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COMPANY EDITED TRANSCRIPT

Operator: Good morning, ladies and gentlemen, and welcome to the HELLA conference call regarding HELLA annual results fiscal year 2023. The call will be hosted by the CEO, Bernard Schäferbarthold; and CFO, Philippe Vienney. (Operator instructions). Let me now turn the floor over to your host, Mr. Schäferbarthold.

Bernard Schäferbarthold: Thank you very much. A very warm welcome to our final results on fiscal year 2023, and I'm happy together with Philippe, CFO of HELLA to present our final results. So first of all, I'm happy to be able to confirm the preliminary numbers we already have presented to you in February. So overall, in a nutshell, again, a solid year 2023. We have organic sales growth of 12.7%. This reflects an outperformance of 300 basis points, a good growth momentum in all business groups, overall reported sales growth of 10.3%. We had a solid development in our operating income of 200 basis points to 6.1%. We benefited strongly from -- on one-hand side the growth, but also additional measures on productivity, efficiency where we were able to improve. We had a good pass-through overall on inflation to our customers over the full year.

Net cash flow was at EUR205 million, 2.6%; there is around EUR50 million factoring in that number. Without any factoring, we would be around 2% on net cash flow, which is a good improvement also in comparison to prior year without factoring. We proposed to the AGM a continuation of our established dividend policy, which means 30% on net profit of the group that would be then EUR0.71 per share.

Looking at order intake, we mentioned that before, a strong order intake momentum also in 2023. We acquired around EUR11 billion of orders last year. All three segments were very successful. The order intake is more or less equally distributed between electronics and lighting.

Within electronics, we continue our success in terms of our radar applications, a strong order intake within radar. We were also quite successful in terms of our battery management system, low voltage as well as high voltage.

Within lighting, a significant order volumes on our high-resolution SSL/HD technology on many different programs we have won. And we also have been quite successful in terms of our interior lighting solutions, smart lights where we booked also quite a decent business.

On top of that, within lifecycle solutions, we entered strongly now with the first acquisition with a truck within the US American market. This should contribute to our further growth path within special application, specifically for North America.

One important element for us as well is continuity and improvement in synergies and working together with FORVIA. So we have realized overall EUR190 million of synergies as a total group; more than half of that was attributable to HELLA. We continue to work intensively on different measures, ideas.

We have, last year, started within a joint venture structure to work together, specifically in IT, but also in indirect purchasing to benefit from aggregating the teams. We feel comfortable to increase our synergy target from previously EUR300 million to EUR350 million by the end of 2025. Overall, we estimate the share for HELLA at around 50%. So an important element for us in further improving our profitability going forward.

If we look at changes in 2023 to our portfolio, we mentioned the disposal of our joint venture, BHTC. We are close now to the closing of this transaction, which will happen early April. All requirements are now fulfilled. The enterprise value on this sale was EUR600 million, and this will lead now to proceeds for HELLA -we are owning 50% of venture- which are slightly above EUR200 million overall.

To the end of the year, we acquired 50% of the shares of our joint venture, HELLA PAGID, which is for braking. Now we have full ownership of this company, an important element for us to continue to complement our overall aftermarket portfolio.

Additionally, to the end of the year, we sold a small business called People Sensing in Berlin, which is within HELLA Aglaia. We expect to close that transaction around mid of the year.

If we look at sustainability, our nonfinancial report is part of our annual report. This is, for us, at a very high priority. We have, as you know, set clear targets to ourselves in terms of scope 1, 2, and 3. You can see, left hand, we improved significantly in the different ratings where we have been better in comparison to prior year, more or less in all different ratings we have got.

If we look at EU taxonomy, we can state that to the end of 2023, or looking at 2023, overall, we had an improvement in EU taxonomy-illegible sales to 21.6% overall and roughly around the same number, 21.1% of our CapEx was also related to taxonomy-illegible activities.

Overall, we are continuously working on new product innovations that are much improved to their CO_2 emission. Here, we are highlighting, specifically our sustainable headlamp, where with the concept and recyclable materials we are using, we are able to reduce the CO_2 footprint by 70% overall.

Again, I would like to mention our new program we have initiated regarding Europe. This program should strongly improve our competitiveness going forward until 2028. We target to achieve a gross saving of EUR400 million in comparison to cost basis in 2023. Around 40%, so, we say EUR150 million should be achieved until end of 2025.

This program contents on one end side, structural measures, we will implement mostly within our production network in Europe where we will reduce our capacities. On top of that, we will work on our R&D cost structure. We mentioned that it's a clear aspiration for us to come to our target globally of 9% to 10% of R&D. So we will continue to relocate activities, bundle activities, specifically also into the growing markets globally, meaning the Asian markets. So China, Japan, India, but also to the North American or the American market where we also see growth opportunities for us.

On top of that, we are working on improving in terms of efficiency of R&D, reducing development times by using different methods, tools, and also artificial intelligence as one example. And for sure, we continue to work also on the overall cost structure, but also on our material costs re-DTC measures and the further the global development of our supply chain.

We will come back to you with the detailed measures when we are prepared. And also, we have continued discussions with the different -- with workers' council in Europe. But what I can say is that we already have defined nearly all measures needed to come to that target, and now, we are in the process to detailing them out concretely.

Very shortly, to the numbers, which, as I said, have not changed overall. So on page 11, we reached first time EUR8 billion, EUR8.1 billion FX adjusted. If we look at the different segments, a solid improvement in lighting to 3.4%, coming from a low level of 0.5% with a decent growth and continuous improvements in our operations and also a solid inflation pass-through we were able to manage. Electronics at 6.9%. We have spent too much on R&D. We mentioned that also several times. So this is a clear focus for us to get R&D cost down. But also, despite of that, a solid development in electronics overall. And lifecycle, again, with an improvement of our operating income, all three business areas within lifecycle solutions, so workshop products, independent aftermarket, but also special application have all three improved and contributed to that very solid result overall.

If we look at the outperformance, so we outperformed organically by 300 basis points overall. You show here in the different regions, we see the comparison to reported numbers. So specifically, to America, we had quite a significant negative FX effect, which was impacting our outperformance at least at reported basis. Europe, in a volatile market environment, with an outperformance to the market of around 4% overall.

Looking at the P&L, in total, so we are able to improve our gross profit margin, again, significantly to a level above 25%. This is a major improvement with a lot of measures we have worked on. The clear point where we still need to improve, as I said, is in R&D. So 11% is by far, a level which is too high, and which is related to especially one big project where we had a significant cost overspend led at least to this negative development. So this is a clear point to tackle that. Besides that, as I said, 6.1% as operating income and overall EBIT of 5.8%, also taking into account nonrecurring items and the JV results overall.

If we look at net cash flow, I mentioned we are at EUR205 million. This is including EUR56 million of factoring. The year before we had EUR194 million of factoring overall in '22. So operationally, a significant improvement which comes from a strong improvement in profit, but also a good improvement in working capital, so both added to that result. CapEx was more or less flat in comparison to the year 2022. And taking into account the continuous investment on the orders we have booked, but also the improvements we tried to do in investing into standardization and further and automatization.

If we finally look at the outlook, so we look at, from our perspective, a stagnating market so we assume a flattish market overall. And with that, our outlook is that we look at overall sales of EUR8.1 billion to EUR8.6 billion, an operating income margin between 6% and 7%, and a net cash flow to sales, which would be at approximately a 3%.

So we target an improvement as well in cash flow coming on one-hand side out of a slight improvement in profitability, but also out of further improvements actually we see on working capital where still our inventory level is at a very high point.

So to sum it up, 2023 overall, solid performance from our point of view in a volatile market. We propose or we were quite happy also about the continuity and the success, specifically also, we measure also in our order intake. So overall, a continuously strong demand on our products. The cooperation with FORVIA is progressing. We feel, as we said, confident in being able to realize even a higher level of synergies. On 2024 we expect continuity and volatility in terms of the market, but we are targeting a next step of improvement, and we are preparing ourselves, specifically for Europe, with our competitiveness program and reducing our cost structure, specifically -- and in addition, strengthening also our organizations in the growth markets to continue our growth path.

Having said that, this is all for the presentation as of now, and I'm happy to take your questions.

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

Sanjay Bhagwani: Hello. Thank you very much for taking my question as well. Sanjay Bhagwani from CITI. So I've got three questions. My first one is, just looking at the organic growth outperformance, what we saw is like in '23, it decelerated into the Q4. So when we think of '24, is it likely to continue the trend that is, let's say, the lower organic growth outperformance in H1 and then it picks up in H2? And if you could also, now that we are already mid-March, if you could provide some color on our Q1 activity? So that is my first question, and I'll just follow up with the next one after this, if that is okay.

Bernard Schäferbarthold: Yes. So we have clearly seen a slowdown in Q4, as you said. There were reasons on one end side, specifically for lighting, we had some programs which came to end of production, and the ramp-ups of the new programs were slower. So overall, a quite a negative effect.

Within electronics, we had also slower SOPs and some delayed SOPs on some programs. But we were also somehow impacted by lower volumes for, especially also of electric cars in Europe or for Germany, especially. What we also could see is that there is some de-contenting on products where we had quite an impact. Basically, this was the reasoning. Also, what we have specifically seen especially also in H2.

What we can now see in Q1 of 2024, we don't see that this very negative outperformance should continue. So we see clearly that the outperformance is not coming basically to a level we had in the past, but we are also not at this high negative number. So programs are somehow ramping up a little bit, but still our growth is not so significant at this point in time, but better than in Q4. What we have in Q1 is what I can say is that in comparison to prior year, we have less sales out of tooling reimbursements and D&D reimbursements, which only looking at a single quarter makes 2% to 3%. So this, I can already say, is some impact we have. But overall, I think we will be more or less in line with the market in terms of sales overall.

So more or less -- also, to answer to your second question, so activity level overall, so sales comparable to prior year in Q1. In terms of profitability, so we see that we have a tendency that it takes a little more time in terms of now finding the settlements, again, with the customers in terms of inflation pass-through. So we have a similar pattern like in the previous year, even a little more difficult. So there is less inflation pass-through now in the first quarter. We are improving in terms of some productivity efficiency we are doing, so we actually see, in a range, a comparable profitability in comparison to prior year in Q1.

Sanjay Bhagwani: Thank you. That is that is very, very helpful, actually. So actually, it also covered my second question. So my final question is on the disposals. I think you already provided this color on two of the new disposals basically. One is the Sensing business, the People Sensing business. Could you please assign some numbers to that, what was the consideration from this? And then when we look at the purchase of JV stake from this -- on the big JV. So if you could also provide what the consideration for this has been. And if my understanding is correct, then this becomes basically the next disposal target? Is that correct?

Bernard Schäferbarthold: I'm not sure if I got your last question right. On the joint venture for the braking, so we decided to take over the 50% so that we have 100% ownership of the braking business. And specifically, if we look what is it as kind of a business, so we are taking over basically the competency on product management and also on distribution on this product. And braking is, for us, an important offer for our overall offer in our independent aftermarket business. So this improves our attractiveness in terms of aftermarket and should contribute to a further growth in aftermarket going forward. So braking is a clear enlargement, I would say, in continuity in the portfolio we are now offering in that business.

On the People Sensing, this was a small activity we had in Berlin. It was not related to automotive. So it was basically an application where we are able -- it's called the people counter business where we are able in different areas, for example, retail, public transportation, this sensor is used. And out of our competencies, it's a small business we have created over the last years where because it is not core and the further development, we have sold it to a strategic investor for whom this business is core. So we have agreed that we would not disclose before closing details on the transaction. So I would ask you to be a little patient, but it's not a big business. So we made around EUR20 million of sales with that. So also the sales or the disposal price is at a

low two-digit million amount, just for your reference so that you have a sense, but a very low two digit.
And what was your first question, Sanjay? Sorry.

Sanjay Bhagwani: Yes, on the brake JV, what the consideration for this was.

Bernard Schäferbarthold: This, I think I answered. So the brake, it's just an enlargement of our portfolio in aftermarket.

Sanjay Bhagwani: Yeah. So my understanding was probably you are buying this back, then you can sell the complete unit, but that's probably a false assumption.

Bernard Schäferbarthold: No, we will not do it. No. This, we will not do. The clear intention is to enlarge our product portfolio for aftermarket.

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

Operator: (Operator instructions) Mr. Schäferbarthold, there seems to be no further questions.

Bernard Schäferbarthold: Okay. Thank you very much. So thank you very much for joining our results call and showing interest into our company. And I also wish you a very good remaining day and a nice weekend and speak and see you soon, hopefully. Bye-bye.

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