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COMPANY EDITED TRANSCRIPT

Operator: Good day, and welcome to the HELLA investor update for the fiscal year 2021-2022. Today's conference is being recorded.
At this time, I would like to turn the conference over to CEO, Michel Favre.
Please go ahead, sir.

Michel Favre: Thank you. Thank you very much. Thank you for your attendance to this conference. As you know, I am with Bernard, the CFO of HELLA for a long time now. What I would like to say as an introduction is that I am very pleased, very honored to have joined HELLA. It is for me a fantastic new experience. I would like to take the advantage as well to congratulate and to thank Dr. Breidenbach. He has made a tremendous job that I think 18 years. And I think the price of HELLA was demonstrating that only, but we have as well, of course, a lot of new things. And a lot of, I will say, electronics and development success. I would like to thank him as well for the smooth transition we manage together this summer.
So starting with the highlights. First, what I can tell you is that we will comment the result of a very tough period, but we'll come back on that and because we face all the difficult events that this group was facing. But in this environment, a fantastic achievement, and I think we say the repetition of what HELLA did the last year, it is the order intake. And we have these figures of EUR 10 billion, which was the target of HELLA, achieved, demonstrating of course, the technology of HELLA and which is the flagship and the unique technology of HELLA, mainly in electronics, but not only.

Second, the capacity of HELLA to globalize its business, but we will come back on that. And we have, I will say, some very good move towards electrification, which is, of course, one of the macro trends in this sector. The second thing, we have started to work with Faurecia inside this new umbrella, FORVIA. We have disclosed ambitious, but I will say, cautious synergies. Now we are handling this. I can tell you that this is starting on a very good base. And we are very optimistic to take advantage of some figures, if possible, some significant figures in the second half.

Last but not least, we continue to develop the portfolio of the business. And we have announced our ambition to sell our stake in HBPO. I think it's a logic evolution after the fact that Plastic Omnium, bought the Mahle part 4 years ago. And for HELLA to keep a share and a minority stake in this JV was clearly not a priority. But on top of that, of course, we continue to develop partnerships, and we'll come back on that.

Last but not least, we are --- and this is an ambition of HELLA, we have the same ambition at Faurecia of course. We are accelerating all our initiatives on ESG. We are now disclosing our targets, which are, of course, in line with the Faurecia ones. And I can tell you that we are committed to achieve that.

Order intake, and you have this on Page 5. What is important, it is the fantastic positioning of HELLA in the macro trends. Autonomous driving is rising, and we have very good positions on radar. And the new radar 77 GHz, will be probably a flagship of HELLA in a way. We are very successful to take order intake on this.

On the EV hydrogen etc., we have the DC/DC converter, which is key and strategic for the carmakers. On headlamps, we have some new technologies able to boost when shifting, which is a grand differentiation. And you know like me that for the carmaker it is key, probably, I explained that in the past in Valeo, lighting is one of the best way to differentiate the car and to give, I will say, an image to the car.

Last but not least, we have what you call individualization. We will more and more use our phones, for instance to enter the car. So a lot of initiatives, which can allow to tailor the car to the customer.

We give Page 6, 2 big examples. One is the front panel. The front panel is some, I will say, specific material. It is integrating radar. It is integrating

lighting, and we can make some lighting simulation, whatever, to give this differentiation that the customer wants. It is not an expensive, of course, but the value is clearly the differentiation for the carmaker.

The second example is this high voltage converter. You know that this is -- we give this example because it is really strategic for the carmaker.

Page 7, the synergies. We have more than 200 synergy opportunities. We have some big fields where we are pushing the synergies, I can tell you that purchasing for me is not a daily, almost a weekly concern in order to boost to increase the synergies. We have to leverage the group. Global business services already implemented in Mexico and in China. We are now accelerating on IT because we have the same dispositives and now we have to focus on the same, I will say, background, the electronics, and you know the story between a powerful HELLA and a growing Faurecia.

So a lot of opportunities, minimum EUR 250 million, minimum 40% for HELLA and top of that, we have the sales synergy with our dispositive respect to different customers. HELLA is growing with Stellantis for instance, which is good. And HELLA will continue to grow -- accelerate to grow with the Chinese OEMs.

So next page on the joint venture on Page 8. So we are selling HBPO. It was old, I will say JV specialized on the front end. We had only 33%. It was more and more managed by Plastic Omnium. So I think it is a logic, I will say, issue to the end the story.

We have stopped the loss-making activity, which is, I would say, basic. And we have developed some new alliance, some new agreements to boost our technology, one in battery, second one in radar. And we'll continue to use this partnerships to accelerate our development. And what we have specified, we are, of course, I will say, looking at opportunities, strategic options for Special Applications. It's a little early today to give you an update on that.

For, I will say, the responsibility, you have ESG, you have Page 9, the new targets, I will say the complementary targets set up by HELLA. So we want on the Scope 1 Scope 2, to be Co2 neutral in 2025. We have the same, I would say, Scope 3 for 2050. We are, of course, compliant with the EU taxonomy, whatever the fact that it is very effective and probably this would be, I would say, revised and we needed to revise that at the EU level because I think this

taxonomy should be much more insensitive than it is today. Of course, we want to reduce, and we will reduce anyway our energy consumption. We have a specific gas program to reduce by the end of the year, I will tell you, a very, I would say, a consistent percentage, mainly to face the risk that you know. Now Bernard will detail the financial results.

Bernard Schäferbarthold: Yes. Thank you, Michel. Also good morning from my side to all of you. So first of all, one comment to the preliminary numbers, we confirm these. So there is no difference to what we already communicated. If we start with the market and the last 12 months, just a general comment. In the last year, we had very high volatility. All 4 quarters were negative. And we were hit by several very significant impacts besides, let's say, COVID in our second quarter. So in autumn last year, the very negative market development had also a significant severe impact on our business. And especially also looking at our fourth quarter, we were hit also by the lockdowns we have seen in China, especially in Shanghai and Changchun, also with ramp down of our facilities and by far less sales what we expected. So overall, if we compare to what was our expectation at the beginning of our fiscal year and how were the volumes at the end, it was a swing of around 13%, which was compared to our original budget a deviation in sales of EUR 600 million. If we go to the next page on Page 12. We see here the outperformance we had. There, we are quite satisfied. Overall, we outperformed the market by 6.5% in the last 12 months. We outperformed in all 3 regions and especially Asia Pacific. And here specifically, China was very strong, which we also anticipated at the beginning with a lot of business we have won in China and several ramp-ups, which supported that development. Also going forward, we are quite confident that we would be able to continue with a strong outperformance also in the future. Looking at the sales on Page 7. We, as already commented, volumes in our first quarter were down, especially our electronic plant in Shanghai was down in the month of April, nearly fully and partially also in May. With that reported sales at the end is around EUR 6.3 billion, which is slightly lower to prior year. Currently adjusted sales 2.4% lower compared to the last year at

EUR 6.2 billion. Last fiscal year, there are no portfolio adjustments we had to consider.

Automotive is slightly negative in terms of growth despite this commented outperformance. And China, for sure, as I said, with a very decent growth development, China only was growing at 28%. Aftermarket and Special Application have grown again but also in the fourth quarter. So a very solid development in the last year for both of the segments.

Going to the next page, the gross profit development. And we have seen a reduction in our gross profit with the inefficiencies and production, the higher cost on materials. Also taking into account the broker costs, higher cost on energy supply and also the volume effects and with the constant stop and go in most of our plants globally. We already commented that and also the additional cost impact on these effects, which are around EUR 20 million per month and where we also have seen an increasing trend. Overall, this has reduced our gross profit margin by 1.2% to 23.3% on the full fiscal year. We expect going forward that the cost increase will continue. On the other hand side, we have now finalized first agreements also with customers on compensations on these additional costs and also on re-pricing mechanism going forward and this should help to recover step-by-step on our gross margin.

If we look at R&D development on Page 15. The R&D expenses have increased, also with the high level of acquisitions we reached in the last periods. So we commented on the order intake of now the EUR 10 billion of the last fiscal year, but also the 2 years before were at very high levels, where now a lot of projects are within now the development. The R&D ratio is at 11%. Also with the low sales level, the ratio has increased. We continue with the ambition to bring that level down to a level which is around 10% and below this, we assume we'll come if we would see a more normalized level on volumes and a certain growth.

If we look at the next page, the development on SG&A. We remain very cost sensitive. Even if we look at an increase of the SG&A expenses and the ratio, which increased by 0.8 percentage points. Here, you have to consider that we have some positive elements also in the year before with COVID-related subsidies, payments on short-time work and also release of impairment. So we

will take that out, there is only a very little increase in SG&A. Nevertheless, we will continue to work on our cost base and our projects, [Phoenix] and the further implementation will also support that. And we will also work continuously on synergy also in combination with Faurecia also to reduce debt level and come back to ratios we had in the previous periods.

Summing up on Page 11. The EBIT is at EUR 279 million in total, as mentioned, the high inefficiencies in addition with the cost increases led to this result with that our EBIT margin is at 4.4%.

If we look then at the different elements, I already commented to give a sense on the development of our EBIT margin to this level of 4.4%. The main impact of the deviation is, on one hand side, the inflation. We have a net effect of the inflation of 1.4 percentage points. The gross inflation was around 2%. We only compensated by around 0.6 percentage points with first results we could achieve also with our customers. And as I said, now with some additional agreements we have now reached, we believe that we can improve here step by step now in this new fiscal year.

The volume and also mix effect had also an impact, which was around 0.7 percentage points of our EBIT. This effect, we assume should also ease with the recovering of the volumes and a certain normalization. And Michel will also comment on that when we come to the outlook.

R&D and SG&A has also increased and with an impact on our profitability of 0.5 percentage points on R&D and 0.8 percentage points on SG&A. I mentioned we will continuously work on that also going forward with Phoenix, synergies and certainly, the scale if volumes normalize and come back, that would also support.

So if we look at what is our expectations also going forward, we would, as of today say that 4.4% should mark the low point of the margin, and we should see now step-by-step recovery of our margin going forward in the next periods. And we remain, let's say, also with our long-term ambition also in coming back also to levels which can reach 8% on the midterm.

If we go to the next page, looking at Q4. Only Automotive is at a negative growth, looking at the Aftermarket and Special Application, these are both continuously growing as commented. Profitability in auto, unfortunately is down to only 0.8%, a strong deviation also to prior years with the reason I

already commented and especially also the lockdown situation we had in China with a big cost effect. Aftermarket and Special Application were both again at decent levels, whereas Aftermarket was below prior year with product mix effects, but also higher cost, especially also in the fourth quarter. If you look at the next page, the cash flow situation is certainly a very disappointing result for us. In total, a negative free cash flow. We have to show positively, the fourth quarter was at a positive level, but we were not able to recover significantly. The most relevant besides the lower profitability was the huge increase in inventories, and we have prepared one slide to that, if we go to the next page on the development on our working capital. You see here the very significant increase we had on a year-on-year comparison where the overall increase in working capital is only related to the increase in inventories.

We are increasing the inventories by around EUR 200 million. And this is especially related to the electronic part where we have an increase of more than double of especially all active electronic parts within our stocks. And this is related to commitments we had to give to the supply chain already 1-year ago based on demands of our customers and the very high volatility of our customers in changing demand and reducing the demand. And with that a high increase within our inventory level we had to take end of this year.

This negative trend, it's still continuing also now in the last months. The deviation and volatility remain very high. We are actually also in discussions with our customers and suppliers here to find solutions and also to come back to more normalized levels, but this is not something which we would come back immediately in the next month to levels we had also in the previous period. But as I said, we are working intensively on that also with all stakeholders.

Looking at the segments, we had a slight reduction in sales in Lighting even in the very difficult market environment. It's a lot of start-up productions for new projects and support it. Here, electronics has been impacted more largely with the bottleneck situation on semis and due to that, they had a negative growth within our Electronics portfolio, minus 4.1%. The reduction in EBIT, again, was mainly due to the mentioned higher material prices as well as special

freight costs, reduction in efficiency because of COVID and the bottlenecks in the supply chain.

Looking at the Aftermarket and Special Applications, as mentioned, a very decent performance in our fiscal year '21, '22. Aftermarket is growing strongly in the independent aftermarket part of our business. But also in our workshop products, the segment profitability is at EUR 60 million. The EBIT margin is lower. This is certainly not satisfying that we had higher costs, especially also in the last month, and we invested also a lot in our new workshop products generations. And we will continue also to work against the inflation. So we have also price increases now we pass through. So this should support our Aftermarket margin also now in the upcoming period. Special Application is continuously growing as we have also seen in the last quarters, the profitability has developed very strongly. So we are very satisfied with that. So with these comments, I'm happy to take your questions later. I hand back first to Michel with the outlook on the 12 months perspective.

Michel Favre: So outlook, Page 25, starting with the volumes. I will say I have no concern about the demand. Demand could be affected by the pricing. You know that car maker increased prices quite violently. But on the other hand, there is a need to rebuild inventories. There is a big need mainly in Europe to reduce the waiting time. And probably we are speaking between 3 to 6 months. If it is 6 months, you can imagine what that means for volume, it is unbelievable. So clearly, the demand for production is high. And carmakers will try to make as much as possible to, I will say, clean the situation. So the restriction is still mainly the semiconductors. I don't speak about the risk or the risk mentioned. It is difficult to mitigate kind of it. Semiconductors, we see a better situation, improving. You know that the car sector is more or less consuming 10%. We are only the first sector after the consumer, but we see higher capacities. This will benefit mainly for the other industries, but it will free some capacities for automotive. So the only thing I can say is that things are easing, things are improving, variability is a little decreasing. So it is why we clearly think that this 12 months starting 1st of June 2022 will be much more favorable than the period

of reference, very much impacted. It was mainly the downturn last year by semiconductor.

So 85 million cars, including the famous 3.5 tons are, I will say, still low respect to the history, but it's clearly a recovery. And the main zone benefiting from that would be in Europe because, of course, Europe was the main zone impacted last year.

So saying that, in our assumptions, budgets, et cetera, we can give you the range of a figure of EUR 7.1 billion to EUR 7.6 billion of sales, which means if you take the middle plus EUR 1 billion of sales, so a big growth, big growth boosted by volume, big growth boosted by the outperformance. And I insist with the order intake we have this year that we had mainly in the last 2 years, this is mechanical. And Electronics will, of course, will be one of the flagship activity growing.

We will increase the margin. Now we have given a large range for the moment from 5.5% to 7%. Of course, the short term will be more on the low end, but things will continue to improve. We have a very good start anyway since in June on both on top line and profitability. Profitability will be boosted by volumes, will be boosted by synergies, will be boosted by the pass-through of the inflation and, as Bernard was mentioning, the famous Phoenix program. So we have all, I will say, the driver to improve this profitability and to go to a level, I will say, to 7% to even to 8%, I will say, in the short, medium term. It is clearly our ambition.

Saying that, now with Bernard, I propose to go to your questions. We need somebody to start. Operator can you now turn to Q&A session?

Operator: (Operator Instructions) We will start off with Mr. Christoph Laskawi of Deutsche Bank.

Christoph Laskawi: I have a couple, please. The first one would be on current trading in light of active comments that especially in Europe, they see lower OEM schedules and current reductions of the OEMs. Could you comment on that? Do you see the same? Or are you still seeing actually as other European suppliers have said slightly improve in the sequential environment?

And then on the guidance, you've presented the 12-month guidance. Obviously, a lot of people are looking for the outlook for the remaining 2022. If I understand it correctly, as you mentioned at the near term more on the low end of the margin range, would that be a comment to us for the 7 months remaining in '22?

And then coming on to inflation. Did you hedge energy in '22? And how does it look for '23? And what other inflation buckets would you expect trending into the next calendar year, especially?

Michel Favre: I think Bernard will probably take the one on energy. And I will take the 2 first one.

For the current selling, I insist, of course -- I will not say that things are progressing. We have still very high call-offs. Customers insist they want to recover. So they continue to oversize call-off to reduce the call-offs in the month. But anyway, when we see the actual figures of June, July and probably August, we are okay with it. So I will not give you more news. But today, we think we see things easing on the semiconductors is not the fantastic as we would like, but it is improving with higher volumes month after month. But we are forced to give a 12-month guidance by law in Germany. So what I can tell you is that if you want to make a kind of assumption, of course, with the outperformance with some seasonality, the 5 months 2023 will be slightly better than the 7 months of 2022, but more or less to further the figure is in the 7 months. And for the profitability, it's exactly what you say. Low range, a low part of the range in these 7 months. And with the synergies, the pass-through of inflation, the Phoenix program, we continue to improve. So we are clearly targeting to be in the high range for the last 5 months.

Bernard Schäferbarthold: Yes, Mr. Laskawi, so on energy, we are hedged where it's possible to hedge, especially in Europe, in all countries, nearly the 2023 levels are fully hedged. Partially in Eastern Europe, where it's not all possible, for example, in Romania, where you have the fixing on gas prices as of today, there for sure, not all is hedged. But overall, we are hedged. On the other hand side, we are hedged certainly on a higher level in comparison to last year. So that looking

at the inflation effects, we will have an increase of energy cost in comparison to last year.

So looking at the overall inflation assumptions we are doing, we think that the inflation this year will be gross -- around the level we have also seen last year with a higher proportion, especially for energy in comparison to material. And we also assume in terms of increase on wages also a higher effect also on the next 12 months in comparison to last year and a little less on materials. But overall, our assumption is around the same cost increase level compared to last year.

On the other hand side, what we have seen is that the achievements and at least results, we could achieve also in participation of our customers and partially also the suppliers that these were at a quite low level last year. And this, we assume now also with -- as I said, with the recent achievements we reached, will be by far higher. So we think we are able to overcompensate that, so the overall inflation impact. So that's why we said that we think it should support us in improving our gross margin together with the volume effects.

Christoph Laskawi: And just one last question, if I may sneak in on free cash flow. On the slides, you said the 40% cash conversion target remains clearly in focus. I guess that will point to between EUR 150 million and EUR 200 million roughly for the next fiscal. Is that a fair assumption that you get there also with the working capital swing back or too aggressive initially?

Bernard Schäferbarthold: So we are working towards, let's say, the lower level of your range on a 12-month perspective. Definitely, it will be a stronger free cash flow development later, let's say, from the beginning of 2023. Because as I said, we still have inventory increases where actually, the measures we have now worked on will only have larger impacts in some months of now. So that it will be more difficult with the start of the year. Now what we have now seen and until, let's say, December and then we think about somehow recovery. And especially, there are also some, let's say, I would not say one-offs, but due to the China situation, we were not able for the lockdown, we were not able formally to invoice with the ramp-up. So there is also now with the

invoicing we now have done, there is a time gap now to the collection of the money. And on the other hand side, also the VAT payments we had to do. So China, were also very negative in cash flow now at the beginning of the year. So with these details, so a weaker start into the year on the free cash flow and then step-by-step recoveries with much stronger free cash flow in the second half.

Operator: We move on to our next question from Mr. Akshat Kacker of JPMorgan.

Akshat Kacker: Akshat from JP Morgan. 3 questions from my side as well, please. The first one on R&D expenditure. Obviously, the overall level for the business has been supported by the strong order intake that you have reported. Can you just talk about your expectations for the current fiscal year, probably in terms of absolute R&D spent? And going forward, how do you expect to find more synergies in R&D investments between your current business and the incoming orders, please? That's the first one.

Second one, coming back on cost recovery. You showed that you could recover 30% of the inflation impact in fiscal year 2022. Can you just share what kind of recoveries are you expecting going into FY '23? And is there any difference in your discussions with OEMs when you're trying to negotiate for raw materials versus other inflation topics?

The last question is on cash restructuring. Can you just tell us what restructuring charges do you expect for the coming 2 years, please?

Michel Favre: Ulric, you take R&D and cash flow restructuring. I will take the pass-through. Pass-through, we will have as possible a 100%, I cannot say anything else, as you know. On the financial point of view, probably between 70% to 80%. I speak of all the inflation. We will have some difficulties with some customers, some regions probably to pass-through everything. But anyway, the message inside is 100%. We cannot be weak, and you know my conviction on that. We have to defend our position; we are giving productivity to customers. So somewhere what really happened is that we will not give the productivities to compensate the inflation. But any way, we must defend our position. So this pass-through is key for our suppliers today in this sector.

Bernard Schäferbarthold: So on R&D, the increase on the upcoming 12 months will be in absolute numbers less than last year. So we assume the range of 5% to 7% in absolute increase. On possibilities to reduce, we also have to see that the big increase is also related to some significant pre-invest into new technologies and new, let's say, platform software concepts and standardization with some new products. We will benefit from these, let's say, platform investments also in the future. So they are with some new technologies. If I take 77 GHz, for example, also our electronic power steering, these were very big projects now in the last 2 years, where we had high pre-investments already now considered in, let's say, in our results. And this, I think, and I see will not be exactly at the same level also going forward. So we should see some easing there. In addition, we are still, let's say, in the implementation also of Phoenix. So the shift also to our best cost development centers is ongoing. So and we see also that the capabilities are increasing, what we are able also to perform in our technology centers globally in Eastern Europe, China, Mexico, India. So we will reduce, let's say, also cost levels on having more capabilities also not only in Germany where we were very dependent on -- or more dependent in the last year. And for sure, we are continuously working on and are using also best practices also with Faurecia on standardization, working on tools and methodologies. So there's a lot also here to improve from our point of view, efficiencies and to bring with that the cost level down. On cash restructuring. So our assumptions on the 12-month perspective is that also with the implementation of Phoenix, we see a cash out of around EUR 70 million on the next 12 months, and this should then go down in the years after.

Akshat Kacker: Just one follow-up on the cash restructuring. Is there any cash expenses left from the previous restructuring program in Germany?

Bernard Schäferbarthold: Yes. This is mostly related to that because it's accrued, but a lot, especially on the agreements we had with in Germany so-called the early retirement program. So most of the cash out is related now to these agreements we had where the cash out is coming in the next 2 to 3 years. So

the main amount of the number I gave you is related to that, to this program in Germany.

Operator: We move on to our next question from Mr. Giulio Pescatore.

Giulio Pescatore: Michel, great to reconnect, actually. So Michel, first question for you. Can you maybe share with us your first impression on HELLA business? What do you think are the largest areas of improvement based on what you've seen so far? What are the low-hanging fruit, not only financially, but maybe also operationally? And perhaps also, what surprised you positively and maybe that can be taken over to Faurecia and improve the business there? Then second question, going back to the point on production. Given what you said before on demand for production remaining solid and semiconductor gradually improving. Why are you taking a cut to the IHS forecast? I mean is it conservatism? Or are you actually seeing something that keeps you more cautious than IHS? And then a third point on the electrification business on the converter. First of all, congratulations for the business win. But I think some of your competitors are trying to integrate the converter with inverter, onboard charger and offer one solution, which appears to be very competitive. You see that this is a risk because you only specialize in one component? Or you could become a Tier 2 supplier to those suppliers? What is the situation there?

Michel Favre: My first impressions, very solid, very robust company, a company of engineer and technicians, I will say, focus on technology. And we see very well managed on that. So they know what they want. They have clearly made the selection in electronics of what they want to develop and what they don't want to develop. So very, very robust. Customer-wise, very well integrated with customers. So probably the balance of power has to be a little rebalanced because we were not completely passing through everything we should have done. But clearly, the perception of customers is very solid and very robust, which is as well very good. Operationally, some contrast. Clearly, we have to improve lighting, and we will probably be more competitive in the future on that. And I would say, this

is the priority to make a comeback, I will say, as a definitive leader that probably HELLA was 20 years ago and is less today. So it is one of the key priority, and on electronics to continue to develop, to manage this growth, which is huge. And I can tell you that to double the figure is a change. So it is a risk, but of course, a fantastic opportunity.

For the, I will say, the outlook, it's a key question because as you see, as you say, as you know, there are a lot of uncertainties. So we don't have the commitment of the supplier of the semiconductors that we'd like. They are committed at 2 months, 3 months, as I would say, even until the end of the year, but some could be opportunistic. Some are not totally reliable. We have as well as shortage of our customers. So it's not easy today to have a clear view.

So IHS, S&P Global is the basis. We have too much as well what Faurecia is thinking. So it is why this figure, I think, is a good consensus. It is probably conservative, probably is our view today. But when we say that, we could be surprised in the future. But today, we say, yes, we think that it is conservative. Mr. Schäferbarthold, you want to say something?

Bernard Schäferbarthold: Yes. So as you know, in electronics, we are following a strategy where we don't see for us the need to be really a system provider in all areas. So we are very focused, let's say, on component supply. And basically, we are looking at, let's say, differentiation on technology but also then competitiveness in a way that we can reach there also a certain market position to realize the margins we are targeting for. And as you know, on the DC/DC 48V, we are by far, market leader overall. Now on the high voltage solution, it was now for us evident to step into that market segment also and to come to that position also. We would not see as of today, that it is necessary to come to such integrated solutions. Even we are also looking at onboard charger, inverters also. But as of now, it's not on our focus. And we would not see that absolutely also as necessary, at least on this technology. It's different another solution where we think it can make sense also for us as a system provider. We also mentioned, for example, the new front panel solution also in lighting, where we also will have electronics

content in. But there, we are really able also to differentiate ourselves. So if we enter into such system solutions, then it's because it has also a high benefit. And perhaps last comment, today, we clearly have more opportunities than we can work on from our capabilities. So also we have to choose where we think these are the most interesting for us. And we have to be very clear in our portfolio strategy also to choose the right technologies. And for us, on the converter, we think it's the right technology for us to leverage also our market positioning, especially on the DC/DC 48V.

Operator: We go on to our following question from Mr. Philipp Koenig of Goldman Sachs.

Philipp Konig: First question is on the working capital on the inventories. I was just wondering how quickly you see the pace of the inventories normalizing? And also, do you actually expect inventories to go back to the same level where they were before the supply chain disruptions given sort of that the average semis content per car is increasing? Do you just expect to generally hold a large amount of semiconductors within your inventory?

And my second question is on R&D. You mentioned that you sort of see the level improving. What about R&D capitalization? It's been relatively stable recently. Do you expect it to remain at the same level?

And then the last question is on the portfolio. You say you're exploring options for the special applications business. Can you maybe provide a bit more color on what are those options? How far you had with pursuing any of the options? Is there any timeline that you set yourself? And when can we potentially expect more details on that?

Michel Favre: Okay. I will take the first and the third. And Bernard will take the second. Inventories is always a measure of the variability of our customers on one side and of our plant and our suppliers. So today, the variability has been exacerbated by the fact that customers have oversized and still oversize the call-offs. And the fact that, of course, semiconductors were erratic. So we are today in a situation which is improving but slightly improving. What I can tell you is that we have put some specific resources. We have put a task force to

work on the different families and to clearly with the goal to go back with the lead time we had, as you said, before the crisis.

On the value terms, it is not possible because the raw material, the semiconductors have increased prices. So a part of the increase of the inventory is pushed further. When prices are up by 15% semiconductors, we can say what you want, it has an impact. On the Special Applications, as I said, it's too early to give you, I will say, better understanding. What I can tell you is that very probably by the end of September, we will be able to be more specific. Bernard?

Bernard Schäferbarthold: So no change on the capitalization of R&D planned. So we continue, let's say, to account in the way how we have done it in the past. So with an increase in absolute terms, we should see also an increase in capitalization. But in relative terms, it should stay in the range we have as of now.

Operator: (Operator Instructions) We have a follow-up question from Mr. Giulio Pescatore.

Giulio Pescatore: I'll ask one, if nobody else wants to. On mix, I feel that investors are very concerned about the normalization of mix for carmakers. And but also what that could mean for suppliers because you clearly benefit -- I mean your outperformance really benefit from that. Can you maybe quantify the potential headwind of mix normalizing in sales? Are you worried about that at all?

Michel Favre: No. Because as you understand, volumes are coming back. We can always say it should be positive to us both, of course, but volumes will have a definitive positive impact. So we are not worried by the mix. And the second thing, Europe is, for us, a key lever. So European volumes coming back is a good news.

Operator: So we have a last question coming from Mr. Jose Asumendi of JPMorgan.

Jose Asumendi: This is Jose. I wanted to come back again to the comments you're providing on Europe. We've been waiting, I don't know how many quarters or years now for an improvement of production in the European market. You are making these comments that the situation is improving. Can you provide a bit more color in terms of the level of activity at the European plants? Is it going to be significantly higher in the coming quarter versus the previous quarter? Will it be seeing meaningfully in the upcoming quarter? Or do you think this is going to be more clear or evident in the fourth quarter of fiscal year 2022?

Michel Favre: As usual, you're asking very precise questions. The difficulty to answer to you is that, as you know, HELLA in Europe is very much focused on the German carmaker. So it's difficult to answer for all Europe. Probably German carmakers as well have the strategy to get the semiconductors, I have seen one not German little, I will say, struggling, but probably the relationship with the suppliers could explain as well that. So it's not easy to answer to you. What I can tell you is that our European figures are good, improving. The call-offs are there. And with the picture we have for August and September, currency is good. I will not say anything more because things are still uncertain and variable. But I will say for the moment that's it for HELLA. It's a good news and a good achievement. Do you want to add something, Bernard?

Bernard Schäferbarthold: Jose, as Michel was mentioning, so we see at least, if we look at the demand in the upcoming 3-4 months, an increase of demand for Europe. So, let's say, uncertainty for us is at the end having seen, let's say, also the high variability or volatility also then and really the takes. And at the end it's difficult to predict exact numbers. But if even we would stay in the average variability, we should see increasing volumes now in Europe.

Operator: So we have no further questions.

Michel Favre: Okay. So it is time to close this conference. Firstly, with Bernard, I would like to thank you for your attendance and for your questions. We will give you rendezvous of the first quarter results, which will happen, end of September.

Bernard Schäferbarthold: The 29th.

Michel Favre: The 29. We'll have in the meantime a shareholder meeting. Have a very good day and see you soon. Bye-bye.

Bernard Schäferbarthold: Bye-bye

Operator: Thank you, everyone. This concludes today's conference. Thank you for your participation, and you may now disconnect. Thank you.

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