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C: Carl Pohlschmidt, HELLA KGaA Hueck & Co, Finance Director
P: Alex Haissle, Credit Suisse - Analyst
P: Bjorn Voss, MM Warburg - Analyst
P: Christian Breitsprecher, Macquarie - Analyst
P: Christian Ludwig, BHL - Analyst
P: Christoph Laskawi, Deutsche Bank - Analyst
P: Emily Lui, Haitong Securities - Analyst
P: Henning Cosman, HSBC- Analyst
P: Lello Della Ragione, Intermonte - Analyst
P: Manual Tanzer, MainFirst - Analyst
P: Mike Tyndall, Citi - Analyst
P: Nikhil Bhat, JPMorgan - Analyst
P: Victoria Greer, Morgan Stanley - Analyst
P: Operator
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COMPANY EDITED TRANSCRIPT

Operator: This is Conference # 957705

Operator: Thank you for standing by and welcome to the Hella investor call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question, you will need to press star and one on your telephone keypad.

We would also – we would like to inform you that each participant can ask – can ask up to a maximum of three questions. I must advise you that this conference is being recorded today, Wednesday the 13th of April, 2016.

I would now like to hand the conference over to your first presenter today, Dr. Rolf Breidenbach. Please go ahead.

Rolf Breidenbach: Yes, thank you very much from my side. First of all, a very warm welcome to all the participants to our Q3 investor call also on behalf of my colleagues from Hella who are also participating in the discussion, Dr. Wolfgang Ollig, our CFO, and Carl Pohlschmidt, our Finance Director.

I will start with a quick overview about our financial situation, then Dr. Ollig will give you some more details and then I will summarize our presentation and give you the guidance as concerns our whole financial year.

Overall we are quite satisfied with the development of our business also in Q3. We again were able to grow much stronger than the market. Our year-to-date figures show a growth figure of 10.3 percent, thereof 2.4 percent related to the FX effect. So, as I said, we again could outperform the market.

On the one hand, this is due to the strong development, the continuing strong development of our automotive segment which has grown by around 11 percent, but we also see a stabilization of our aftermarket business and also when we look at special applications, the third segment, we could see a slight growth.

We are also satisfied with our gross profit margin. As we have already discussed in some other calls and discussions, we think running the Company at a level of around 27 percent is very competitive. When we look at the current figures and exclude the supplier default we have described in the last two investor calls we are at a level of 27.2 percent. So this is, as I said, in our opinion quite competitive and we are here very satisfied. It shows that we again could improve our operational excellence topic.

We also see a decreasing of our launch costs for our new high-tech products, as we have discussed also in the half-year call. So now step by step we are really improving. Especially the extraordinary launch costs put us into a position to reach this 27 percent gross margin. [does not make sense]

When we look below the gross margin at the development of our structural costs, I think nothing spectacular to report as concerns our distribution and administrative costs. Here we see a slight decrease which is fine for us. We see a special effect in our R&D ratio. When we look at the year to date figures with 9.6 percent we are so far in line with what we have planned.

But when we look at the monthly [quarterly] figure, we are above our expectation and this is due to further investments into our international R&D network, especially as concerns the areas of energy management and also of LED technology. We have decided to do these investments to mid and long-term secure our long-term growth path but this will lead to an increase of our R&D ratio also when I look at the year-end.

When I look at the EBIT margin, again of course we have to consider this one-time effect of the supplier default. We can show today an EBIT at a level of EUR290m. The EBIT margin is at 6.2 percent. The adjusted EBIT without these special effects is at a level of EUR345m, the adjusted EBIT margin at 7.4 percent. So when we exclude this supplier case / the efforts we have to take and also some payments for our restructuring expenses, we are also quite satisfied with our financial operational performance.

Also as the cash flow side we see a good improvement compared to last fiscal year so we are currently at a level of EUR35m and this is much better than the figure in the last fiscal year which was at a minus of EUR19m after nine months.

So overall, as I said, the development in Q3 for us is satisfying although we know that Q3 is not our strongest quarter. But this of course will not change our guidance so we still expect a sales growth in the mid to high single-digit percentage range. Of course EBIT will be below the previous year due to this supplier effect but we do not expect any additional burden in the last quarter.

This was also true for the third quarter and therefore our original EBIT guidance will also stay the same excluding this supplier effect. This means to increase the EBIT in the mid to high single-digit area. So overall no change in the guidance despite, as I said, this supplier effect.

This is a short summary of the current situation and I now will hand over to the CFO of Hella, Dr. Wolfgang Ollig, who will give you more details.

Wolfgang Ollig: OK, thank you very much and also a warm welcome from my side. I would now like to lead you through the details of the headlines Dr. Breidenbach already has mentioned. So on page 5 you see our usual picture and an overview of the market data. On the top line of the chart you see the market, the automotive market, the global and then our key regions, Europe, China, and the US, and on the lower side you see the Hella revenues. On the lower-left corner you see the Group figures, so including all three segments, and then on the middle to right lower side you see just the automotive figures.

What you can see already what was mentioned that we have continued our outperformance in relation to the market so including the FX effect of 2.4 percent which, as we have indicated, now is going down. In the half-year call we already reported a figure of around 3 percent. Due to the exchange rate ratios e. g. dollar/euro, what you know very well, I think this effect will -- if ratios stay at the same level -- will further reduce. So we were able to outgrow the market by 6 percent on the nine-month period but also organically we were outperforming.

If you look into the regions, you see that Asia and the US we're outperforming the market whereas in Europe we were growing with a market level of around 11 percent. Looking to China, the growth in the market was plus 9 percent, for Asia it was plus 13 percent. Just looking at China, in automotive alone growth has been above this figure. It has been around 18 percent. As you know, we are benefiting from the ramp-up of our projects and the filling of the capacities we have built over the last years. This effect should continue for some further quarters before we then would come down to a more normalized growth level.

Now going to page 6 and the gross profit development, you see that we have been able to increase our gross profit, what Dr. Breidenbach has already mentioned, and we are quite satisfied also that we are able to take advantage of this top-line growth and really translate this into gross profit. So on an adjusted basis we have reached an increase of EUR125m including the supplier case of EUR98m. So the supplier case on gross profit level has been at EUR27m. If you look at the ratio, you see that the ratio has been able to increase to 27.2 percent, so by 20 basis points, which is above the level we consider to be a well-performing level.

Here all segments contributed so we were able to increase our productivity. In the automotive segment we had decreasing launch costs, a topic we have mentioned in our half-year call. We are reducing these costs and as well we have a positive product mix in all segments, automotive, aftermarket and SOE.

Within these 27.2 percent as well is included our FX effect which now step by step is fading out. So for the nine-month period we are talking about around 30 basis points.

On page 7 you see our R&D expenses. On a nine months comparison you see that we are stable at the 9.6 percent. We wanted to reduce this figure but due to the newly acquired project and the launch costs of our complex high-tech LED projects we were not able to do that. As well we have seen that we are not really at the efficiency level we are targeting for due to the high complexity of the global network and the training efforts which are still not at the level we wanted to be. That is the reason why we have not been able to reduce this figure and as well on a quarterly figure you see there has been a significant increase.

So in absolute terms for the nine-months period we have increased R&D expenses for more than EUR40m and also on a quarterly basis the increase has been EUR20m, so quite significant. On the one hand this of course is investment into future growth and the competitiveness of the Company and on the other hand, as I mentioned, there are some efficiency topics we need to tackle and which should mid to long term lead to further reduction of our ratio.

On page 8 you see the structural cost analysis for administrative and distribution costs. You see here nothing spectacular. In fact we are in line with our expectations, reducing the ratio on a nine months basis by 10 basis points each. So at administrative level we have 3.3 percent, distribution 7.8 percent. This as well was in the guidance and in line with what we have communicated to you.

What we include here as well due to some deviations is the JV income. You see that in the last financial year we had a significant contribution, so in absolute terms EUR47m, and as well in relative terms we have been above 1 percentage point of profitability whereas in the current quarter we're only at 0.7 percent and EUR33m. So a deviation of EUR14m. This EUR14m you can allocate to one-time effects of around EUR7m mainly due to a high comparable basis and additional tax payments we have had and around EUR7m which are operational effects related to the weaker market and certain structure in the JV development in terms of growth and investment.

What you should as well consider is that the 1.1 percentage level of the year before really was related to a specific strong Q3 period. For the full year we have reached a profitability level of 0.9 percent, so this level coming down by 20 basis points. In general we don't expect any dramatic change in our JV performance and therefore we expect this deviation to come down for the full year.

Going now to page 9, you see the EBIT comparison on reported EBIT and adjusted EBIT. You see the effects we already have talked about. So the big effect we have was our supplier case accounting for EUR47m, plus the restructuring expenses which are accounted for by EUR8m, so all in all EUR55m which explains the deviation from EUR290m to EUR345m.

So in reported EBIT we had a reduction of EUR20m, in adjusted EBIT we have been able to improve our absolute figure by EUR27m. And in relative terms we have on an adjusted basis been 10 basis points below the figure we had last year. This is mainly due to our joint venture results which decreased our profitability by 0.4 percentage points, although we had quite strong gross profit development, as I've mentioned before.

We go to the cash flow situation on page 10.. You see that we have been able on a year-on-year basis to increase our cash flow development by EUR54m. If you compare that to our half-year figures, we already have mentioned that some positive temporary effects were included which faded and have been reduced according to our expectation.

In general, the development has been positive because the working capital consumption has been lower compared to last year. And as well you should consider that we, as communicated, are reducing our factoring program now step by step in a balance sheet adequate way, so EUR20m increase in receivables is due to this reduced factoring program.

If we now go to the segment overview on page 11, here you see that the automotive business in fact has continued to grow by 11 percent. You see the profitability development as well here; excluding the EUR47m supplier charge led then to the profitability level of 7.9 percent, going down by 10 basis points on an adjusted level.

This is due on the one hand to the higher R&D efforts and also to the effect of the joint ventures which mainly have been automotive related in terms of the deviation. So the strong growth top line by the regions and as well driven by the demand of the key megatrends in lighting, electronics, somehow has been overcompensated by these profitability effects.

Aftermarket, here you see that the situation has stabilized on the market side and as well we've been able to slowly improve our EBIT level by 30 basis points. This as well has been related to a gross profit improvement by 0.9 percent. So here we can say we are on a steady and gradual improvement of the aftermarket performance which we are targeting to continue.

Special applications, here we have two sides of the picture. On the one hand we have been able to further grow the business and the business has stabilized, especially in the agriculture sector which has been quite important for us, and as you know, we talked about this quite often over the last 18 months. On the other hand, we have not been able to develop our outdoor lighting and industry activities to the level we want, so here we have a negative effect as well on the sales growth and as well on the bottom line at the profitability level because our sales efforts could not be amortized by the additional gross profit.

Now if we go to page 12 you see the quarterly comparison for the key figures. You see that the organic growth in fact has increased by around 0.9 percent to 6.5 percent. FX effect has been only at 0.9 percent, so really coming down, the effect I have described before, and as well looking to the segments, you see that here we have a positive development in all segments but the automotive here is a driver for growth, the driver for the overall top-line development of the Group.

On the gross profit level, we have been up by 0.7 percent to 27 percent. No charges from the supplier case are included hare and we are not expecting any further charges so this case commercially for us is closed. So with the EUR47m we are expecting to have finalized this topic.

On a Group EBIT margin you see that we have been down by more than 1 percentage point on a year-on-year basis. Here the reasons are the joint ventures we've talked about with 0.4 percent and as well the R&D increase on a quarterly comparison of 70 basis points. So this is explaining the reduced EBIT level and on an adjusted as well on an unadjusted basis.

On page 13 you see the ramp-up of our quarters. As Dr. Breidenbach mentioned, we of course have a different seasonality in our quarters, Q2 being traditionally a quite strong one and Q3 rather being a weaker quarter. You see that in terms of gross profit level, with the 27 percent, we are in fact in line, pretty much in line with our 27 percent expectation and the Group EBIT with 6 percent has been a little bit below the yearly average. So all in all we have been achieving 7.4 percent adjusted and reported at 6.2 percent.

So now I would hand over again to Dr. Breidenbach who will give you an overview of the outlook and the guidance.

Rolf Breidenbach: Yes, thank you very much. At page 15 you can see our estimation as concerns the automotive market. When you look at the year 2016 we expect a moderate growth in Germany as well as in West Europe including Germany. This is also true for the US where we also see around a 1 percent growth of the automotive market. So we are much more optimistic as concerns China. Here we see a 6 percent growth rate in 2016 as realistic. Overall we think that the global growth rate will decrease a little bit from 2015 figure of 3 percent to 2 percent in 2016. But for us overall a quite good and stable environment in which we think we can continue, as I said, our growth path.

Concerning the guidance, when we look at sales we stay with our guidance to grow in the medium to high one-digit percentage range. The one-off charge with regard to the supplier failure is and will stay at this EUR47m. No effect in the next quarter is expected.

When you look at the EBIT, here again we will stay with our guidance to reach a figure below the previous year due to the spendings to solve the supplier case. When we look at the adjusted EBIT without the one-offs I explained, we also stay with the guidance we have given at the start of the business year to increase the EBIT in the mid to high single-digit percentage range.

So this was our presentation and now we look forward to answer your questions. Thank you.

Operator: (Operator Instructions). Victoria Greer.

Victoria Greer: Good morning, just a couple of questions please. Firstly on the lower JV contribution, you mentioned the split of the EUR7m of one-offs and then the EUR7m of Asia issues. I just didn't quite get where you -- what you were meaning for the outlook here for Q4. Should we think about around that EUR8m level continuing for Q4 and then an outlook there for FY17 also?

Secondly then, just on CapEx, it looks fairly high at over 8 percent of sales. Were there any specific drivers there in the quarter and what's the outlook on that one? Thank you.

Rolf Breidenbach: Wolfgang, would you like to comment shortly on the joint venture?

Wolfgang Ollig: Well, yes, for the joint ventures I referred to the extraordinary positive tax effect we had in the quarter of the last financial year which in fact has been neutralized in Q4 of last financial year. So, that has been the reason why the ratio has come down from the 1.1 percent to the 0.9 percent.

Concerning the current year, we think that the 0.7 percentage profitability ratio as well is a good proxy for the further development so, in essence, we expect the operational effect to be sustainable and the one-off effects to be temporary.

Victoria Greer: OK, great, thank you. So staying at 0.7 percent for Q4 and that gets us to 0.9 percent for the full year. Great, thank you.

Rolf Breidenbach: OK, concerning CapEx, there is no specific investment behind that. Of course, the sales in Q3 were a little bit lower and -- but our CapEx spending is a more continuing one so no special effects and we do not expect any specific hit concerning the cash development or the result development due to our CapEx spending.

Victoria Greer: That's great. Thank you.

Wolfgang Ollig: Maybe added to this, as we have said, the level we have achieved last year of the 6.0 percent really was a low point and we rather would think about a level of around 7 percent. And since the first half has been lower than this, the current development, as said, is somehow expected.

Operator: Nikhil Bhat, JP Morgan.

Nikhil Bhat: Hi. Thank you for taking my question. This is Nikhil from JP Morgan. My three questions are first one on R&D. The -- you highlighted on the third quarter your R&D expenditure is quite high. Curious to know, in the fourth quarter, do you expect it to remain at such high levels or do you expect it to go down?

The second question is on your automobile revenue growth and, when you break it down by region, it seems like it is quite -- in the third quarter, sorry, it seems like it was quite strong in Europe, and Asia was a bit weak. Could you explain the reasons behind this? Is it a project timing issue? And how should we think about it, going forward?

And third question is on the aftermarket revenue growth. You had earlier guided it to be weaker into the second half of the year or, like you say, stabilizing into the second half of the yea. Should we expect a similar growth in the fourth quarter or should it be any different? Those are my three questions. Thank you.

Rolf Breidenbach: Starting with your third question, I think we recovered in the aftermarket business and could show a growth of around 7 percent, and it's our target to also show the actual figure in the fourth quarter. Of course, not exactly knowing what will happen but this is our target.

Concerning our R&D rate, we expect a little bit higher R&D rate than planned. As Dr. Ollig's explained, we have invested more into areas like energy management, like predevelopment activities overall and also into our LED technology to secure our -- in our opinion, good growth performance.

And also we are not so satisfied with the efficiency level we already have achieved in the global D&D network, so we expect a higher growth rate than planned and the exact figure is currently difficult to assess. Of course, it also depends on the sales development but we will not reach our target to reduce over the full year our D&D rate compared to the last fiscal year.

And concerning our growth, we are satisfied also with our growth activities in China. Of course, the China third quarter is affected by the Chinese New Year effect but, when we look how the sales after that again have increased, we expect also a very good growth development for China for the whole year.

Nikhil Bhat: Thank you very much.

Operator: Christian Breitsprecher, Macquarie.

Christian Breitsprecher: Yes, good morning, it's Christian Breitsprecher from Macquarie. First, a follow-up on the previous question in terms of R&D, can we expect that R&D will come down then in terms of the absolute amount and/or ratio next year?

And the other two questions, when I look at what you've reported versus my estimate, the two big deviations are in the EBIT, the other line. Can you explain there -- what happened there, why we have such a big negative amount there, particularly compared to what we've seen in the previous quarters?

And then there's also a significant negative swing in the third quarter in the financial result, if you could explain that. Thanks.

Carl Pohlschmidt: Coming to your question about the other operative result, we had a special burden, a one-off effect in the last fiscal year of around EUR4m in our other operating results, so that's a comparable basis. For the previous year, it's much lower than it would be operative-wise if we wouldn't have this one-time effect; therefore, we see this increase in the other results. Overall, there is no topic behind there where we say this is a sustainable increase but it's a specific effect in the third quarter.

When we look to the financial results, we are hit like others from the current development of the capital market so we have invested some of our liquidity into securities in the market. Of course, this is an approach with a typically low risk we are taking there but this doesn't mean that we will not have effects from the market and especially in Q3. At the beginning of this calendar year, we have seen a deterioration in the equity market where we were affected from and we had also some currency evaluation effects in our financial results for the evaluation of our bank accounts where we have liquidity in foreign currency.

Looking what we have seen last year, especially when you compare Q3 to Q3 in the previous year. There we had exactly the opposite effect in the capital market where the security markets had a lot of tailwind and we gained a lot from this market development. And in this year we lost in the Q3 and this makes a big difference in the result.

Rolf Breidenbach: Yes, answering your first question concerning R&D, so our mid and long-term targets, of course, will be the same as communicated in our last call so it's our strategic target to come below 9 but this will not happen short term. And concerning the development of our D&D ratio in the current financial year, we, as I said, do not expect to reach our target. We are currently at 9.6 percent and we expect a slight increase for the whole fiscal year.

Christian Breitsprecher: Could I follow up quickly? There are two things that I really don't understand, I'm sorry, in your answer. First of all, coming to the EBIT numbers in the third quarter, when we look at the segments and then the line EBIT, other areas and unallocated EBIT and these things, then you show an EBIT other areas in the third quarter, on the spreadsheet that has also been sent around, of minus EUR5.3m in the third quarter.

And for the first nine months it was -- it is minus EUR1.4m, so that means that we have a significant deterioration in that line just in the third quarter, and I just wanted to understand what's behind this significant swing because, for me, that is really the number that drives the deviation, why the reported EBIT in the third quarter is below my and consensus expectations.

And then on the financial results, also there in the third quarter I just cannot understand your explanation because it cannot be bad equity market. Your financial income has gone up significantly in the third quarter when we compare to the third quarter last year. It's significantly positive, EUR8.3m and versus minus EUR500,000 in the third quarter last year. And then financing costs has gone up, deteriorated from minus EUR5.5m in the third quarter last year to now minus EUR21m. And is that really just mark to market of currency effects or what is behind it?

Carl Pohlschmidt: When we look to the financial results in the third, it's minus EUR13m versus minus EUR6m in the previous year's third quarter.

Christian Breitsprecher: Yes, but your financial income during that period has gone up significantly …

Carl Pohlschmidt: Yes.

Christian Breitsprecher: ... and your financing cost has deteriorated by EUR16m.

Carl Pohlschmidt: Yes, that's easy to explain. And the cost, by the rules coming from IFRS, so we are hedging our liquidity as well as our borrowings we have on the balance sheet and the hedging effect, of course, has some counter effect on the income or on the expenses, meaning that we have to extend by the reporting rules the figure in income and expenses.

For example, when you have a loss from the evaluation of your bank account and you have hedged this, then you have, on the other side, the positive effect from the hedge and this has to be shown gross. And we had a lot of movement in currencies, especially in the Mexican peso but also in the Chinese Yuan, and this has made most of the effect coming from evaluation of the bank accounts and the counterbalance of our hedges.

Christian Breitsprecher: OK. What does it mean for Q4 if currencies stay where they are now? Should we then expect a less negative financial result?

Carl Pohlschmidt: The negative effect was not that high, it was below EUR1m. And, coming from the currency, when you ask about the level of income and expenses, of course, we cannot influence; this is simply evaluation. But we hedge as much as possible from our financial accounts.

Of course, this is not possible up to the last euro because you cannot estimate for every single day exactly what is the balance at the end of the day. But, overall, the effect coming from the currency is not that high but it has big impact on the gross reporting of income and expenses but not on the net result.

Operator: Thanks for your question.

Christian Breitsprecher: The EBIT, could you ...

Carl Pohlschmidt: Yes. Regarding the reconciliation, so what we show in the reconciliation is typically what we report as restructuring costs we adjust also in our EBIT. And in the third quarter, we had also a topic of allocation of this cost, which is a timing difference effect which may be reversed in the fourth quarter.

So, in the reconciliation, we have this effect of the restructuring costs and we have a minor activity for personnel services which are not allocated to a business division because it's not included in our core business. But this is also a minor effect we have in the reconciliation and, typically, it's a small income we are reporting there.

Christian Breitsprecher: OK. Thank you.

Operator: Bjorn Voss, MM Warburg.

Bjorn Voss: Yes, good morning. It's Bjorn Voss of MM Warburg. Also three questions. First of all -- first one is also related to the R&D expenses. Could you, maybe, shed a bit more light on the inefficiencies you were mentioning so that we can better understand what is really the problem and what you plan to do to offset or to overcome these issues, and maybe also with regard to a time frame?

And, secondly, you were also referring to continued high expenses -- R&D expenses related to complex R&D technology and new order wins. Could you also give us a bit of a time frame when we should expect these orders really to become or to run through the P&L, so when will we see the start of production for these orders that expenses can be covered?

Second question is related to the seasonality. We know that Q3 is not your best quarter but could you remind me how the situation looks in Q4. And, especially due to the Easter break, is seasonality much better in the fourth quarter?

And last question, also maybe housekeeping. The tax rate in the third quarter was again at 29 percent, which is basically the level we have seen in the second quarter when you were affected by the Chinese tax audit, but we haven't really seen a decline sequentially. Maybe you can help me understand what's the -- what were the issues in the third quarter and then maybe also guidance for the full year. Thank you.

Dr- Rolf Breidenbach: OK, let's start with the R&D question concerning the expenses and inefficiencies. The inefficiencies are related to the many people we have hired in the R&D departments all over the world in the last years. These guys now have to learn how to work on global projects, how to work for different customers, how to develop the specific Hella products for our customers so it's a question of how fast these people can learn, how good we can train them so we -- of course, I'm not satisfied with the efficiency but it's a short-term challenge we expect to overcome soon. But, as I said, we are not satisfied with that.

Concerning the -- our R&D spend, typically, when we talk about investing into series automotive products, we can see the return on a time frame between two to three years. And, as I already commented, we did these investments to ensure our -- in our opinion, our performing growth which we, of course, will also show in the future. Of course, there are also some additional investments into innovation areas but this secures our technology leadership in some, in our opinion, very important areas. So, investment into the future and this efficiency topic, as I mentioned, will be solved, in my opinion, in the course of the next year.

Concerning the seasonality of our quarters and our Q4 performance, please understand that I cannot tell you more than our guidance of the full year. But when you look at our -- at the performance of Q3 and the guidance we have given to you, the -- our expectation on Q4 should be transparent.

Then Mr. Pohlschmidt will answer your question concerning the tax rate.

Carl Pohlschmidt: Regarding the tax rate, I explained also in the last call that we have an additional burden in one of our Chinese companies where we lost participation in a special tax program called High Technology License. This is mainly due to certain ratios. We were be able in the last years to achieve this, that it's reversed, so meaning that the tax rate has been increased from 15 percent to 25 percent in this specific Company.

There is an extraordinary effect including -- due to the fact that also the past is affected by this so we expect, for the full business year, a tax ratio quite similar from what you see now in the first nine months. But we expect also to reduce it in the next year; not significantly but slightly going down, due to the fact that we are growing more in countries with lower tax rates and therefore have an impact on the overall tax rate.

We had also a special effect -- further special effect from a tax audit in Mexico in the current year, so there we also expect not for the future any burden. It was something coming from the transfer pricing area where we think that we are well prepared for the future so that expectation as a tax ratio will come down in the future, not significantly but slightly, year to year.

Bjorn Voss: OK, thank you.

Operator: Thanks for your question. Henning Cosman, HSBC.

Henning Cosman: Yes, thank you. It's Henning from HSBC. My first question is just a clarification on what Dr. Ollig said on the slide where you were talking about the benchmarking against the global production. And I believe the comment was that you expect the high growth to continue for another couple of quarters and then the growth to come down a more normalized rate so I wanted to ask you if I got this right.

And also if you could contextualize this with especially the high R&D spend that you have now. Shouldn't that mean that the growth rate shouldn't just continue for a couple of quarters but very much like Dr. Breidenbach said now, with the start of production two to three years out from the current spend, shouldn't we be looking at a continuation of those high growth? If you could just contextualize that, that's my first question.

Wolfgang Ollig: So I was commenting on the China development specifically, yes?

Henning Cosman: OK.

Wolfgang Ollig: When you look at the market plus 9%. As you know, we have built up further capacities and now we're ramping up these (three) capacities, and therefore there has been an extraordinary growth element in the last quarters, and this will continue for some time.

Yes, it has not been related to the overall growth development so just specifically on China.

Rolf Breidenbach: Concerning the overall growth expectations, when you look, and Dr. Ollig already commented on that, at the first quarter, second quarter, third quarter, of course our growth rate went down a little bit. And one reason, of course, was the FX effect, the other that also the market calmed a little bit down and our different launches in all the areas.

But it is, and it will remain, our clear target to outperform the automotive market by at least 50 percent, so we -- it's our clear target to grow at least 50 percent stronger than the automotive market globally and we are quite optimistic to reach this target also in the quarters to come, at least.

Henning Cosman: Yes, that's actually the other small element that I didn't say. I'm benchmarking your growth against light vehicle production, not like yourself against sales like your competitors do. And if you look at it like that, your outperformance was 7.7 percent in your first half and now 4.3 percent in the third quarter. Is there anything you could help us understand how the outperformance moves and why there might have been a weaker or slightly less strong outperformance than it was the case in the first half?

Rolf Breidenbach: It's difficult to comment because we guide through the whole year concerning our growth. We have our strategic target and, as I said, we are optimistic to also show a strong growth performance in the next quarters. The specific figures I cannot comment on. I hope for your understanding.

Henning Cosman: OK, sure. And then maybe as a last question, I appreciate your comments on seasonality and the R&D ratio and I suppose it's consistent with also assuming that the EUR140m that's implied by consensus now for the fourth quarter as adjusted EBIT might not be met to that extent, so maybe you could help us a little bit for next year then. Is there any reason why we should expect a guidance for next year to be materially different from the sort of direction you're guiding for this year?

I believe you're saying you're not guiding on a quarterly basis really and, seeing the volatility in some of your cost items, it's probably fair to average that out so is that the right thinking if we think for next year along the similar lines guidance-wise as for this year (originally)?

Rolf Breidenbach: Unfortunately, I think I also can give you not a satisfying answer because we will guide our next financial year in August, and please understand that we cannot do this earlier.

Henning Cosman: OK. Thank you.

Operator: Manuel Tanzer, MainFirst.

Manuel Tanzer: Yes, hi, good morning. Thanks for taking my questions. My first question would be was in Q3 an impact from Volkswagen, i.e. from the longer Xmas vacation they took at their plant?

The second question is I know that that sales growth in lighting was slowing down. Can you give us the reason here and can you maybe comment a little bit on your market share development in lighting and specifically in LED?

And finally, once again on R&D, in previous calls I remember that you were relatively confident to reach a ratio below 9 percent already next year, which I think is off the table. But also, doing the math a little bit and with how fast the auto segment is growing which has a far above Group average R&D ratio, how can you achieve the smaller 9 percent that would mean a material reduction in automotives? Can you maybe comment a little bit more on that? Thank you.

Rolf Breidenbach: Concerning the impact of our growth rate related to a specific OEM, we do not see such a mechanism. So all our customers are developing as we have expected in our budget planning.

Concerning the growth in lighting, of course the growth rate is fluctuating over the quarters and also over the year. And it's correct, currently the growth in lighting a little bit goes down, but this has nothing to do with our order book or our market share. It's only a question when the launches will come. And therefore we are also very optimistic to mid and long term show a very good growth performance in lighting.

Concerning R&D, yes, that's correct. I only can, let's say, repeat what I have said. It's our mid- and long-term target to go under this 9 percent. You are correct, when automotive is growing faster than the other two segments it will be more challenging because our percentage rate in automotive is much higher. But we see it as a realistic mid- and long-term target, but we decided, especially in this financial year, to do these pre-investments in R&D to especially, as I said, support and back up our growth path for the years to come in automotive.

Manuel Tanzer: OK. Thank you.

Operator: Lello Della Ragione.

Lello Della Ragione: Hi. Thank you. Lello Della Ragione from Intermonte SIM. First question on the organic growth. Coming back to the trend that we see quarter on quarter, there is a decline compared to the first two quarters. And I was wondering if that is due to, as you said, for the lighting division, to launches and not specific element and so we shall see something better in the quarter that -- in the last quarter of your fiscal year or is it something going on there?

The second question is on the gross margin (instead). This 27 percent is actually in line with what you said on an adjusted basis for the full year. And I was wondering, since on the next quarter the hedging impact, there should be not a headwind as it was in the past and since you are still working on efficiency at that level, if we should see something better than the 27 percent margin that you guided for the fourth quarter this year. Is it correct to assume that?

And finally, on R&D, it's quite confusing. At the start you guided for something -- in August last year, something between 9.3 percent. Now, OK, something happened during this quarter, but as seasonality affect your quarter figures last year, fourth quarter was very low. Now you said that 9.3 percent is the lower level floor that you can achieve.

And I was wondering if you have to assume a very high level for the full year, hence the R&D ratio for the fourth quarter would be above 9 percent. Is it reasonable to assume? And what actually -- or if you cannot comment on the fourth quarter, is 9.3 percent actually a target that you -- is not -- is too low at the moment? Thank you.

Rolf Breidenbach: Yes. Thank you for your questions. Please again understand that I cannot guide now on specific figures with regard to the fourth quarter. But answering first your question to R&D, I think this 9.3 percent is -- we will not achieve because we are currently, year to date, at a figure of 9.6 percent. We have significantly invested in the third quarter and of course these costs will go on. So the ratio will be slightly above 9.6 percent. This is our expectation for the year end.

Concerning the gross margin, here also I will not now comment on the expected gross margin in the fourth quarter. But when you look at the development of Hella over the last quarters and years, we were always able to run the Company at an adjusted level (and when I here talk about adjustments I only talk about this supplier case) of around 27 percent. And currently, we see no, let's say, effect or issue that this performance cannot be reached also in the quarters to come. At least this is our clear target, to run the Company at such a level.

And also--

Lello Della Ragione: But just on that, but since the currency effect should be -- are easing at this stage and you had some even in this quarter probably, it shouldn't be even at least improving just for that effect that is actually a reversal of what happened last year, that the gross margin was going down and down just for hedging effect?

Wolfgang Ollig: The hedging effect probably will fade out end of the financial year.

Lello Della Ragione: OK.

Rolf Breidenbach: Yes. And concerning the growth rate, of course, as I said, our business concerning lighting, for example, is, let's say, not stable when we talk at our orders. Sometimes we get very big orders in, sometimes smaller orders, sometimes a big portion. And therefore of course when we look at the growth rate, it's fluctuating. But mid and long term, we will also -- this is our target and we are quite optimistic to achieve that -- have a good growth rate in lighting. But please allow me not to comment on our growth rate in lighting in the fourth quarter.

Lello Della Ragione: But is there -- so no specific issue affected the -- on the -- at Group level the figure, the ...

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Rolf Breidenbach: No. No specific -- of course, we have, let's say, specific R&D sources in lighting. We have to look that these R&D sources are utilized in an effective and efficient way. And based on that, of course we also are able to acquire new business and this is leading of course to a not so, let's say, constant growth rate.

In lighting, this growth rate is more fluctuating because our lighting projects usually have a lifetime between, let's say, two to three years. This is a little bit different to our electronic business, where we have a lifecycle of very often more than three/four or six years because here we are talking about products for a huge platform which do not differ from one model to the other.

And therefore the growth, let's say, performance in electronic is more stable and not so fluctuating compared to lighting. But overall, it's our clear target to grow in all -- in both areas and we have got good opportunities to do this.

Lello Della Ragione: OK. Thank you.

Operator: Emily Liu; Haitong Securities

Emily Liu: Hi. Thanks for taking my question. Actually some of the questions have been answered because you just commented on the year-over-year growth of all lighting and electronic business. And actually my question is my expectation for the previous quarter actually was stronger because I heard that there's a pull in -- there's a rush of demand in China because (inaudible) ask more capacity cars into the year end.

And I think the supplier Osram also guide they also benefit from the halogen sales in China. And I wonder whether you saw similar trends in China.

And the second question is I just wonder whether the careful conversion strength will continue throughout the year. Thanks.

Rolf Breidenbach: Yes. Starting with China, as I said, the business in China is already a little bit going down during Chinese New Year. Now we see a good and strong Chinese market, which supports our growth performance. As you know, we have heavily invested into our Chinese capacity. We built up three new lighting plants, we doubled our electronic capacities, and now, step by step, these capacities are utilized.

And as I said and as you have commented on, the Chinese market currently is quite strong. We are benefiting of course not only from the tendency that now also high technology products are launched there, also the A segment, for example, is in China developing very strong. But we are presented in all the segments there for -- all these trends are favorable for us when they are growth trends.

Emily Liu: Thanks. And the working capital consumption, I think there's a strength because due to longer payment terms and the delayed payment, especially in the third quarter. Would this continue to -- is this the trend we can -- will this improvement continue or this is -- will be a normal trend / run rate going forward?

Carl Pohlschmidt: With regard to the payment terms?

Emily Liu: Yes. Yes.

Carl Pohlschmidt: With regard to the payment terms, this is really a regional topic, so we see extremely long payment terms in Asia. And it depends whether you are growing up and source a lot of things for investments, but also starting production and you have a lot of invoices to pay. Then you benefit from the longer payment terms. When you are running up the sales, of course it is burden your working capital because the payment terms are longer.

Overall, we expect that due to the fact that we are growing in the Asian area, at most, that also our working capital needs are increasing in the future. So not dramatically, but we would see more an increase than a decrease due to the fact that, locally, also in the competition with other suppliers, we have to grant these typical payment terms locally.

Emily Liu: Understand. Understand. I just wonder, is it because it's related to Chinese OEM, this payment term thing? And also, I actually heard in the design win process for automobile I think in China the cycle can be shortened to not two or three years. It could be a one-year thing. Does that mean we probably see more volatility in the lighting business from quarter to quarter?

Rolf Breidenbach: We don't think so. One year volatility is, in our opinion, very ambitious. But this is -- I don't think that, today, with the existing technology, this is affordable. And currently we also do not see this trend. Of course, we have in lighting these cycles of two, two and a half years. This is correct. But it's not only true for China, it's true for the whole world.

Emily Liu: OK. OK. Understand. Thank you. Thanks.

Operator: Christoph Laskawi, Deutsche Bank

Christoph Laskawi: Hi. It's Christoph Laskawi. Thank you for taking my questions. Actually it's only one left. You pointed towards the inefficiencies in the R&D department coming to an end rather in the short term, but stated as well that the R&D ratio probably is not coming down much in the next year. Could you quantify on the cost of the inefficiencies and, if they are resolved, what the target might be for next year? Thanks.

Rolf Breidenbach: This is difficult to comment. And as I said, we will not now guide on all these different lines for the next fiscal year, but perhaps allow me to comment in the following way. Most of the investments we have now done in R&D are investments into the future. And of course, we have this efficiency topic, which -- we have become more and more efficient, but the speed of improvement is not satisfying for us. Therefore I said it's a challenge we will solve, short term.

But allow me not to comment now on the quantitative figure. But this will help us to reach, mid and long term, our target to go down in the R&D ratio. But again, this investment now into R&D, it was a significant opportunity we now try to catch. This is the most important part. Another part, as commented by Dr. Ollig and myself, is this inefficiency part.

Christoph Laskawi: Understood. Thank you.

Operator: Alex Haissl.Credit Suisse

Alex Haissl: Good morning. This is Alex at Credit Suisse. My three questions would be the following. First of all, I appreciate you're not commenting on R&D near term, but the key question for me is, is there more of a structured problem in the Company, i.e. that the costs to grow the business are higher? Because if I take, on a Group level, your total cash investments per year, CapEx and cash R&D is between 15 percent and 16 percent, and you converted this 16 percent into 7 percent organic growth.

So it seems like there's a very high spread or you're less efficient than other companies in converting your investments into organic growth. Do you see some more structural problems here since costs are not really coming down?

And you also need to see this in context, in my view, in the outperformance over the last few years because data available that we have over the last six years, the outperformance versus the relevant market hasn't really changed. So you've outperformed the market by 360 basis points on average. Now you're doing 400, 450 basis points. So what I'm missing here? This is my first question.

My second question would be on the outperformance that you show on your slide as well. What is the reason why you're not outperforming, in Europe in particular, with 11 percent growth year over year for the market and your revenues?

And my last question, sorry, coming back to this other operating income line, not on a Group but on the automotive side, I was just wondering what happened in the third quarter, where you had a positive EUR9m gain in the automotive business, which was contributing quite meaningfully to the EBIT line here. Thank you very much.

Rolf Breidenbach: Starting with the second question as concerns Europe, it's only a question of opportunity and focus. And it's our clear target to play a relevant role in all the main automotive markets. This is Europe, Asia, of course especially China and also NAFTA / NFA. And due to the fact that we have invested in the past a lot in the -- to market NFA and China, we now show a stronger growth compared to the overall market development there. No other reason behind that. It's only balancing out our market coverage.

Concerning a structural problem, we see no structural problem. Of course, we always can improve our investment efficiency and also our cash conversion rate, and of course we are taking actions to improve here the Company's performance. But overall, the basic conditions of our automotive business haven't changed and we see currently no change, no significant change in the future, despite of course, which already have discussed very often, this investment into LED.

And this investment of course is not only at the R&D side, of course it's also at the equipment side and how we train our people. But overall, I see no structural problem.

Third question will be answered by Mr. Pohlschmidt.

Carl Pohlschmidt: With regard to the other operating result in the automotive segment, so what I commented for the Group previously is also included in the automotive segment because it was recorded there in previous year, so this extraordinary expense. And in the current year, we had, in addition, some release of provisions, which are recorded in this line.

Alex Haissl: OK. Thank you. Just one last question. For me there are two scenarios in terms of converting investments into organic growth. Either this ratio needs to come down, which reduces the spread, i.e. more efficiency, or your outperformance should accelerate. But if I take the outperformance versus the market, despite the investments you have done with a two-year time lag, the outperformance hasn't really changed.

So is it more likely that the outperformance should accelerate in the next few years or you should be able to bring this ratio down more meaningfully, i.e. total cash investments, CapEx and cash R&D?

Rolf Breidenbach: Of course we will try to do both, and when there are opportunities on the market we will try to catch them. This means that we see good changes, as I said, to continue our growth rate, our growth path, but also concerning our -- let's concentrate on the cash conversion rate. We see possibilities to improve.

Alex Haissl: OK. Thank you very much.

Operator: Michael Tyndall, Citigroup

Michael Tyndall: Hi there. It's Michael Tyndall from Citi. Just a couple of ones if I can. Just looking at your market growth outlook, so plus 1 percent in Germany, plus 1 percent in Europe, they seem to be on the conservative side given that Europe is up or at least the top five markets are up 8 percent in the first quarter of this year. So you're actually flagging that the market would be down in the rest of the year. I'm just wondering, are you seeing something that maybe we're not seeing in terms of the outlook or is it just a question of the VDA maybe being very conservative?

And then I guess following on from that question, just thinking about the order flow in terms of -- I don't know whether you're the same as other suppliers where you get six weeks confirmed orders, six weeks indicative. What are you seeing in terms of that conversion from indicative to confirmed? Is it exactly the same sort of level? Is it up, is it down as we roll through the three-month visibility? Thanks.

Rolf Breidenbach: Yes. Starting with your first question, most of our market estimations are based on the VDA statistics. This is the reason why we have this 1 percent for Germany and Europe. Let's see whether this is on the conservative side or not, but we see no, let's say, special topic or development coming up on the horizon. There, as I said, it's more or less based on the VDA statistics.

Concerning the fluctuation of our orders, currently we see very stable order behavior of our customers. And this is also for us a sign that, let's say, nothing spectacular or specific is going on there. And therefore we also expect a quite stable development in the weeks to come. Of course, this can change from one moment to the other and if they want, our customers can change their orders from one day to the other. But currently, we see a very stable order behavior in all the markets.

Michael Tyndall: That's great. Thank you very much.

Operator: Christian Breitsprecher, Macquarie.

Christian Breitsprecher: Yes. Hello. I have two small questions remaining. You have highlighted that in the third quarter cash flow was negatively impacted by a reduction in factoring. My question is what do you plan there for the fourth quarter? What is the total amount of receivables that you have at the moment sold via factoring?

And the second question, in earlier conference calls you indicated that for the full year we should pencil in EUR20m in restructuring expenses. If I see it correctly, you had roughly EUR8m in the first nine months, so it would be EUR12m for the remaining of the year, or how much should we pencil in for the full year and the fourth quarter as restructuring expense? Thank you.

Carl Pohlschmidt: With regard to the factoring program, so we had an amount in the last years of EUR100m. This we started to reduce by EUR10m each quarter, so we are now at a level of EUR80m and we plan to further reduce, as I said, by EUR10m per quarter.

Rolf Breidenbach: Concerning the restructuring costs, we expect an amount now for, let's say, around EUR10m. So we more or less implemented all the restructuring activities for this fiscal year. Especially of course in Germany our efforts were very efficient, so we were able to implement all the measures at a lower level of costs than we expected. Therefore, overall, we expect restructuring costs of around EUR10m for the whole fiscal year.

Christian Breitsprecher: OK. So roughly, EUR1.5m, EUR2m left for the fourth quarter?

Rolf Breidenbach: Yes, approximately. This is our target, but -- or our expectation. Let's see how it will come.

Christian Breitsprecher: OK. Thank you.

Rolf Breidenbach: Then again, thank you very much to all the participants, on the one hand to listening to our presentation, but of course also to ask the questions. And we from the Hella team wish you all the best. Thank you. Bye.

Operator: So that does conclude our conference for today. Thank you all for participating. You may now disconnect.

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