C: Dr. Rolf Breidenbach; HELLA GmbH & Co. KGaA; CEO and President
C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO
P: Akshat Kacker; JP Morgan; Analyst
P: Christian Ludwig; Bankhaus Lampe; Analyst
P: Henning Cosman; HSBC; Analyst
P: Marc-Rene Tonn; Warburg Research; Analyst
P: Raghav Gupta-Chaudhary; Citigroup; Analyst
P: Sascha Gommel; Credit Suisse; Analyst
P: Deeya D'Souza; Morgan Stanley, Analyst
P: Julian Radlinger; UBS, Analyst

COMPANY EDITED TRANSCRIPT

Operator:

Thank you all for standing by, ladies and gentlemen. Welcome to today's HELLA investor update 9 months FY '18 and '19 conference call. (Operator Instructions) Please be advised that today's call is being recorded, that is Thursday, 11th of April 2019.

I would now like to hand the call over to your speaker, Dr. Breidenbach, CEO; and Bernard Schäferbarthold, CFO. Thank you. Please go ahead.

Rolf Breidenbach^

Yes, ladies and gentlemen, good morning to all of you. Thanks a lot for dialing in. This is Rolf Breidenbach speaking. I would like to welcome you also on behalf of my colleague, our CEO, Mr. Schäferbarthold, to the HELLA investor call on our 9 months results.

Before we go through our investor update presentation, allow me please to give you a brief summary on the market and business performance.

As anticipated, the automotive market developed negatively in our Q3. The development was an inverse than expected. However, our growth performance was also for us surprisingly better than expected. This has 2 reasons. First, we had a high demand in our Automotive business. And second, during this period, we invoiced development and tooling services to a greater extent compared to the other quarters.

Despite a weak development and further increasing cost for material and personnel, we've also been able to keep our profitability in Q3 on the prior year's level. This was also supported by a favorable development of our Aftermarket and Special Application business.

Looking ahead, we're expecting a very challenging Q4. On the market side, we don't see any recovery in the automotive industry. Especially, we see the European markets and the China markets to remain very difficult. Contrary to our expectation from January, we do not see any kind of stabilization. Therefore, our growth rate is expected to further slow down.

On the cost side, we will face a continued high pressure on our profitability due to higher material and labor costs. Despite these headwinds in the final quarter, we confirm our current company outlook for the current fiscal year 2018/2019 mainly due to our positive business performance over the full 9 months. Looking beyond this horizon, I would like to mention that we will publish our guidance for the fiscal year 2019/2020 in August. However, please allow me to point out some general remarks already today.

The situation for us is going to be very challenging also in the coming fiscal year. The reduced growth dynamics we already expected for Q4 might spill over to the next fiscal year. Thus, we anticipate a somewhat lower run rate in 2019/2020. At the same time, cost for materials and labor will continue from our perspective then to rise. To balance these effects will definitely be a challenge for us, especially against the background that we will continue to invest in R&D to secure our future profitable growth path.

As of today, we are not going to cut our R&D expenditures. On the contrary, we will continue to invest in new technologies. We will still pursue our long-term profitable growth path, and this is absolutely clear we will benefit from the chances the market transformation provides for us.

Having said this, allow me now to go to Page 4 of our investor corporate presentation to comment on the 9 months results. Our currency- and portfolio-adjusted sales increased by 6.2% to EUR 5.1 billion. As my colleague, Mr. Schäferbarthold, will also show later, this growth has primarily been driven by our Automotive business, but also the Aftermarket business and Special Applications also contribute to this development.

When we look at the gross profit, the adjusted gross profit margin improved by 10 basis points to a level of 27.4%, especially in Q3. Negative factors weighted on the margin. The gross profit margin in Automotive was more or less constant and at a level of 25.3%. In the Aftermarket, we achieved 36.3%. And in Special Application, 38.9%. So quite satisfying increase in Aftermarket and Special Application. The adjusted EBIT improvements by 5.6% to EUR 417 million is from our perspective quite satisfying.

Our adjusted EBIT margin is now at a level of 8.1%, a little bit lower compared to the last fiscal year. But again, we achieved what we expected.

Finally, our adjusted free cash flow from operation -- from operating activity increased by EUR 31 million to now EUR 210 million, especially our activities with regards to working capital consumption were quite successful. We significantly increased our payables, and we are also quite satisfied with the development of our receivables.

Although, overall, the Q3 has been become more and more demanding for us to compensate the challenging market environment, we are in general quite satisfied with the results.

Allow me to shortly comment on Page 5 about our growth performance. As you can see, the reported sales growth is now at a level of 0.8%, the adjusted one at a level of 6.2%. And the two adjustments we made is, on the one hand, the portfolio adjustments, especially here the adjustments with regard to our wholesale business and a small adjustment with regard to the FX development.

When we look at Automotive, as I said, Automotive was the growth engine in the first 3 quarters of our fiscal year. And in both areas, Electronics with growth rate of 6.4% and Lighting at a level of 8.4% showed quite satisfying growth rates. But also, the development especially in the workshop product area with significant growth over 30%, contributing to the overall quite good growth performance of our company.

When we now go to Page 6, you can see that, again, also in Q3, our Automotive business was able to outperform the market significantly. And as I said, this was also for us a little bit surprising. On the one hand, the market which went down by 3.7% for the first 9 months of our fiscal year. We were able to grow by around 7.8%. This means an out-performance of 11.5%, yes, which is quite okay. This out-performance was generated especially from Europe and North and South America with values of 10.7% and 16%. The out-performance was a little bit lower in Asia with a level of 4.3%.

The figures for China, in China, we had a more or less constant development of our business, while the market went down by more than 9%.

So having said this, allow me now to hand over to my colleague, Mr. Schäferbarthold, who will give you much more details about our financial results.

Bernard Schäferbarthold^

Thank you, Dr. Breidenbach. Good morning also from my side.

Before jumping into the first slides, continue the presentation on Page 9, please allow me to start with some introductory comments also. As Dr. Breidenbach already mentioned, the market environment was very challenging. Although we predicted that somehow also the decline in volumes compared to our expectation in January, I have to say that, all in all, we are very pleased about the outcome in the third quarter. Our sales development was even in this environment slightly above our expectations. That certainly also had to do with somehow a little higher invoiced D&D activities and tooling invoiced to our customers. That had no significant impact on our profitability in that quarter. But all in all, that supported our growth in Q3 by roughly EUR 35 million on a year-on-year comparison in that quarter.

Our EBIT and cash flow in Q3 were within our internal expectations. For full year, as said, we feel confident in reaching our guidance targets, although market expectations are worse compared to what we expected in January when we had our last quarter results call.

We expect a strong Q4 regarding our EBIT margin, even on a year-on-year comparison, higher to what we have shown last year. That is also due to the fact that we have sold our building and property in Australia after closing that plant in earlier of the fiscal year. The closing of this transaction will be in Q4 and comes with a gain of around EUR 12 million, which will then be booked in that quarter. Despite that, we will see, and that Dr. Breidenbach also mentioned, that the growth dynamic should also be slower in Q4 compared to Q3 with still weaker demands than expected when we talked in January.

Having said that, I would like to continue in the presentation on Page 9. Looking at our gross profit, a good development in absolute and relative terms slightly. Positively, we improved gross profit in all 3 segments. I am pleased about the further improvements, especially in the gross profit margins in our segments Aftermarket and Special Application. In Automotive, our gross profit margin is flat compared to last year. But as mentioned by Dr. Breidenbach, with the actual challenges, especially in Q3, now we have seen a decline in our gross profit margin of 0.5 percentage points on a year-on-year comparison. Slower growth, higher material cost, higher personnel expenses couldn't be fully compensated in that quarter.

Coming to Page 9. Our R&D ratio is higher in the 9-month period on a year-on-year comparison. We have continued to invest in new technologies and also the execution of our order business. The strategy is unchanged. As also mentioned earlier by Dr. Breidenbach, and still -- all most recent statements also we have done at our last Capital Markets Day in February that are still valid, where especially we also presented our activities, for example, in energy management, which are looking very promising.

SG&A on Page 10 is higher, but the increase is under-proportionally to our growth. The ratio declined by 20 basis points, a very decent good development, which shows that all measures we already started with the beginning of our fiscal year are showing good results and support at the end our profitable growth.

The adjusted EBIT on Page 11 is showing EUR 417 million after our third quarter. That's an increase of 5.6%. The EBIT margin is 0.1 percentage point lower on year-on-year comparison. Overall, we are showing a slight improvement in gross profit margins still after 9 months and improvement also in our SG&A ratio. And on the other hand, we are investing more in R&D to support future growth, as mentioned.

On Page 12, you see our numbers down to EPS. Our reported EBIT is at EUR 649 million. We had a good development if it also comes to our net financial results. We see an improvement also compared to last year. We were able to realize overall, with the disposal of our wholesale business, our EPS is increasing by EUR 2.11 to a level of EUR 4.59 after 9 months.

Looking at the third quarter, only as mentioned, sales growth is driven again by a good development in our Automotive business despite the challenging market conditions. Aftermarket is showing a modest growth, especially the demand in our Independent Aftermarket in some selective markets in Western and South Europe, but also Middle East were challenging in that fiscal year. On the other hand side, we had a continuously good demand if it comes to our workshop products.

Special Application was especially impacted by the closure of our Australian plant on a year-on-year comparison. But despite that, we continuously see a good demand, especially in our important business segments, agriculture, construction, trailer and also bus.

On the EBIT, the adjusted EBIT margins were all on plan levels. Positively, we had a very decent improvement in Aftermarket and Special Application in the third quarter also driven by a favorable product mix. But there, we're also seeing that the improvement measures we are working on are showing good results.

In Automotive, as mentioned, we were not able to maintain the adjusted EBIT margin in Q3 with the slower growth and higher material and personnel expenses, and additionally, the higher R&D investments on one side. On the other hand side, all cost improvement measures, again, they couldn't fully compensate the higher expenses overall.

Looking at the cash flow. We are at EUR 210 million. A good further step we have done supported by, on one hand side, higher profitability, but especially also good improvements, again, we are doing in working capital. Really good to see. I have to say that the effect overall of our cash flow improvement program here is showing, again, another, I would say, good step forward.

Looking at the different segments. Overall, Automotive, as mentioned, is our growth driver this fiscal year. Growth is at 7.5%, and -- but again, to mention, the growth dynamics has weakened quarter by quarter at least with the markets. Profitability, our profitability in automotive is increasing. Nevertheless, as mentioned, EBIT margin is lower at 7.9% with the increase in R&D. And overall, in the 9-months period, a stable gross margin.

Looking at Page 16. Aftermarket, overall, after 9 months, is showing 3.8% of growth and a decent profit increase. It's good to see here, as already mentioned, continuous good demand in our workshop products in these 3 quarters and a stable business in our Independent Aftermarket business even, as mentioned, in partially difficult regional topics we have, where, as one example, we have in Turkey macro political challenges also impacting the market and also our business.

Special Application with a negative growth. Without the closure of our Australian plant, growth would be after 9 months at 3.8%. But overall, as said, profitability increased over-proportionally, but is good. And again, in Q4, we expect, as mentioned here, with the sale of our building in Australia, an additional profit of EUR 12 million on top of the operational performance.

Having said that, I would like to hand back to Dr. Breidenbach with the -- for the outlook, and then I'm happy to take your questions also afterwards.

Rolf Breidenbach^

Yes, thank you very much. With regards to the general market development, which is shown in Page 18, I think nothing new. The outlook worsened from month to month. We started into our fiscal year with an expectation that the overall market will grow by 2.7%. And in September, the expectation went down to 1.5%, December, minus 1.4%, and we are now expecting for our fiscal year a shrinking market with a number of minus 3.7%. This is mainly driven by China with a value of minus 8%, but also the German market, from our perspective, is very weak, around minus 10%, minus 11%. This is the level we expected, yes, and NSA more or less, stable. So overall, as Mr. Schäferbarthold also said, the general market environment in this country is not so supportive.

On the other hand, and this is shown at Page 19, despite these headwinds, we confirm our current company outlook for the current fiscal year 2018/'19 due to our positive business performance over the last full 9 months, but of course, also our cost-reduction activities, we are -- we have implemented in all areas of our company. We are -- therefore, we are currently expecting the following: The currency-adjusted and portfolio-adjusted sales growth at the lower end of the given forecast range from 5% to 10%, increase in EBIT adjusted by restructuring measures and portfolio effects in the lower half of the given forecast range from 5% to 10% and the adjusted EBIT margin approximately equivalent to the value into the prior year. So nothing has changed with regards to this outlook compared to the last investor call.

Yes, having said this, I would suggest that we start with the Q&A session.

Q&A

Operator^

(Operator Instructions) The first question comes from the line of Christian Ludwig.

Christian Ludwig^

It's Christian Ludwig from Bankhaus Lampe. First question would be on your statement, Dr. Breidenbach, you made for the 2019/'20 year. I mean I know it's still early days, but it sounds like that you're kind of preparing us for a guidance that may be significantly below what you've given us for the current fiscal year. Is that the right way to look at it?

Rolf Breidenbach^

No, this is too early to say because we are currently collecting our figures. We are, of course -- we are going more deeply into the different market developments. This is too early to say.

Christian Ludwig^

But clearly, you're becoming more cautious. Is that a fair statement?

Rolf Breidenbach^

We have to be more cautious, yes, because we have these developments with regard to material cost, the personnel cost, on the one hand. We have this, from our perspective, very difficult to forecast of the market environment. Therefore, of course, we are cautious, but as I said, please allow me to say I think a good and reliable guidance we can give you in August. Today it's too early. We do not have the figures, especially our cost figures and the detailed market development figures in our hands.

Christian Ludwig^

Let me try a little differently. What kind of top line growth rate would you need to keep margins stable?

Rolf Breidenbach^

This not only depends on the top line. This also depends on the cost development. Therefore, please allow me not to speculate now. I tried to describe a little bit the business environment, but it's too early to say now specific and concrete figures for the next fiscal year.

Christian Ludwig^

Okay. And then two very quick follow-up questions for Mr. Schäferbarthold. In your Q3 results, the marketing or the distribution costs dropped significantly year-over-year. Is this some kind of special effect or a different way of calculating the cost? Or what happened here? And then on the joint venture, is that also significantly weaker than I had expected. Could you give an update there what's going on there?

Bernard Schäferbarthold^

No special effect, I would say, on the sales cost that we should have here. For sure we also are working on reducing these costs, and depending also on the mix, especially there could be some volatilities quarter-on-quarter, but there is, I would say, nothing special really to mention here. On the joint ventures, overall, I would say we are basically, I would say, flat and in line with what we expected. What we especially have is somehow a weaker development still in Asia, also with basically in line with the market development, which is below our internal planning.

Christian Ludwig^

Okay. So it's market-driven, not some kind of internal issues?

Bernard Schäferbarthold^

Exactly.

Operator^

The next question, it's from the line of Raghav Gupta.

Raghav Gupta-Chaudhary^

It's Raghav from Citigroup. A couple of questions. I'm mindful of your cautious tone, but you've just delivered another quarter of strong out-performance when everyone else or your peers are suffering. If the market conditions don't improve, is the implication clearly your out-performance is going to slow? Is that because of particular kind of model ramp-up or project launches? And for the last, I guess, question, slightly differently, are you seeing something in your order book which means that you're going to potentially return to the level of out-performance you're delivering in 2017 when it slowed?

Rolf Breidenbach^

I think we had the discussion in the last investor call, for us, it's very difficult to forecast this out-performance. And I already mentioned we were, yes, very positively surprised by the out-performance we could show in Q3. Therefore, yes, we -- so far, we cannot now forecast the out-performance we will show compared to the market development in the months to come. It's very difficult for us to. We concentrate on our figures and sales development directions we have in mind. We are talking to our customers. We are collecting our data. And based on that, we have a quite good feeling with regards to the sales development in the weeks to come, but with regard to market out-performance, very difficult to assess.

Raghav Gupta-Chaudhary^

Okay. So good feeling on the sales development in the weeks to come. But in terms of your kind of program launches, I mean you got visibility on that, maybe not on the take rates, given kind of where the market is going to be. But what can you tell us about potentially the programs that have been driving the strong out-performance and kind of the cadence of any new programs that might be coming online?

Rolf Breidenbach^

Yes. With regard to our launch activities, we are still benefiting from launches in areas like energy management, so DC/DC converter, also battery management systems are now showing increasing volumes. Also, launches in lighting products. We have launched, for example, in the NSA area, which will also be continued. So there is no special peak or special negative development with regards to our launch portfolio in the months to come. The problem we have is that it's very difficult to assess the volumes behind these launches. Sometimes launches in those days are postponed from one day to the other by weeks or months. Sometimes, as you already have commented on, take rates are significantly lower than we expected. But with regards to our, let's call it, structural launch activities, there are no specific up and downs. We are still benefiting from this electrification trend, which is now, of course -- gets more and more relevant. Also, the, let's say, mid-tech LED lighting products, we are currently launching will contribute to our growth performance. But as I said, we do not see structural weaknesses with regard to our launches, but very difficult for us to assess how much top line growth or how much sales really will come out of these launches because the market is so volatile, it's also for our customers, so difficult to assess how the market demand will develop depending on models, regions. And this, of course, a problem we currently have.

Raghav Gupta-Chaudhary^

I mean -- if I was commenting to follow-up on a couple of these points, you mentioned recent conversations with the OEMs. Are seeing a change in approach from them either in terms of the orders and in terms of launches being kind of pushed out to your point or in terms of pricing?

Rolf Breidenbach^

No. Of course, as I said, some of our customers have to postpone launches. I think this can be also red in the newspapers, so I don't know whether this development will continue. But we are very, as you said, cautious. And with regards to the cost pressure, I think this is also when many of our customers has started design-to-cost -- redesign-to-cost programs, but we are working with them together from our perspective in a very constructive and content driven way, and this is -- and these special programs do not, let's say, concern us much because it's a common approach in the automotive industry, and we are quite familiar with it, and we know how to find good solutions for both partners. Which concerns us much more is the volatility in the market I commented on before. And therefore, yes, as I said, very difficult to forecast on a reliable level the volumes of the different products we are selling to our customers.

Raghav Gupta-Chaudhary^

Understood. Very clear. I mean you've talked about needing to spend more R&D to fund future growth. I mean, and at the same time, talking about clearly a softer, more volatile and uncertain, I guess, market environment. How should we think about your ability to cut this if market demand does, I guess, continue to deteriorate?

Rolf Breidenbach^

Yes, one important thing is that we have to increase our activities with regard to platforms and common parts. Using them makes us a little bit more independent from this very volatile development. On the other hand, we are getting, let's say, more selective with regards to regions, customers and products. And we try to anticipate successful products, positive market developments and convincing products with regard to market acceptance. So we are getting more selective with regard to that. And with this strategy, we try to be efficient with regards to our R&D spending because, of course, due to these volatile developments, of course, the risk is increasing that we are developing products or investing into technologies where in the end the business case does not pay off.

Raghav Gupta-Chaudhary^

Excuse me. Sorry. The final one was the tax rate. Why is it so high in Q3?

Bernard Schäferbarthold^

That has to do with the IFRS standard and the way that we basically assume what will be the tax rate expected full year so that we had a kind of catch up in Q3 only in regard to the overall expected tax rate on the full year. That has to do, on one hand side, also with, I would say, the distribution of profit in the different countries, but also the wholesale disposal and also the sale of the property in Australia overall. So you will then see a lower tax rate in Q4 because now in Q3, overall, the tax rate, which is roughly between 17% and 18%, will then be that one you will most probably see then in Q4 also. But overall, including wholesale disposal without the income of the joint ventures, it will be roughly at between 17% and 18% on full year.

Operator^

The next one, it's from Sascha Gommel.

Sascha Gommel^

The first one would be a follow-up on your remarks regarding the cost inflation coming from materials and labor cost. I mean that should be a trend you should have experienced over the last quarters already. So maybe you can elaborate a little bit on what has changed now that you flagged this issue so much, given that raw material cost actually has been trending down over the last few months. And then the second question would be also a follow-up on R&D. It keeps going up also relative to revenue. Where do you see a peak? And where do you see that kind of long-term level for your R&D? And related to R&D as well, how was the capitalization rate in the third quarter?

Rolf Breidenbach^

With regards to the material cost, of course, we have negotiated a lot of our contracts in the last month. Therefore, the expectations now have materialized, and we saw that the burden is now affecting our P&L more and more. But as I said, of course, we also have introduced a lot of countermeasures. But yes, it's a burden. With regard to the R&D rate, of course, the rate is higher due to the, on the one hand, due to these sales drops we are facing, due to the, let's say, weak market development. That's a rough figure. It could be that, at this rate, we'll be at the level of around 10%, plus/minus, as an orientation. So we have no intention to increase this, but around 10%, of course, also depending on the sales development or the market development. The capitalization is unchanged if it comes to the criteria. It's slightly above 10%.

Operator^

And the next question, it's from the line of Henning Cosman.

Henning Cosman^

Two clarifications. Ignore my ignorance here, but I just wanted to clarify if the 5.6% EBIT growth that you're showing for the 9 months, is that fully comparable with the guidance? So what I mean is, is that already adjusted for the disposal of the wholesale already? Or in other words, if you like to get to the lower half of the 5% to 10% EBIT growth, does that then imply something like 7%, 8% EBIT growth in Q4? If you could just remind us how you treat the restating there. That's the first question. And then the second question. I'm not going to try on your sort of longer-term out-performance of growth, but I think you said you're not really seeing a stabilization in data points, including in China. That's what I understand you said. So I'm a bit surprised because what we saw, at least the last 2 weekly data points in China, to look a little better flattish. So I was wondering how you're assessing that and really what you're seeing more in terms of short-term trend in this, if you would.

Rolf Breidenbach^

Yes, with regard to our guidance, of course, all the figures are like-for-like, no? So the adjustments are made. And with regard to the market development, currently, we see not a, let's say, sustainable positive development in China. And as Mr. Schäferbarthold already mentioned, we are very cautious, and we currently, yes, we do not see a recovery of the market or first positive signs. Let's see.

Henning Cosman^

Okay. So just to reconfirm, just to fully get this straight. So the midpoint of the lower half of 5% to 10%, I guess, is something like 6%, 7%? So you need to see 7%, 8% EBIT margin growth -- sorry, absolute EBIT growth in Q4? Just -- did I understand that right?

Bernard Schäferbarthold^

It's mathematically correct.

Operator^

And the next one, it's from the line of Marc Tonn.

Marc-René Tonn^

The first one would be on the product split in the Automotive segment. I think you were highlighting particularly the Capital Markets Day that we would see, let's say, stronger growth at electronics going forward. And on the third quarter, that was lighting which was growing a bit stronger. Perhaps, your feeling to when we would see this shifting to the electronics becoming more of a growth driver going forward, particularly as you mentioned products on that side specifically key growth drivers for last quarter already from the radar side. And second question would be, you mentioned this, revenues from tooling and R&D reimbursements for Q3, which I think you -- mentioned about EUR 30 million to EUR 35 million, which, as I also, if I understand right, neutral to profits. If this was the case, then gross margin adjusted in the third quarter was pretty stable year-on-year, which was quite an achievement. Perhaps you could give us some more detail on how we should think about this profit wise.

Rolf Breidenbach^

With regard to the, let's say, growth dynamics in electronics and lighting, the assessment is still true. So we expect in, let's say, the third quarter of this calendar year approximately that electronic will start to grow faster than lighting, and this is from our perspective will be a sustainable trend.

Bernard Schäferbarthold^

On the tooling and the D&D, my comment was that we are not doing any profit at all, but we are not doing any extraordinary profit. So that's certainly depending on which tool, which D&D invoice at least, which project. So it depends also a little bit on complexity, also if it comes to somehow margins we will realize. But overall, there -- and that was my comment, no significant effect if you look at the margins and gross profit in the Automotive segments.

Marc-René Tonn^

Not helpful, but also not, let's say, extremely dilutive. It might be small profit but nothing material?

Bernard Schäferbarthold^

Exactly.

Marc-René Tonn^

Perfect. And I know we discussed the 2019/'20 already, but I think when just look at IHS, they are projecting for you currently with I think from what we take and what you said appear to be, let's say, a bit hesitant to take that for granted when thinking about next year at this stage. Is that the correct way to look at it?

Rolf Breidenbach^

I mean when you look at the assessments of IHS in the past months, they again and again reduced their forecasts. And therefore, yes, we are very, very cautious. And currently, we see no sign of recovery in both very important market for us. This is Germany and China. And yes, let's see how the IHS forecasts are developing in the months to come. Currently, we are not so positive with regards to especially these both markets.

Operator^

And the next question, it's from the line of Julian Radlinger.

Julian Radlinger^

Two questions from my side. First one, on the tooling reimbursement -- tooling development cost and reimbursement once more. So you said that those reimbursements are kind of about EUR 30 million or so of top line growth. Can you give us the number for how much they accounted for in the previous few quarters? Or if you could -- to the following version of that, same question, is -- are tooling reimbursements something that's volatile from quarter to quarter? Should we consider it as a kind of one-off in your organic top line growth? Or is there always something coming in basically every quarter?

Bernard Schäferbarthold^

It's not a one-off. So that is, I would say, normal part of our business. So overall, in the 9 months, we had roughly EUR 270 million. And in comparison to last year, it was slightly above EUR 200 million. So overall, we had EUR 65 million more in the 9 months. But if you would look at the different quarters, EUR 35 million only was in Q3. So that was somehow, if you look at the growth overall, it was over-proportionally to normally what we see as a difference, but I would not say that it is somehow a one-off. It's only part, let's say, somehow of the growth.

Julian Radlinger^

Okay. Great. And then my second question relates to the European Union CO2 targets in 2020 and 2021. I think what's pretty clear is that, in many OEMs, especially the European ones, are going to launch 48-mile hybrid models and plug-in hybrid models quite aggressively, starting basically now and well into the next 2 years. And so at your last Capital Markets Day, you made a very interesting point that you actually have quite a lot of content in electrified powertrains along the lines of inverters, converters, onboard chargers, et cetera. So the question here is would you confirm that you have -- that you had exposure to some of the models that the European OEMs are launching thinking of, for example, the premium German OEMs they're going to launch a lot of PH EVs and so forth. And is that perhaps part of the reason why you expect electronics, the electronics division, to outgrow the lighting division starting the second half of this calendar year?

Rolf Breidenbach^

Yes, the short answer of your question would be yes, especially when -- allow me to do a little bit -- elaborate on the products. So especially battery management system and DC/DC converter are products we are launching in this area. And yes, these are 2 drivers of our growth development in electronics.

Operator^

We still have two questions more. The next one is from the line Akshat Kacker.

Akshat Kacker^

Akshat from JPMorgan. Most of my questions have been answered. Just one on personnel costs. What regions are you seeing this inflation in? And do you have a ballpark number for percentage of labor in Europe in these high-inflation countries?

Bernard Schäferbarthold^

I think the inflation, you could say, is globally. So basically, what we see is that if it comes first to the personnel expenses, we mean that the increase in salaries are somewhere -- somehow globally 1% to 2% overall higher on a year-on-year comparison. And it's -- on the one hand side, it starts with Germany. But still, we see even higher increases in Eastern Europe and still also China, but also Mexico is increasing significantly. So overall, 1% to 2% higher compared to last year. And on materials side, as earlier mentioned also, especially for specific electronic components, due to much higher demand overall also in different other products and segments, the demand is so high that the price has increased significantly. That has eased a little bit in the last weeks. But still, we are not back, I would say, to normal. And still, prices, especially if you compare year-on-year, are by far higher. You cannot really, I would say, that is also a global trend because most of these components are coming from Asia but then are used everywhere in the world. And that continues, I would say, in certain other different components also, where we at least see that especially price reductions as perhaps also expected to have these productivity and efficiency realization we expect are more difficult to reach.

Operator^

The next one is from the line of Deeya D'Souza.

Deeya D'Souza^

I just have two real -- main questions, one on the JV result. I think you mentioned that in a previous question that you are in line with the market in Asia, which is slightly below your internal expectations. Can you just explain why you thought that you're going to grow above market there? And yes, I'll take the next question after.

Rolf Breidenbach^

I'm not sure -- so we're growing in China stronger than the market because we have launched a lot of products in the last month and had only a very few stop of production. So the balance between launches on the one hand and products which went out was quite positive for us, for example, in China. And therefore, we grow faster. We have also quite a good customer pattern, we think, in China. So the premium, I think, was less affected by the market decrease than other segments. So on the one hand, it was a favorable customer portfolio. And on the other hand, a good portfolio of new launches.

Deeya D'Souza^

Okay. Also, on -- just a question on your lighting and your suppliers in lighting. I was just wondering have you over time kind of increased your diversification of suppliers in that segment?

Rolf Breidenbach^

Yes, because it's a clear strategy to -- for example, with regard to LED suppliers, to build up a very broad and capable basis. We need this to be cost-competitive, and we were quite -- yes, we were quite successful in the last year.

Deeya D'Souza^

Yes, okay. More exposure to the Asian side, for example, or...

Rolf Breidenbach^

Yes, we did not talk about suppliers, but Asia is one very important area where we have developed the suppliers.

Deeya D'Souza^

Yes, great. And sorry, just to clarify. You said about the tax rate that you should see that coming down in Q4. Is that right, 17% to 18% for the full year?

Bernard Schäferbarthold^

Yes.

Operator^

And there are no further questions at this time. Please continue.

Rolf Breidenbach^

Okay then. Thank you very much for participating in this telephone call. And yes, all the best. Thank you. Bye.

Operator^

Thank you. That concludes our call for today. You may all disconnect, and thank you all for participating.

END