first half of the year versus Lighting? And could you also comment on the potential margin impact that would have?

Rolf Breidenbach: With regard to the current trading, what we can see is that there is a clear split in the market between premium and volume. So premium is very, very strong in China, in Europe and okay, I would say, in the Americas. And of course, in the Americas, we clearly see the pick-ups and the SUV segment being very, very strong. So this is -- we see the spread of the of the market. And this gives us some tailwind because we are over-proportionately strong in premium. With regard to your questions to Lighting and Electronics, this is currently very difficult to assess. Electronic, from my perspective, is a little bit more platform dependent than Lighting because we are developing the lighting products for special car lines. Therefore, it's -- for me, it's -- I cannot assess this, so far. Currently, both business divisions, with regards to sales, are developing, as I said, a little bit better than we expect. And the same is true with regard to margins. We are, as I said, better than expected, but to now forecast this for the months to come is very difficult because the market is currently very volatile, not volatile with regards to premium and volume and pickups and SUV in the U.S. but with regard to different products lines. Therefore, please understand that I can be not more specific.

Christoph Laskawi: Understood. And the volatility compared to the last couple of months in the sense that OEMs sort of indicated volume and then cancel it last minute. Is it still as bad because European OEMs specifically mentioned that they are currently moving towards running low on inventory, and that the momentum

is actually better than they expected, and they would expect an even stronger second half than they would have initially expected. So I would have guessed that at least with a bit more certainty around the volumes on the OEM side, that should improve on your side as well to some degree.

Rolf Breidenbach: That's correct. The order behavior of our customers has significantly improved, let's say, in the last 3, 4 weeks, of course, which also gives us a little bit more stability with regard to our forecast and our assumptions. This is correct.

Operator: And we will now take the next question, and this comes from the line of Christian Ludwig

Christian Ludwig: It is on 2 questions from our side. First of all, could you remind us what kind of adjustments we should be looking at for the current fiscal year? I remember there is, of course, significant provisions for the cost - personnel cost program. But what else should we have in mind that is going to affect EBIT? And the second question would be on your order backlog. You mentioned both that you had a very strong order backlog. I know you don't want to give us numbers, but could you give us some more color on this? What makes a strong order backlog? What are we looking at? What kind of potential do we have there?

Bernard Schäferbarthold: On the adjustments. So we said that the biggest part of this EUR 240 million, we expect in this year. The exact number, I'm not able to tell you today because this depends on the outcome also of the negotiations we started with the workers' council. Beside of this announced program, we do not expect a significant number of adjustments. Last year, overall, the EUR 43 million, most was also a reduction we realized in our lighting plants here in Germany, where we already did the program of a reduction of around 200 people. So such a program, we will not have in this similar way, besides, I would say, what we mentioned with this program of overall EUR 240 million. So this number should be, by far, lower. So that's it basically.

Christian Ludwig: So maybe a single-digit million figure on top of the announced program.

Bernard Schäferbarthold:     Around yes.

Rolf Breidenbach: With regard to the order book, yes, as we mentioned, we reached a record order book last fiscal year. Both business divisions significantly contribute to that. And the order book was over-proportionately strong in 2 regions. This is China and the Americas.

Christian Ludwig: Is it mainly driven by new customers or is it existing customers with new projects?

Rolf Breidenbach: Of course, the main contribution came from existing customers with new projects. But also new customers play a role, but of course, we continue to count on our traditional customer portfolio.

Operator:             And no further questions have come through at this time, sir. You may continue.

Rolf Breidenbach: Then thanks again for taking the time. I think it was now the second call of this kind in some weeks. Therefore, again, we really appreciate your participation. All the best. Have a nice weekend, and stay healthy. Thank you. Bye.

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

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