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P: Gungun Verma – Goldman Sachs Group Inc., Research Division - Analyst  
P: Gabriel Adler – Citigroup Inc., Research Division - Analyst  
P: Sascha Gommel - Jefferies LLC, Research Division - Equity Analyst  
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: Good Morning Ladies and Gentlemen. Thank you all for standing by, ladies and gentlemen, and welcome to today's HELLA Investor Update 2019/2020. (Operator Instructions) Please be advised, this call is being recorded today.

And I would now like to hand the call over to your speakers, 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 the HELLA investor call on our 9 months results for the fiscal year 2019/2020. Also, as always, of course, a very warm welcome on behalf of my colleague and our CFO, Mr. Schäferbarthold.

I think we all agree that the world has completely changed since our last call, mid of January. The current Corona crisis seems to surpass all we have experienced so far. This has tremendous consequences not only for the automotive industry, but also for the economy and the society in general. Therefore, protecting our employees, their relatives and families as well as our business partners is now of utmost importance for us. Thus, in the current situation, we at HELLA are doing everything we can to contain the virus and to flatten the curve.

However, despite the high dynamics and uncertainties related to the coronavirus and its consequences, let me start with some comments on our Q3 results, which you can see on Page 4.

We announced the preliminary figures already about 2 weeks ago along the update of our guidance. Although we have already been hit by the outbreak of the Coronavirus in China in January, our business performance in the first 3 quarters has been more or less in line with our expectations.

Our currency and portfolio-adjusted sales decreased by 3.7% to EUR 4.8 billion. The adjusted EBIT sank to EUR 347 million. And the adjusted EBIT margin is at a level of 7.2%.

We are particularly satisfied with the cash flow development, which increased significantly to EUR 191 million. This is a great result because, currently, nothing is as important as a strong cash position. I will come back to this later. Thus, all in all, and I will not comment more on our Q3 figures, we are quite satisfied with our business performance in the first 3 quarters, especially against the background that we are acting in a very difficult market environment, which now is additionally suffering from Coronavirus outbreak and its consequences.

Looking to Q4, we have to state that the Coronavirus is currently in full swing and, thus, will hit us heavily. More and more, our customers have already closed their plants, first in Europe, but also now in the U.S. and Mexico. Against this background, we had to adjust our corporate outlook on March 18. Thus, we expect our currency and portfolio-adjusted sales to be below the originally forecasted range of approximately EUR 6.5 billion to EUR 7.0 billion. As the visibility of the consequences of the pandemic is currently limited, it is not possible to estimate the amount more accurately at this time. We hope here for your understanding. Depending on the development and duration of these losses, also, the adjusted EBIT margin will fall considerably below the target of 6.5 percentage to 7.5 percentage.

As a reason, the drastic demand decrease -- or as a reaction to the drastic demand decrease, we have implemented a comprehensive set of measures in addition to the already existing strict cost control program. The set of

additional measures includes short time work on domestic sites as well as similar measures at all other international locations; a global hiring freeze; the suspension of all internal projects, including improvement, methodological and predevelopment projects; the discontinuation of all external services and consulting activities; and the postponement of planned investments. We took these measures at a very early stage. They have, therefore, been largely in place as of today. First positive results are already visible.

Due to the very unstable and unpredictable market environment in the view of the COVID-19 pandemic, we changed our operation mode. And this means, on the one hand, we are now fully focusing on what is absolutely necessary, namely series development for concrete customer projects, production ramp-ups and series production. Nothing more. All other activities will be more or less on hold.

On the other hand, in the current situation, cash is the most relevant performance indicator for us. Therefore, we have set up a dedicated cash office to further optimize our liquidity management. Here, we have established a 14-week liquidity plan, which will be week-by-week tracked. Already today, with respect to our financial positions, we are very well prepared to cope with the current situation. The actual amount of cash and cash equivalents of EUR 1.2 billion together with our EUR 450 million credit facility, provide a financial cushion of more than EUR 1.5 billion.

Until 2024, we have no debt replacements or refining needs. Debt covenants do not apply for the Eurobonds. And last but not least, HELLA has a strong balance sheet, with an equity ratio of around 45% and a very low gearing. The actual net debt-to-EBITDA ratio amounts 0.2x.

So, all in all, due to our solid liquidity position, our strong balance sheet as well as our balanced financing, we are well prepared to get through the current crisis.

Now let's have a look at the markets. How will it develop in the months to come? I don't think anyone can give a reliable answer to this question at the moment because there is simply no visibility. What we know is, already today, the IHS industry outlook is predicting a 13.8% decline in the global light vehicle production for our current fiscal year. This is the latest figure published by IHS end of last week.

Is it the end of the road? We do not know although the impact of the recent production shutdowns in Europe and the Americas has been incorporated by IHS. Further corrections are most likely, from our perspective.

How long corona will affect us remains to be seen, but I think it is safe to say that this crisis will not pass quickly.

How the global automotive market will look like after the COVID-19 pandemic stays also absolutely unclear. Therefore, we are preparing for all possible scenarios.

In short time, we have no other choice but to drive on sight. This means, on the one hand, keeping the daily business up. I already mentioned the focus on serious production ramp-ups and serious development. On the other hand, this also includes maintaining our supply chains to our customers but also to our own. To date, we have achieved this. However, it becomes even more difficult as global logistic chains may disrupt due to the strict countermeasures in the regions to stop the pandemic.

But despite all current turbulences, one aspect is very important for me. Our mid- and long-term strategy has not changed. With our global position, our balanced customer portfolio and our technological strength, we are still well positioned, as presented to you also in our Capital Markets Day in mid-February.

After this brief overview, I would like to go on with Page 5 of our presentation. In the first 3 quarters of the current fiscal year, we again have been able to outperform the market, on a group level by 3.9 percentage points, and with respect to automotive segment, by 5.1 percentage. We mainly benefit from 3 items: first, a strong business development in Americas; second, a high demand for our electronic components; and third, a very positive development of our Aftermarket business.

Looking at the regions. As in Q2, also in Q3, the business in Americas continued to be strong in general, although with a slower momentum in the third quarter. With the sales growth of around 8.6 percentage, we outperformed the market by over 12 percentage points.

In Asia, we also showed a strong performance of more than 6 percentage points. And of course, especially the Chinese market has been affected by the

corona outbreak starting in January, with a massive impact on the region -- on the regional automotive industry, especially in February.

Our performance in Europe is still a bit weak, especially in Germany, but has continued to improve. Excluding the German market, we outperformed the European market by around 3.3 percentage in the first 3 quarters.

Having said this, allow me, please, to hand over to my colleague, Mr. Schäferbarthold.

Bernard Schäferbarthold: Thank you, Mr. Breidenbach. Good morning also from my side. Please allow me, in addition to Mr. Breidenbach, also some introductory comments. On Q3, Q3 was already challenging. But all in all, we adapted quickly, as said, to the situation, especially in China. We flexibilized our cost structures quickly, in my view, at a high degree. We were satisfied all in all with our EBIT result, taking into account the already weak market environment. Our free cash flow generation was again very good, even with the high volatility in demand, which impacts negatively our inventory levels where we have seen an increase compared to our plan. Cash flow remains, in these days, our major focus. We steer the company on a daily base on cash in and outflows. I have to say, at this point in time, I do not see any risk for us as of today, looking on our strong balance sheet with EUR 1.2 billion of cash and our revolving credit facility. This gives us high stability to our organization, and we remain a very reliable partner to all of our stakeholders in this difficult situation. We continue to reduce our cost structure. We are doing that now since 1.5 years. And the measures we have now additionally taken in the last weeks and months should prepare us for market volume which nobody is able to predict where this volume will be in the upcoming periods. Having said that, I would continue our presentation on Page 7. Sales are at EUR 4.85 billion after 9 months. This is portfolio and currency-adjusted decrease of 3.7%. Positively, we are seeing a very solid and good demand on our electronic products, on lighting products. As already said also on commenting our half year numbers, less and slower ramp-ups of new car lines have impacted our growth, especially in our lighting business.

Overall, as already mentioned, the outperformance in auto was, in our view, very solid again.

Aftermarket had a better Q3 with a positive growth rate, but still in the 9 months period remains a negative. Special Applications was also down in the third quarter, considering the weak market environment.

In Q4, we expect a significant volume drop. Starting in the second half of March, many of our customers have closed their production. And the consequence, we have adapted our production immediately.

We expect in April and May being significantly impacted, depending on the timing of production shutdowns and the uncertainty about the ability and the speed of the ramp-up of our industries then in the weeks to come.

Coming to Page 8. Gross profit decreased by EUR 83 million. Relatively the gross profit margin decreased by 0.9 percentage points. Besides lower volumes, higher material costs, especially for electronic components in Automotive on a year-on-year comparison had a negative impact.

There is no significant change compared to our comments to our last call after half years. Certainly, the most important impact here comes out of the low utilization.

On Page 9, you can see the development of our R&D expenses. Again, an increase year-on-year. This is continuously, as already said, backed by our order intake in the past periods. Some important new developments were also highlighted during our capital Market Day in February.

Due to lower volumes, R&D ratio increased. The R&D area is the only one which had a slight increase in headcount. We will also see that later in our presentation, with around 1% of higher headcount on a year-on-year comparison. But we also have now already slowed down significantly the increase and are revisiting the portfolio actually to see how to further streamline our R&D department also in the periods to come.

SG&A on Page 10. We were able here to decrease the cost level here significantly positively. SG&A ratio even further decreased despite lower top line volumes. And here also, we will continue to focus on even further cost reductions in the periods to come.

Looking at the headcount development on Page 11. This slide should give you an impression how we are able and acting to reduce our cost structure. On a

year-on-year comparison, we have been able to reduce our headcounts at a level of 6.1%.

In Asia, especially China, we have adapted the organization, as said, with the sharp market decline due to corona. And you can also see that beside of R&D, which I mentioned, we have reduced headcount in all other areas and, respectively, also all regions. Further reductions are ongoing with the measures Dr. Breidenbach also mentioned. In Germany, we started also with short-time work from 23rd of March now onwards.

Coming to Page 12. I personally would like also to highlight again the strong cash situation and strong balance sheet. Our cash end of February, as mentioned, at EUR 1.2 billion. In addition, the revolving credit facility, we have now drawn beginning of April, to be even in the stronger position with cash on hand now which is at the level of above EUR 1.5 billion now in April. We have no short-term refinancing need. If you look at the maturity profile of our bonds. Balance sheet is very strong also in regard of equity ratio, on net debt and on the leverage ratio. And this gives us a very strong position as of now.

EBIT on Page 13 is at EUR 347 million, respectively, 7.2%. The EBIT margin is 1 percentage point lower compared to previous year. As a short outlook on Q4, the shutdown in Europe and NSA starting in the second half of March will lead, as said, to drastic sales reduction. We are not able, as of today, to quantify the exact effect but for sure, it will have a significant EBIT impact. Also a clear quantified outlook on sales and EBIT, it's still not possible as of today.

But perhaps on a positive note, if we look at China, there, we see demand coming back and the continuous ramp-up curve which is happening actually. On Page 14, we show our full financial results here for the 9-month period. EPS decreased to EUR 1.91 significantly compared to previous year. But certainly, last year, with the disposal of wholesale, we had an excellent EPS, so the comparison is not possible.

On Page 15, we are showing the quarterly comparison. In auto, in this weak market environment, had a negative growth as well as also Special Applications. And as also commented earlier, Aftermarket grew in Q3 at the

level of 3.3%. EBIT was stable in Aftermarket, which is a good result, but as also commented earlier, Auto and Special Application at lower levels.

Free cash flow you see here again the development over the years and a positive development also in comparison to previous year. CapEx was stable after 9 months compared to last year.

Looking at the segments on Page 17. In Auto positively, as said, electronics is continuously growing even in this weak market, especially in our product area energy management, but also on sensors, we are continuously seeing a very strong and good demand. Profitability is declining with the lower utilization and higher R&D. On Aftermarket and Special Applications, we continue to invest in our future product portfolio, respectively, our workshop products and within Special Applications, especially in further electronic products.

Certainly, our aspiration level in terms of profitability in Special Applications is not met yet there. Certainly, target is to come back to profitability we also have seen in previous periods.

Having said that, I hand over to Dr. Breidenbach for the outlook.

Rolf Breidenbach: Yes. Thanks a lot, Mr. Schäferbarthold. Now let's have a short quick look into the future, starting with the market outlook on Page 20. As already said, according to the regular IHS market update mid of March, the global market vehicle production was supposed to shrink by around 8%. But end of last week, again, IHS published an update and incorporated an additional downgrade of 5.8 percentage points, especially due to the increasing number of production shutdowns in Europe and the Americas. And thus, IHS is now forecasting a market decline by 13.8% for our fiscal year 2019/20.

When you look at this chart, we started with an expectation of a growth rate from IHS of 2.2%. And now we are down to 13.8%. I think it gives a good impression on what has changed in the last 12 months.

As stated in the beginning, due to the still very dynamic development of the COVID-19 pandemic, further negative corrections are most likely. To specify this in more detail is very difficult in the current phase because many customers are still in the process of adapting their volumes and the figures in their systems accordingly. Thus, the forecasting ability for the next month is strongly limited.

However, I think the direction is clear. In Europe and the Americas, markets will go down. And also the Chinese market will do not recover that fast. Against this background, we had to adapt, as also already stated, our guidance for the current fiscal year 2019/20, you can see on the Page 21 and as it was already communicated 2 weeks ago.

Yes, despite this very limited visibility, let me close with some final remarks. From our perspective, HELLA is very well prepared to get through this crisis. Our, let's say, cost reduction activities are fully implemented, and we are very flexible to adapt to the very fast-changing market environment. We have a very solid liquidity position, a strong balance sheet as well as a balanced financing, which, of course, in these days is of utmost importance. And we have a sustainable business model based on attractive product solutions for major market trends and a global customer portfolio.

Thus, from our perspective, we have all prerequisites to continue our success path even in an only moderately growing market scenario.

Yes, having said this, we are now happy to answer your questions. Thank you.

Operator: (Operator Instructions)

And your first question comes from the line of Sascha Gommel.

Sascha Gommel: It's Sascha from Jefferies. The first one would actually be on the operating leverage in the Automotive division. We do the simple calculation of EBIT change to sales change in the third quarter, there was kind of a drop-through of about 40%. Now I understand that some of the measures you implemented happened after the quarter ended. So I was just wondering, going forward, if you think you can reduce that leverage.

Bernard Schäferbarthold: I think going forward, with the measures implemented, and if we now discuss a total shutdown, for example, for basically the whole month of April, this certainly will have a negative effect -- a further negative effect on gross margin, which is also significant because the flexibilization of 100% is not possible. We try, as Mr. Breidenbach was saying, to go to the maximum. But certainly, a further burden will happen now in the fourth quarter, that's for

sure. Looking, I would say, beyond the fourth quarter, certainly, our aim is to improve and coming back basically to ratios and better ratios also we have seen in the past. We have basically the programs up and running if it comes to increasing production efficiency and being more flexible also. We mentioned our automation program as one example and further reductions of staff and adapting basically to volumes. We expect, and on the other hand side, and that's certainly something which still we are not back to a normalized situation we had, if it comes to material costs, what we had 1 year ago, I think that's certainly step by step. We will also see there that from cost-wise, we should see also improvements in the periods to come. But that's certainly nothing where you will see a big change now in Q4 due to the very high impact on volume growth.

Sascha Gommel: Okay, understood. The second question would be on working capital. Obviously, with production dropping as it is now, there is a certain level of unwind. I was trying to understand better how you see it unwinding for you. Can you destock a little bit? Or because of the production shut, it's not really possible?  
And then also on your payable receivables, can you match your inflows and your outflows? Or are you having problems with that?

Bernard Schäferbarthold: The stop was certainly very abrupt and we are not able to stop immediately all material inflows. If you look at the global supply chain, we are actually acting in. And in addition, we also need to secure ramp-ups happening then later in April or beginning of May. So on the inventory, we will even see that it will remain very challenging in the months to come. On the payables side, there, I think it's not a big issue as of today. There, it is more important to keep, I would say, strong in touch also with our suppliers. Managing basically also, I would say, the stability also overall of our supplier network. But as of today, also I would say, no big impact.  
On the receivables side, what we will now see in the next 2, 3 months is that the level of receivables will go significantly down. With the shutdowns, which happened now end of March, you will see the receivable level decreasing significantly. So in Q4, we should see, due to that effect especially, a positive

effect in working capital, in absolute numbers going down. Relatively due to the very high volume drop-in sales I think that's then difficult to predict what it exactly would be. But in absolute numbers, working capital would first go down. It will then go up again. Then in the first quarter of our new fiscal year, when ramping up basically the production, because then additional material inflows needs to come, plus the receivable level will again go up.

Sascha Gommel: Perfect. And then very finally, I know at the moment you're probably more dealing with short-term kind of crisis measures, but looking beyond the current situation, I think in the past we discussed M&A quite a bit and this crisis might open up opportunities, are those projects you're also currently stopping completely? Or are you still working on stuff like that, and after things normalize, you would be ready to execute?

Rolf Breidenbach: We do not stop this screening and talking because especially in those times here and there, there could be some opportunities. And due to our strong balance sheet, we are able to do it. So the process hasn't stopped, but also the criteria with regard to then really carrying out such a deal also have not changed. So here, we do business as usual

Operator: The next question, it is from the line of Christoph Laskawi.

Christoph Laskawi: It's a bit of a follow-up to Sascha's actually. The first one would be, could you give us an indication how much percentage or a number of workers you put on short-time work in Germany and similar schemes across the globe? And could you give us a range of capacity that is already shut down and is going to be shut down in the coming months? That's the first one.

Rolf Breidenbach: In Germany, currently, of course, these numbers are fluctuating. We have around 50% of our people on short-time work across all the different functions, so admin development and production, with an increasing tendency, because now step-by-step, the automotive production in Europe will go to a very low level. And of course, we are adapting our plants in Europe accordingly.

With regard, yes, to the utilization of our plants. In China, we are currently running at around 60%, of course, with an increasing tendency. In Europe last week, on average, I would assume, perhaps 40% with a decreasing tendency. And in Mexico, we have to shut down all our activities yesterday due to the decision of the Mexican government. And also in the U.S., we are step-by-step going down. I would assume, currently we are at the level of around 40%. But here also decreasing tendency.

Christoph Laskawi: And in case the OEM comes back, is there a certain time that you would need, say 1 to 2 weeks in advance, before you can really get up to speed, again deliver the parts they need? Are you in discussions with the OEMs that they will flag it to you in advance? Or do you think they have some stock which they will use before that?

Rolf Breidenbach: Of course, stock always helps. But in the end, it needs more than, let's say, good communication between the OEMs and their first-tier suppliers in Europe. We need a coordinated approach overall, the different steps of the value chain worldwide. This, of course, I know, is an illusion, but we are already discussing with our customers in Europe, how to organize, at least in Europe, such a coordinated approach, which is not so easy, because you know the regulations in the different European countries are different. We also -- we all, the whole industry has to prepare for such ramp-up also with regards to health protection measures and other regulations which could be different in the different regions and countries. Therefore, of course, when we got a hint from our customers that they would like to start production, we will be prepared for that. But this is by far not enough. We need this coordination at least in Europe much better in the world, because we should not forget the very important electronic suppliers at the second tier and third tier of our supply chain in countries like, for example, in Malaysia or Philippines, which are also here and there had stopped their production.

Christoph Laskawi: And the last question would be sort of free cash flow related for Q4. Could you give us an indication about how much CapEx is committed that you really

need to spend already in that quarter? How much flexibility you have also moving into Q1 to cut CapEx spend?

Bernard Schäferbarthold: Q4 is normally the quarter where we have the highest CapEx spend. So basically, the expectation was to be, on a monthly basis, between EUR 50 million and EUR 60 million in Capex. If we look at our plan, we think that already roughly 2/3 of that, around 2/3 of that is already, I would say, committed and ordered which we cannot stop. So the last, I would say EUR 50 million to EUR 60 million, this is just something we are revisiting in detail, but most of it would be either delayed or even canceled

Christoph Laskawi: Okay. And for Q1, it's a lower number than, I guess, working with the usual seasonality?

Bernard Schäferbarthold: Yes.

Operator: The next question, it is from the line of Gabriel Adler.

Gabriel Adler: It's Gabriel from Citi Group. I wanted to touch quickly on your suppliers and what risks you currently see from cash pressures and potential bankruptcies at the Tier 2 and 3 suppliers? Any color there would be very useful. And then my second question would be on China, where you said that you're seeing green shoots in recovery and demand starting to come back. It'd be great to have some more examples here because, clearly, plants are reopening, but wholesale demand in China is still down, I think, around 50% last time I checked. So it'd be interesting to hear your views on whether you think the recovery in consumer demand in China could really start come through this month, that would be very helpful.

Rolf Breidenbach: Yes. With regard to our suppliers, of course, we are in close contact with many of them, because the financial situation of our partners here and there is difficult. And therefore, we also have started a program to allow them to get cash in the necessary amount. Of course, we only can help where it's absolutely necessary, but we have a focus on that. Overall, of course, we also

try to use our contacts to the politicians in Germany. And to the industry, of course, also in Germany and in Europe to again and again point out that the programs which have currently launched have to be accelerated and have to create bottom line impact as soon as possible. I think for the smaller companies, this is so far quite well installed in Germany, in the other countries, here and there also. But for example, when I look at Germany for the mid-sized companies, we have to accelerate because HELLA cannot help everywhere. We only can do this in a very selective way. We need these stabilization programs in the supply chain because especially the midsized suppliers are currently suffering a lot and we have to be very careful not to more destabilize the supply chain.

In China, as I said, our plants are currently running at around 60%. We see that the plants of our customers are more and more opening. The whole attitude in China is very positive. It looks as if not only the Chinese government, but the whole Chinese nation now has a target to recover. And therefore, we see, in general, especially by the huge, let's say, joint ventures between global OEMs and Chinese state-owned companies, a clear tendency to step-by-step go beyond the current level of 50%, 60%. And we are very optimistic that this also will be the case. The situation at the local Chinese customers a little bit different. Some have already started their production, others are a little bit behind. But this depends on the market success of their products. But the good news, in general, is that the demand for cars, for pass cars in China, is step-by-step improving, which, of course, is the most important prerequisites that the industry will recover and continue the development to step-by-step come to, I don't know, 80%, 90% utilization.

Gabriel Adler: Okay. That's pretty positive and encouraging news from China. And if I can follow up with one final question, coming back to working capital. And you mentioned at the CMD that you're considering looking into factoring or working capital to help pull the balance sheet. Is this something that will be accelerated perhaps by the crisis or something that you've been looking at more recently?

Bernard Schäferbarthold: Yes, especially on our reverse factoring program, this is something now, as you said, we are trying now even to push faster now. And target is now to have basically first pilots on this program now within the month of April. And that is, say, one important or interesting element also, as Mr. Breidenbach was stating, especially if it comes to stability on the supplier side to have basically with our credit rating and our stability, the ability, I would say, to support some of our suppliers. So that is something that we are implementing. Factoring, we are not considering yet.

Operator: The next question, it is from the line of Christian Ludwig.

Christian Ludwig: So my first question would be on your guidance. I know that it's difficult to give a detailed guidance, but you, in your wording, you made a difference between sales and your EBIT margin. So I just want to get a clarity, what in your view means just below and what means significantly below, just to give us an idea, talking about EUR 100 million to EUR 200 million on the sales side and 4 percentage points on the EBIT side? Just to give a little bit more color there, what your thoughts are.

Bernard Schäferbarthold: If you look at the 9-month numbers, and you remember the guidance we have given beginning of the year, we said that if the market would be at a minus 6%, then we would be closer to the lower end in terms of sales. And in EBIT, we have given this range of 6.5% to 7.5%. If you now look at the profitability, we already -- if you look at the market, we already are and even below this 6% now with the new market outlook. On the other hand, we have been able to manage our cost structure better than expected. Let's put it like that. So we have implemented more measures. So the headroom, if we look in profit terms, from where we are coming, is higher. That's where the differentiation comes from. In the fourth quarter, honestly, all depends on how significant the volume drop at the end would be. Mr. Breidenbach stated roughly how now at the beginning of April the utilization is, and we expect further declines now in the weeks. Now especially with the shutdown of Mexico, this will, in addition, now lead to further volume drops. So the impact now on sales will be very high in April. And let's see how the ramp-up will

then start and when, even if it would happen in April or not. And this, you can say, will then lead to a very significant EBIT drop also. But all depends really then when the productions will then restart their work and how then this will happen and how customers will then also speed up and we'll be able also to manage this ramp-up.

Christian Ludwig: That is great. What I'm trying probably get at is what is in your understanding the difference between just saying sales is going to be below, but EBIT margin is going to be significantly below. So obviously, you're making a difference there. So what in your view means significantly? Is that -- how much more drop is that than just saying below?

Bernard Schäferbarthold: It's we are not able really to quantify it now exactly. But it's clear that if we lose EUR 1 of sales, the impact on EBIT is significant. So if you take a material ratio which is around 52%, 53%, so you see the very significant impact on profitability, where, certainly, we are taking all measures to reduce further, but the EBIT impact, just in proportion, is by far higher. That is what we mean by that. And the ability now to reduce cost, and that is why we are acting in such an extreme way, is so important.

Christian Ludwig: Okay. The second question, along those lines, if your scenario, saying basically you're seeing a complete shutdown in Europe and North America and a slow ramp-up in China in April, could you give us an indication what kind of cash burn that month would mean?

Bernard Schäferbarthold: Yes, we will have differentiating effects. On one hand side, we will certainly have a cash burn due then to a situation where we will make losses in these months. If really we lose sales in volumes of 70% to 80% with full shutdowns of most of our production plants or full shutdowns in NSA and Europe, then there is a cash burn which is significant due to the loss situation plus Capex, we still will spend. On the other hand side, there will be, with working capital levels going down, as I mentioned, with receivables being paid, a compensation, so that we do not see any significant effect now for the fourth quarter. The higher impact will then come with the ramp-up then

starting in May. So the higher impact on cash flow, we will then see in the first quarter of our new fiscal year.

Christian Ludwig: Okay. My last question is a little bit more strategic. I mean, we've seen that in the past we've kind of accepted the current markets accepted your high R&D ratio as a promise of a bright future with a growth rate of 5% to 7% above market. But as we see that does not necessarily seem to be, how long will you be able to keep this high R&D level going forward? Or are you rethinking is this really the right way to go as the market may not grow as expected and there will also be some adjustments there necessary?

Rolf Breidenbach: We can afford this for a very long time. So I'm not talking about 1, 2, 3 months, but really for a very long time. We still think this is the right strategy. You also can see this in our Q3 figures. Although, of course, the market is shrinking, and we are shrinking, we again outperformed the market. And this has a lot to do with our products and our technology. And of course, I do not know when the markets will come back, but they will come back. And then the investments we are doing now will pay off from our perspective, over-proportionately. So we will continue to of course, in doing this R&D spend because we think this is a good and sustainable investment for the future.

Christian Ludwig: Okay. So we should also not expect any decline in R&D spending, let's say, in Q4? That will be, at least stable.

Rolf Breidenbach: Not any, of course, here and there, we look at our predevelopment activities. We are looking here and there to streamline our process. We're, of course, also looking how our customers are currently acting with regards to the serious development projects. Some customers are, let's say, running their development operations without any change. Others here and there also do short-time work, stopped the one or the other activities, and we will, of course, adapt to that due to all the measures we have implemented. And having said this, of course, this also can lead to a reduction of our R&D spending or will lead to a reduction of our R&D spending. But this is more a

reaction of the activities at the customer side and the kind of prioritization with regard to our predevelopment projects

Operator: The next question, it is from the line of Henning Cosman.

Henning Cosman: I was just going to ask about your comment with respect to the delays and new model ramp-ups on part of your OEM customers. I was wondering if you could elaborate on that a little bit. I know we've already talked about that before, if you can just speak about the acceleration of that a little bit, which regions this falls into. I assume you can't talk about individual customers, but if you can, that would, of course, also be interesting. If you could just talk about that a little bit more, please.

Rolf Breidenbach: Yes. As you said, we are not talking about customers, but we can see a clear tendency, for example, in the Americas. So huge customers are currently screening their portfolio and, of course, searching for cash-saving measures. And here, especially with regard to the local customers, we see significant delays of SOPs on the one hand and, of course, the prolongation of currently existing car lines. So we see a kind of focus with regard to this approach in the U.S. and Mexico. But here and there, the same is true for Europe.

Henning Cosman: Is it fair to say with this U.S. focus that it affects you a little bit more on the lighting side? Or is that not so much the case?

Rolf Breidenbach: No, because we are also delivering a lot of electronic products to the U.S. customers. In the end, of course, we are benefiting when car lines are running longer. This is a significant add-on for us. On the other side, of course, when the SOPs are delayed, then we have to spend more R&D than expected. This, of course, we are negotiating. We are also currently negotiating with the customers how to compensate this. And of course, when we are talking in getting new business, this also affect our top line. But all in all, I would say with regard to the top line development, it's currently, yes, a little bit negative, I have to admit.

Operator: And your next question comes from the line of Kai Mueller.

Kai Müller: I think the first one is really if we look a little bit beyond, obviously, the fourth quarter, going into your next fiscal year, you've now finished Q3 and probably start thinking about budgeting for 2020/21, what are really the scenarios you're thinking of? I remember, obviously, you started this year already quite negative and many people didn't believe you. When you look into the years beyond in terms of market trends, what is really sort of your base assumption of how do you stress your business? And maybe we start with this, and then I'll follow up with another one.

Rolf Breidenbach: So with regard to the budget process, we will come from 2 directions. One is our absolute core cost approach. So we are looking how to keep the, let's say, the absolute important processes and activities at HELLA running, series development, production launch activities. And based on that, we are calculating how fast the ramp-up will be carried out. And then, of course, and this perhaps is -- comes to your question, what new normal we are expecting for the global automotive market, yes? When the virus has gone, the question will be, what is the sales figure we have to assume? Will we come back to 90 million vehicles globally? 80 million? 70 million? And we are now calculating these scenarios. So coming back to 90 million, 80 million, 70 million. And we have different scenarios for the ramp-up phase. And our starting point will be these core cost scenarios. And we will calculate that. And our approach will be that we will start for the first months, let's say June, with this core cost scenarios. And when we see that the industry will ramp up with step-by-step, will allow to spend money outside these core activities. So that we think that whatever scenario will come, we will have the right answer with regard to our EBIT development and, what is more important, to our cash development.

Kai Müller: Perfect. And it's very helpful, you talking about the CapEx cuts and how much obviously is already ordered and you can't cut anymore. If we think, though, on the delays, and you mentioned, obviously, the ramp-up is quite slow in China still. How long do you think the ramp-up will take in Europe or the

U.S.? Do you have any sort of visibility? And would we then assume, obviously, Capex, I know you said that CapEx is always Q4-loaded, but are you already thinking about 2020/21 CapEx to be at a significantly lower level in your core approach?

Rolf Breidenbach: Yes, Mr. Schäferbarthold has said, we assume that around 55, 60, 65 of the CapEx we have planned is more or less fixed with regard to our serious development projects. Of course, we are working on that to reduce this. All the other is, let's say, something where we can maneuver and can think about cutting this down. And we have already done this, and we will not, for example, Mr. Schäferbarthold mentioned the automatization approach of our -- of many of our production processes, we stopped that. And we will only start this when we can afford this again. So this is the room of maneuver we have, which, from our perspective. And of course, the longer the time will take, the the more possibilities we will have to cut our Capex. But as I said, but this is, of course, only a rough assumption of Mr. Schäferbarthold and myself, 55%, 60% of the Capex, I think, is targeted and considered for our serious development projects. And the rest, we hope, we can cut when it's necessary. And with regard to the ramp-up phase, the problem to assess this is not only how we can do this in Europe or globally on a coordinated approach. This is the second priority for us. The first priority and the first, let's say, activities which have to start, again, is that European customers are able to buy cars. And the same is true for the U.S. and in Mexico and Canada, for example. Currently, the dealer outlets are closed. So our customers in Europe do not sell a car because they are not allowed to sell vehicles. Although here and there, some demand is on the market. So we, first of all, have to estimate when are the dealer outlets again opened, and this is very important for our industry. The earlier this is possible with regard, of course, to all the health safety measures which are important, and again, of course, the health of our people has to have the highest priority, but the first step, when we are talking about ramping up our industry, is not how we can ramp up our plants, the plants of our customers or the suppliers. The first priority must be we have to open the outlets of the dealers so that the people again can buy cars. And based on that, I assume our customers, for example, in Europe, will then decide when to

again ramp up their plants. And therefore, it's so difficult to answer your question. But I assume a best-case scenario would be that step-by-step, starting of May, in Europe, the industry will be ramped up. And here we are not talking about an approach which will take place for 4 weeks or something. It will take longer. But then, of course, I'm starting too much to speculate because then everything will depend on the real demand of the market.

Kai Müller: That's very helpful. And maybe just the last one. We talked obviously on your sort of 0 revenue environment if you really need to shut your plants. Are you willing to share what it sort of cost you on a run rate basis per month? I know you said, obviously, you have plenty of capital that you can support you for a long time, but are you willing to share any sort of run rate number?

Rolf Breidenbach: Of course, we have these kind of scenarios already planned. And of course, there will be some sales in the aftermarket, because in many countries, the aftermarket was already declared to be system-relevant. Of course, we will also have more and more sales in China. But based on that and assuming that the whole European automotive industry and the whole industry in the Americas is shut down, we expect to have a cash burden per month between 70 -- around EUR 75 million based on our, let's say, low-cost and moderate CapEx spending model. This means that we continue to spend CapEx, of course, as I said, for our development projects. But to give you a rough number, so when everything is shut down, including CapEx spending, we need a cash of EUR 70 million, EUR 75 million.

Kai Müller: And that gives you the comfort, obviously, with your cash position that you're sitting on right now?

Rolf Breidenbach: Yes, when you now look at our cash position, you see that we can afford this for a very long time.

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

Akshat Kacker: Akshat Kacker from JP Morgan. I have just a little follow-up on employee and personnel costs? On employee and personnel costs in the U.S., how easy is it to let to say level costs in the region looking at production shutdowns in the U.S. and Mexico? How much of labor cost (inaudible) please?

Bernard Schäferbarthold: In Mexico, there is also the mechanism of being able to implement short-time work. So there, flexibility is also there but not as good as in Germany, I have to say. So it's only basically half. But certainly, we have the ability there to adapt. But we also have to say that personnel cost is not the highest, I would say, cost level there. U.S. is more difficult. There also, we -- on one hand side, we could release people, but we also have to take care about -- we also have taken that responsibility also on our people and to find really the right balance also not to release them and then taking risk also for them. So I think there, we are actually trying now to find the right balance. But more important for us is Mexico because, certainly, there, the number of people we have there is by far higher.

Rolf Breidenbach: Perhaps allow me to again point this out, what Mr. Schaferbarthold had said. So social responsibility, of course, is very important for us. In Mexico, we have a high flexibility to reduce our people. And we are also quite flexible with regard to spending their money when we have sent them home. But here, we really have to balance because also our employees, of course, have to survive, and we will balance this out. So to find a fair share on the one hand, that our company, of course, continues to develop in a healthy way, but the same and this is at the same priority. Of course, also our employees we have to send home need a specific amount of money to live in an adequate and ethically correct way. And the same is true for the U.S., for example, because here and there, in some regions, the compensation, the people will get from the government is very limited. And of course this we also take into consideration. But as Mr. Schaferbarthold said in Mexico, also our personnel costs do not play such an important role.

Operator: And your next question comes from the line of (inaudible).

Unidentified: I just wanted to check, you mentioned no covenants and no rating triggers for the bonds. Is that the case also for the revolver facility?

Bernard Schäferbarthold: Yes, that's the case.

Unidentified: And there are no rating triggers in there either just because the rating interests obviously are unpredictable and I think just put everybody on moving for downgrade?

Bernard Schäferbarthold: No rating trigger. Rating has only an impact on the margin.

Unidentified: Okay, that's great. And then can I also just ask, on your cash and cash equivalents, obviously, that's pretty clear. But the financial assets, can you give us an idea of where that money is invested and how quickly you have access to this, please?

Bernard Schäferbarthold: We have access immediately. So we're only investing in investment-grade papers or in shares. The biggest amount, EUR 250 million, is managed by a professional fund. Also their criteria are clear that only investments-grade shares and bonds could be bought. The flexibility of liquidation is, I would say, there, we could immediately sell everything. That's not the issue. Within this fund, we have EUR 250 million, around 25% out of that are shares. So you have certainly perhaps seen it also in the Q3 numbers. So there, the negative effect of the capital markets had an impact on the valuation of these shares. That's why also there was a higher -- or negative financial results considered. But we have the ability to liquidate it immediately

Operator: You have one question remaining at this time. That question comes from the line of Gungun Verma.

Gungun Verma: It's Gungun Verma from Goldman Sachs. I had one question left, please. Just longer-term on electrification, have you seen any change in behavior or

production plans from your OEM customers with respect to EV launches, whether they have cut volumes or are deferring launch schedule?

And just a follow-up on that. Wondering if there is a chance that the emission regulations in EU can be relaxed in the wake of the current crisis? Are you hearing anything on that?

Rolf Breidenbach: With regard to the launches of the e-vehicles, here and there, we see postponements. We have already seen them and we are currently seeing them. But this has nothing to do, from our perspective, with the coronavirus or the general economic development, but more with technical issues and supply chain issues. So to answer your question, yes, we see a significant number of e-vehicle launches postponements, but not with regards to the market environment, but with regard or due to clear technical or supply chain-related items. With regard to the emission regulations, we do not expect a change.

Operator: And you have no further questions at this time. Please go ahead.

Rolf Breidenbach: Okay. Then from Mr. Schäferbarthold and my side, thank you very much for spending the time. Thank very much for your interest into HELLA. And yes, all the best to all of you and stay healthy. Thank you. Bye.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect.

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