C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CEO
C: Philippe Vienney; HELLA GmbH & Co. KGaA; CFO
P: Christoph Laskawi, Deutsche Bank AG - Analyst
P: Sanjay Bhagwani Citigroup - Analyst
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: The conference is now being recorded.

Hello and a warm welcome to the HELLA Investor Call on the results for the fiscal year 2024. The call will be hosted by Bernard Schäferbarthold, the CEO, and Philippe Vienney, the CFO. At this time, all participants have been placed on a listen-only mode. The floor will be open for questions following the presentation. Now I hand over to Bernard Schäferbarthold.

Bernard Schäferbarthold: Good morning, everybody, very warm welcome to our 12-month 2024 results call with the final numbers. I'm starting in our presentation on page 4. So we confirm all preliminary numbers we have presented to you some weeks ago. So sales above EUR8 billion, first time. We outperformed the market by 240 basis points. The net income came out at EUR371 million. It's 40% higher compared to 2023. Within that number is the disposal of our joint venture BHTC, with a book gain of EUR116 million. We propose a continuation of our established dividend policy, so overall around 30% of net profit, which is then a dividend of EUR106 million, EUR0.95 per share. As that operating income and net cash flow confirmed in comparison to the prelims: so 5.6% in operating income and a net cash flow of EUR189 million, comparable to previous year if we are not considering factoring on a year-on-year comparison. On page 5, we added here the regional mix. As said for us we have as a target overall to have around two-third of our business within Asia and Americas. So we see here the split within the different business groups and especially in Electronics, we were very successful with new business wins in APAC and as well NSA. Overall, 74% of our new business outside of Europe, whereas Lighting was at 44% and Lifecycle Solution at around 50%. If we look at sustainability, sustainability, overall, remains a top priority for us. So positively we improved, partially our ratings. So specifically with CDP, we are now with an A rating. As you know we are working together with FORVIA to improve here towards our CO_2 reduction targets. We are in a good way, in terms of our achievements on scope 1 and 2, where we target to reach at least 80% of reduction on scope 1 and 2 to the end of this year, and we are working now intensively on scope 3 with our target settings, you are here seeing in 2030 and 2045. You can see on the right-hand side the achievements we reached. To highlight on the right side, we are working intensively on our product innovations and design to support our CO_2 reduction targets. Specifically, we enhance our Electronics portfolio with developments towards supporting e-mobility in the future. Here are two highlights. One is the Coolant Control Hub and the other one is the High Voltage PowerBox, but they are more to name. In Lighting, we developed a CO_2-optimized product enhancing design but also making it repairable and especially also recyclable, which would show a CO_2 reduction on the footprint of around 70%. And this is something we continue now to push for each and every product we develop to further improve here our CO_2 footprint in the future. So this, as said, remains a key priority for us also going forward. Here are some highlights which are also considered in our annual report. Just to highlight again our innovative power and also our focus on technology. So some awards we won some launches we have done in the last year. I think to highlight here, specifically on Lighting, so our new innovations in terms of FlatLight micro-optics, and the display technologies we are developing where we see strong interest also on the customer side for these innovations. And on the right side, you see here the Intelligent Power Distribution Module, where we also won two awards, and which is now going into serial production with the first generation. And where we are working on further business opportunities, which should give us a strong growth potential also going forward for the overall Electronics business in the future. I want again to add up and repeat how we now look at the key strategic initiatives for us and also to focus on the impact, specifically, for this fiscal year. So we continue to work intensively on our fixed cost reduction. I mentioned a 3% reduction on the 2024 cost, which we are working on, and we see with the different structural measures we are pushing and accelerating, as I said, that we are on the right track to reach that. We reduced around 2,000 headcounts on a year-on-year comparison to the end of 2024. And in the first quarter of this year, we further significantly reduced the number also of headcounts, so we are in a good way to reach that target. On top of that, I mentioned our ambition to reduce our material cost by around 4% with on one side purchasing synergies, also, the structural changes we are doing in the overall supply chain and also a lot of redesign-to-cost measures we are working on. We will further reduce our R&D ratio and get it to a level which is below 10%. So we are close to 10% in this year and we think that with the structural changes we are doing with the effectiveness, productivity, we are working on in redesigning our processes, working with new tools, also moving structurally and optimizing our D&D network, we are in a good way to reach that. And on the cash flow side, our target is to be at least at a level of EUR200 million or more for this year. This means an improvement compared to 2024, where we have been at EUR189 million, considering that we will spend more than EUR100 million on restructuring costs, which is included in this EUR200 million. This means a significant improvement in operational cash where we are working on CapEx reductions but also on further improvements in working capital, where we still see here a good potential in terms of our inventory level, which is still at a too high level. So looking at these measures, we are confident to reach, let's say, the profit range we have given and also the cash flow target we have disclosed some weeks ago. Having said that, I hand over to Philippe, who will give some more details to the final numbers.

Philippe Vienney: Good morning to all. So sales, so we are above EUR8 billion again, so which is the 1.3% increases at constant exchange rate, representing EUR105 million. So above the market, which was down by 1.1%. So again, it's a outperformance of 240 basis point versus the market. Looking at the performance per segment. If we go to Lighting, so Lighting is showing growth in terms of sales of 3.3%. So here we have the combined effect of new programs ramping up in North America, especially with Chevrolet and Cadillac. And on the other side, we have said, going down in Europe, also with some ramping down in Europe like Tesla or the B-Class. And at the end, we have the full benefit in terms of sales of the HBBL consolidation, representing EUR271 million for Lighting. In terms of operating income, so we reached 3.2%. So here we have an improved growth margin thanks to the consolidation of HBBL, which is accredited to the results and also good mix effect. On the other side, we have some higher R&D expenses on Lighting for the new programs and the new launches that are going to happen in '25. On Electronics, we have sales which are at minus 1.2%. So here we have also a combined effect with a good radar business in North America, again, with GM and also radar business in Europe. On the other side in Europe, we have been affected by the slow ramp-up of the electrical market and especially with the German OEMs. And we have also a negative product mix in China with some good products, which are ramping down in China. And we have also faced some programs postponed by the OEMs, which have affected our sales compared to our expectation in '24. Here we have a profit, which is at 6.9%, so in line with '23, with the combined effect of lower costs profit but reduction in terms of R&D and savings on R&D side compared to '23. Lifecycle is showing sales at minus 3.6%. Here we have also, let's say, a combined effect with aftermarket with the going well in '24. But on the other side, we have the workshop products, which are going down with a very low demand, especially on the Construction and Agricultural business, which has also led to a little bit of underutilization of our special application plants, so reducing a little bit of gross margin in Lifecycle. So at the end we are at 9.6% operating margin versus 11.9% last year. Still a solid performance, but slightly lower than '23. When we look at the sales per market, so basically, HELLA is outperforming everywhere in every market. So you can see the figures here on the chart. So each region is above the market and the production. Looking at the full P&L, so again we have a growth margin, which is at 23% versus 23.7% last year. So here we have a low growth margin due to the mixed effects, and as I said, also volume reductions coming from Electronics and workshop activities. On the other side, we have been able to offset part of it with R&D spend, which have been reduced to '23 to the level of 10% versus 10.2%. And SG&A are flat in percentage of sales, increasing a little bit in absolute value to the consolidation of HBBL and Pagid also in Lifecycle Solution, which has also led to an increase of the distribution cost in absolute value in our P&L. So operating income, 5.6% as already said. EBIT at 5.9% versus 5.8% last year. So here with the combined effect of the BHTC gain and restructuring also accruals, which has been made for around EUR110 million in Europe. And leading to a net income, which is at 4.6% versus 3.3% last year and at EUR371 million. For the cash, so we are ending up at EUR189 million versus EUR205 million. So I said, here if we exclude the factoring variation from one year to the other, we would be very similar to '23. We also can mention that we have a higher operating cash flow, which is partially absorbed by higher tax payments a little bit versus '23. And we have also a good development of the working capital and especially some reduction in inventories, which have been positive for the cash. Our tangible CapEx are at EUR440 million, so it's minus 2% versus last year. And still a level which is allowing us to be prepared for the coming launches and the future growth in the coming years.

Bernard Schäferbarthold: Thank you Philippe. So going to the to the outlook, it is unchanged to what we have shown to you some weeks ago. So the market stable and negative volume expectation on Europe and as well as Americas, Asia was a slight positive. This is how actually we also see it. If we look at the first quarter, it is basically within our expectations so that we are in the sales range we have expected, which is related to our guidance, a slight decline also on a year-on-year comparison. But here, especially considering that within Lighting, we have, with important customers, have seen a ramp-down and now a starting ramp-up for new car models, which impacts us. So that the Lighting is, as expected, with a negative year-on-year development. But the positive note, I can say that Electronics, we have already seen in the fourth quarter a good development, and this has continued now in the first quarter overall. And if I look, overall, at our view, so this is unchanged. So we guide on a sales range of EUR7.6 billion to EUR8 billion on an OI margin between 5.3% and 6%, and on a cash flow as that at least EUR200 million. So to wrap it up, overall, we confirm as that the numbers we have preliminary communicated. We proposed the dividend of EUR0.95, considering our net income of EUR371 million. This considers the BHTC disposal, at least, on the book gain of EUR116 million, whereas we distribute 30%. This is a continuation of the dividend policy. And going forward, we continue to focus, as we said, on the top key priorities, so take advantage of the growing markets in Asia, getting a higher business or increasing our business share in the Americas, and accelerate on the structural measures and focus on further cost reduction going forward, increasing our targets in terms of cost reduction in comparison to what we initially anticipated in 2024. That would be all from our side and happy to take your questions.

Operator: (Operator instructions) And the first question is from Sanjay Bhagwani.

Sanjay Bhagwani: Three questions from my side. The first one is, on the Q1 trading update, I understand you mentioned that some of the trends of Q4 on Electronics are continuing and Lighting are continuing. And you have also seen a significant reduction in the workforce in Q1. So putting it all together, how do you think the Q1 latest trading has been? Do you expect the margins already to be at the lower end of the guidance range or so maybe some color on Q1, and I'll just follow up with the next question after this.

Bernard Schäferbarthold: So Q1, overall, so I said that I see the positive trend continuing on Electronics. So, we have seen Electronics was pretty weak on a year-on-year comparison. So that Electronics, I see a positive momentum. Lighting was negative on a year-on-year comparison. This has to do with some changes, so ramp downs for us on the year-on-year comparison, high runner programs where now the ramp-up will only be now early Q2. So this is something which has impacted Lighting. So Lighting had a negative growth. And Lifecycle, overall, we had still a strong Q1 on a year-on-year comparison, so we see in comparison to Q4 that it has stabilized, so it is getting better. But on a year-on-year, Q1 to Q1, so sales is negative. So overall sales will be negative in Q1 on a year-on-year. We expect outperformance. On the OI we will certainly be within the range. So you said better than the lower range. This I can confirm. We are somewhere between the lower range and the midpoint for Q1.

Sanjay Bhagwani: Thank you. That is very helpful. And with the second one is on the disposals, so I think, your parent announced that there can be sizable disposals overall for FORVIA consolidated levels. And do you see any implications, if this pertains only to the FORVIA standalone or this may also include something from HELLA, for example, Lifecycle Solutions or something like that.

Bernard Schäferbarthold: So we are not working on a substantial change of our portfolio today. So for sure, we look continuously on our overall portfolio if we look, let's say, within the segments, how to focus really on key products and the key areas also, going forward, where we believe this pays strategically off. So that we are not today questioning, overall let's say, sizable, big business groups.

Sanjay Bhagwani: Thank you. And my final one is on China. I see that organic growth outperformance, but that's probably just because of the consolidation of the JV. So maybe a bigger picture question, can you please remind us, like the proportion of the local OEMs you have in the China mix and where do you think your product portfolio is strong versus where you see there is more vulnerability if you have to like keeping in mind the local competition, and also the insourcing strategies of the OEMs.

Bernard Schäferbarthold: So, today, if I look at the sales we had then overall, on Lighting and Electronics, around 40% is with Chinese OEMs. If I look at the order intake we reached, so far, it was more or less two-thirds with Chinese OEMs. So we will see now in the upcoming years that the proportion with Chinese OEMs will increase significantly. And on the product side, so what we now see is for Lighting that they are very much interested in the newest technologies, so especially on HD technologies, but also display technologies, even considering these new innovations earlier than European customers. We can see that there is a clear interest also to differentiate because of the signature and the design aspect, also with Lighting, in the design of the overall car. So this, overall, on the COEMs is a clear trend where we see for our full product portfolio very high interest overall. In Electronics, we are very good positioned in terms of all what is related to our sensor and actuator business. And there we are also perceived as a very strong partner. What we now see with the new regulation, meaning that radar needs to be in a car going forward, there is also a good interest now in radar applications, which is coming up. And on top of that, if we look at all what is high voltage or what is within our product portfolio of energy management, there it depends on the customer base. So if we think about high voltage, low voltage solutions, so on

BMS, converters, it's very different. Some of the customers are more highly vertically integrated, so there the interest is not high. But there are others also where the interest is there where vertical integration is not the same. But in general, I would say, a good and strong product interest.

Sanjay Bhagwani: Thank you. That is very, very helpful.

Operator: So next question comes from Christoph Laskawi.

Christoph Laskawi: It's actually only one or two. The first would be just on your remarks to the start of the year. Could you comment also on the volatility of the call-offs that you see from customers? Has that improved a bit across the board and also by region? And then just after the announcement of the European Union to change the CO_2 regulation, obviously, it's not yet come into law, but do you already see the customers reacting to that with regards to mix? Any impact you can observe and does that also improve the volatility of call-offs and is that in general giving you a bit more stability? If you could comment on that. Thank you.

Bernard Schäferbarthold: Okay. So I think in general the volatility and uncertainty remain high. What we can say is that we still see in Europe some delays on the ramp-ups on some of our customers in comparison to our expectations. But this is not at the same degree as it was last year, so we were also more cautious in our own planning. So against the customer plan, there are deviations against our own plan, what we considered. We are more or less spot on what we reached in terms of sales. But it remains high, this volatility. Volumes in America still are stable, so I spent with the customers last week, basically, having a tech show and I spoke to all of the customers. So you can imagine the uncertainty with all the tariff discussion is very high, but volumes are still okay. No big impact, as of now, to all deliveries and also production schedules, so there, we are more or less still in a stable situation, but for sure, the uncertainty remains very high with decisions, which could be taken. China was as expected. And I said last time so that we have seen, especially for the month of January, so before Chinese New Year, that there was some preponing of the volumes. So the market was, especially before Chinese New Year, a little slower but which was seen already into the start of the year. And now, we see that it's ramping up. It's a little below our expectation but not significant as of now. It will be interesting and certainly important to see how the market then develops in the second half of the year where normally volumes are much better. But this is, I think, quite difficult to predict as of now. I'm not sure if I answered the whole of this question, Mr. Christoph because the line was interrupted when you asked the question.

Christoph Laskawi: So yeah, just one on the CO_2 regulation in Europe and if that is already leading to change of behavior at your customers that you can see or for now no change as it's not set into law yet.

Bernard Schäferbarthold: As of now, no change. I haven't seen any change.

Christoph Laskawi: Thank you. Just on tariffs in the US, if you could share your thoughts on that. Are you USMCA compliant in Mexico? Are you prepared to take on the tariffs? Are you currently paying tariffs and just how also the product flow from Mexico into the US works for you in case there's larger exposure. Thank you.

Bernard Schäferbarthold: We have not paid tariffs yet. In terms of the tariff impact, if it comes to the flows between Mexico and the US. There is a tariff impact for the additional tariffs for China-imported products related to Electronics, so the semis especially, which is around on the full year, which is around EUR5 million, where we have now started negotiations with the customers to pass. In terms of the flows, Mexico to the US, the most significant is USMCA conform. In Electronics I can say, it is basically all. For Lighting, the largest part of it in terms of our exposure. So most of the deliveries we do, our customers are picking up, so that the tariffs are not on our side, or we have the possibility to deliver into a free trade zone, which we contractually agreed. But for sure, we are in a very close dialogue with our customers to work then on the solutions dependently on what decisions would be taken going forward. So there is a task force. We are working on it. But at least I can say for

HELLA, overall, the overall risk exposure, even if we would see these 25% of tariffs, as of today, is not a significant one on the HELLA side, as of today.

Christoph Laskawi: Thank you. Very helpful.

Operator: And we have one more question from Sanjay Bhagwani.

Sanjay Bhagwani: This is a follow up to Christoph's question. I think from Mexico to the US, it's very clear that either you have an option for FTA free trade zone or there is some, let's say, the customer picks up the products. So I understood is it's mainly the second-degree effect where you basically negotiate the price throughs. Are you able to share the similar insights on if there are tariffs from Europe to the US. Is the exposure similar, lower, and yeah, so some similar thoughts on Europe to US.

Bernard Schäferbarthold: So, in Europe to US, it is not clear what would be the tax impact. So what I can say is, for example, on steel and aluminum, there is basically no impact for us. We are looking at, for example, copper, what is in discussion as well. There's a little impact. We have not finalized our full assessment if this would come, but it should also not be significant. If there would be tariffs on cars, certainly, this is something where we would have implicitly an impact depending then on volumes, which could be lower, but this is difficult to judge. In general, we can say that the biggest part of our business we are doing in NSA cars are produced in Mexico or the US. But for sure, there could be an impact if cars would have a tariff, but we have no assessment yet or no estimation on that one. And on potential other tariffs, I think there is no clarity for us for sure. We also have some material flow from the Europe to our production sites in Mexico and the US, but it is not very important. But we would have to see if tariffs would then be there, but this is something we have not looked at in detail without knowing tariffs could come.

Sanjay Bhagwani: Thank you. That's very helpful.

Operator: There are no further questions.

Bernard Schäferbarthold: Okay. So thank you very much for joining this call. Thank you very much for the interest in HELLA in our 12-month result call. And I wish you a very good day and hope to speak to you or see you soon. Bye bye.

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