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COMPANY EDITED TRANSCRIPT

Operator: Good morning, afternoon, ladies and gentlemen, and welcome to the HELLA GmbH & Co KGaA conference call regarding HELLA results first quarter financial year 2024. The call will be hosted by Bernard Schäferbarthold and Philippe Vienney. The floor will be opened for questions following the presentation. Let me now turn the floor over to Mr. Bernard Schäferbarthold.

Bernard Schäferbarthold: A very warm welcome to our results call on the first quarter for the fiscal year 2024. I'm very happy together with Philippe to present you our results and to take your questions afterwards. So I would like to start with the highlights of the first quarter. So first of all, again, we would like to highlight the refinancing of our bond, which matures in May 2024. We successfully placed a promissory note, which was significantly oversubscribed, so that we increased the total amount to EUR200 million with very attractive terms. Secondly, we completed the sales of our 50% share in BHTC, which we already commented also before. The closing, happened on April 2, therefore, the effects within our results would only be seen within our half year results. Overall, a very successful transaction. The proceeds were in total EUR205 million. The capital gain which we have with that transaction is around EUR100 million.

On the order intake, we had quite a good start into the year. Specifically in Electronics, we were able to book some very decent projects. One highlight is the significant project on lighting electronics for North and South America. But also in energy management, we booked several different businesses. So we expect overall a good continuity and a good momentum on order intake in the following quarters to come. Again, to mention the last years were a record order intake years. We expect overall that we can maintain this momentum and be around the number we had last year.



Lastly, I would like to highlight our sustainability report, which we also published. We've reached again an effort in our CO2 reduction, more than 50% of reduction on CO2 in comparison to the 2019 basis. It's a good step forward to our target we have in 2025 to be Scope 1 and 2, emission free. And we'll continue to work on our Scope 3 targets in being a CO2 emission free until 2045. We put a lot of efforts to that topic as well.

If we look at the numbers, our sales growth is organically at 2.2%. As mentioned also before, this includes the full consolidation of HBBL. We agreed last year with our joint venture partner in the continuity of our partnership, which last already for more than 10 years. So we are fully consolidating now that activity, which before was also consolidated but only at equity. This effect was contributing some EUR77 million to our sales in the first quarter.

We had a negative FX effect. So overall, I can state that the year was as expected. Though the start into the year was as expected, we have seen some delays in SOPs on customer side, where actually we will have to now see that the ramp-ups are starting as of now and should contribute to further growth in the upcoming quarters. We had a slight effect due to lower number of electrified cars in the produced volumes, but which was not very significant in comparison also to our expectations in the first quarter.

So overall, we would see that this quarter should be the lowest one in 2024 overall, so that we are quite confident in terms of our outlook overall on the full year with the expectation of a better sales development in the upcoming quarters.

So overall, if you look at the different business groups, so Electronics was a slightly slower start, the highest impact in terms of delayed SOPs. As I said, a slight impact on lower volumes with electrified cars in Europe. But we see and as of now that the sales in Electronics should be better over the year.

Lighting, the growth comes specifically with the fully consolidated activity in China, as I mentioned. And Lifecycle Solutions, we had a good development again in our independent aftermarket with the growth in comparison to last year. On the other hand side, our special application business was slightly lower in terms of sales in comparison to last year because of a weak market environment, specifically for trailers, but also less sales for agriculture and



construction comparison to the year before. But overall, for Lifecycle Solutions, a decent development.

If we look at the operating income, we are at 5.6%. We expect that the margin should improve, and this is again in comparison also to last year where the 5.6% was the lowest margin we had. We have a similar expectation also for this year. So we expect and improvements in the quarters to come, driven by, on one hand side, a better sales development, but also, we had in terms of a pass through of inflation to our customers, we are still in percentage and as in relative terms, very comparable to last year where only around 40% of the inflation and price increases were agreed with the customers so far.

We expect that we will improve this figure as we have done it also in the last years in the quarters to come. And this should specifically also improve our margin in the upcoming quarters. In addition, we increased our cost reduction efforts. A part of it, we already mentioned with our European structural and improvement program that we are enforcing our efforts to reduce the cost as well in the upcoming quarter. So that overall, we feel confident in regard to our outlook to be between 6% and 7% in terms of operating income margin to the end of the year.

On the net cash flow, we are at a minus EUR51 million. We had quite a high level of CapEx in the first quarter. We do not expect this run rate in the upcoming quarters. So we would see for the full year CapEx to be around the number we had a last year. On the working capital, we had an increase in comparison to the end of the of the year 2023. We are at a level where partially the overdue, specifically, on the receivables were higher, so we have not been paid to the end of March. This is something we are working on and we overall expect if we look at our measures, we have to further reduce working capital in terms of inventories as well, but also on the receivables side to improve there. We see that we should come back in working capital and even improve in comparison to 2023. So that -- taking that into account, an improvement in profitability, a lower CapEx run rate in the following quarters, and a working capital coming back to an even better level in comparison to last year. We feel comfortable to reach our guided net cash flow target of around 3%. Having said that, I would like to hand to Philippe for more details on the financials.



Philippe Vienney: Thank you, Bernard. Good morning to all. So looking at the sales into more detail. So we posted sales at EUR2 billion, which is, as said, representing an organic growth of 2.2% or EUR43 million. And we have been impacted by EUR30 million of negative FX impact, which between the reported sales are up by 0.6%. So, as said also, the growth is coming mainly from Lighting with the integration of the full consolidation of HBBL. We continue to have some good positive momentum on the radar business with electronics. And on the independent aftermarket with Lifecycle. So if we go to the profitability per segment. So Lighting, we show some sales growth, organic sales at 5.8% and an operating margin going from 2.4% last year to 3% this year. So again, here we have, as I said, the consolidation of HBBL. We have our highest demand on Asia and China on some electrical vehicles but slightly negative impact in China with some car models which are changing right now. On the operating margin side, so we have the full effect of the HBBL consolidation, and we have also seen some SG&A reduction and lower personnel costs in Lighting. If we go to Electronics. So here, the organic evolution of the sales is minus 2.2%. And despite the reduction, we are showing in operating margin going from 5.7% to 6.3%. So again, on this side, we still see some good momentum under radar demand and growth, but we are impacted by lower electrification in Europe and in some GA in some ramp-up, which is impacting negatively our sales. On the operating margin side, the gross profit is improving with a reduction of material cost, and we are also less SG&A costs and less R&D costs in Electronics.

If we go to Lifecycle, Lifecycle is showing an organic growth of 1.4% and operating margin going from EUR37 million to EUR34 million, so 13.1% to 12.1%. So here on the sales side, we have a growth on the spare part business, especially in Europe, but we have a negative impact coming from the agriculture, and trailer, and commercial business field, which is impacting negatively the sales trend. And we also enjoyed last year in Q1, the increase of the particle counter demand, which is affecting a little bit the comparison with '24. On the operating income side, here also, we have an increase of the gross margin due to the product mix and material ratio. But we have a higher R&D



and SG&A costs, mostly with the distribution cost, mostly due to the full integration of the Pagid business into the Lifecycle segment.

So looking at the sales per geography. So in Americas, we are showing sales which are down by 1.2% versus market growth of 0.3%. In Europe, we are showing a minus 1.5% versus market which is down by 2.5%. And in Asia Pacific, 8.2% sales increase for Asia versus the market, which is down by 70 basis points. Looking at the operating income and comparing it with '23, so again, sales up by 0.6%. The gross profit is increasing at 25.3% versus 24.6% last year. This is coming mostly from material ratio, which is improving.

Then if we look at the R&D cost, we are slightly above last year with some investment due to the upcoming launches and the link to the order intake. So we are continuing to invest on the R&D side. On the SG&A, we are showing some increase, but mostly linked again here to the distribution cost into the Lifecycle segment, as I was mentioning before. And we are ending with an operating income at EUR111 million in line with what was posted last year at 5.6%. And leading to an EBIT of EUR99 million, up 5% versus 5.3% last year.

Now if you looked at the cash flow, so the cash flow was at minus EUR51 million in Q1 compared to EUR38 million last year. So as mentioned by Bernard, here, we have some increase in our working capital on the receivable side because of some customer overdue. So as already mentioned, so we have not been able to be fully paid at the end of March by some customers. And some decrease in the trade payables.

One point to mention, also, is and we have reduced our factoring versus Q1 '23, and we were at EUR48 million of factoring versus EUR90 million last year. And we continue to -- we have had high level of CapEx in Q1, up to 9.7% of sales. So this increase was mainly seen in Q1. But also as mentioned, we are not anticipating continuing on this trend for the rest of the year. So these should be much more normalized for the coming months.

Bernard Schäferbarthold: Thank you, Philippe. So if we look at the outlook, so the market outlook remains more or less unchanged to the beginning of the year. So we expect a stable market environment of around 90 million vehicles for 2024. We expect also, as well as S&P is expecting a decline for Europe and a solid



development in Americas and also a solid development for Asia specifically for China overall. So that leads us to our outlook. As I already commented on for the for the full year, which we confirm. So overall, we remain with our expectation of sales in the range of EUR8.1 billion to EUR8.6 billion, and operating income margin around 6% to 7% of sales, and a net cash flow at approximately time 3%. So to wrap it up, we see for us a solid start into 2024 as expected. And also, in comparison to our internal planning, we see now for the upcoming quarters, an improvement in terms of our main financial KPI. So sales should slightly be better. And also, we believe and see that our profitability should improve as well as our cash flow in the upcoming quarters. We continue to work on our cost competitiveness. A main element is our program for Europe. We are progressing and detailing it out. And in the coming months as set presumably by summer at the latest, we will inform you also with the different measures and activities we will implement. Overall, I just want to comment again that we feel well prepared in these times. We still continue to see and an important element for us is to continue to see that we have a strong connect and also good working together with our customers. And we see that specifically in our order intake momentum, which still is intact and a good demand specifically on our high-technology products. Having said that, Philippe and myself are happy to take your questions.

Operator: (Operator instructions) And the first question is coming from Christoph Laskawi, Deutsche Bank.

Christoph Laskawi: Hey, good morning and thank you for taking my questions. The first one will be on pricing and what to expect. You already said you've got some incremental pricing with 40% coverage ratio in Q1. Should we expect that in Q2 to bump up more materially? Or is this more a second half thing? And then on the slides, you called out lower materials as well. Should we read that as a statement that semis and electronics are actually fading now and turning into a small tailwind? And our last question will be, could the margin in Q2 already be at the low end of the corridor with better volumes from SOPs and the pricing? Thank you.



Bernard Schäferbarthold: So good morning, Mr. Laskawi. So on pricing incremental, we should see a good next step towards a higher degree on compensation, specifically -- normally, if we agree in pricing change, it also goes back then to January 1, so that there is a kind of catch-up effect as well. So we assume that the effect should have quite an important effect on Q2 only and should support our results to a large extent. And this was a part of your question, should we see to come to the lower end of the margin? Yes. So I would see on H1 in total that we should be around the lower end of the margin end of June for H1 overall. So which would mean a good step forward in Q2 and a better profitability in Q2 only. In terms of materials, so we do not really see an improvement on semis. So there, I see stable pricing environment on semis, so no increase, but also a slight decrease, but not significant. Where we are able to reduce prices a little more is in all other and areas. So semi and active electronics is basically the only one, which is not really moving. But in total, we are improving in terms of material cost reductions. And this also supports the development of the profitability.

Christoph Laskawi: Thank you. And a quick follow-up, if I may. Just on the consolidation effect of the joint venture in Lighting. You had quite a strong start relative to the overall expected effect for the full year. Should we expect plus smaller or lower run rate in the coming quarters now as a result? Or if there's certain seasonality attached to the business with regards to modeling the consolidation? Thank you.

Bernard Schäferbarthold: So the effect on sales of HBBL so on the full consolidation, it was a significant number in Q1. We expect that this number should be a little lower in the following quarters. So they had a strong start. So they are delivering cars to the different Chinese OEMs. And specifically, one customer had a very strong demand in the first quarter. So we are not foreseeing that this should continue, but still it will be probably then if we had EUR77 million in Q1, I would assume perhaps a run rate which could be around EUR60 million in the upcoming quarters, if I only look at it this effect. And then in terms of my comments on the sales development overall, so we would now see with some ramp ups, which are now happening, specifically also in



Electronics that we should see overall an improvement in our sales development. And the last point, perhaps to mention with what I have not commented before is that on the reimbursements, so for tooling D&D, we would also expect a higher number in the quarters to come .

Christoph Laskawi: Thanks.

Operator: (Operator instructions) And the next question comes from Sanjay Bhagwani, Citi.

Sanjay Bhagwani: Hello. Thank you very much for taking my questions. I have three questions as well. Most of them are actually follow-ups to Christoph's question. So the first one is on the organic growth outperformance. I think if I understood it correctly, the message is that Q2, this is going to improve because Q1 was before close to zero. And the key drivers of improvement, I think you suggested is better tooling. And also, the new SOPs in the Electronics. So if you could please maybe quantify a little bit here? Do we already get to that 500 basis points organic growth outperformance in Q2? Or this is, let's say, gradually increasing as we go into the Q4? That is my first question, and I'll just follow-up with the next one after that, if that is okay.

Bernard Schäferbarthold: Yes. Hello, Sanjay. So it's difficult for me really to predict the outperformance because this depends also on the customer and model mix overall in volumes. So my statement was related to the quarter-on-quarter development in terms of sales. So we would see that this Q1 should be the lowest quarter in terms of sales. And that we now see that specifically with some ramp-ups of SOPs we have, we should see an improvement in terms of our sales development now in the second quarter to come. And assume what does it now mean exactly in outperformance is very difficult to state.

Sanjay Bhagwani: Thank you. That's very helpful. And a follow-up to that. Is this for European customer specific, where their impacts were delayed, and they are coming in? If you could provide some more color here?



Bernard Schäferbarthold: So it's a mix. So the ramp-ups happen largely in the North American market. So there is, for example, a large radar projects for customers which are now ramping up, but also to a good extent in Europe. So these are both regions where we have most SOPs happening.

Sanjay Bhagwani: Thank you. That's very helpful. And my final one is on the free cash flow. I think on the profitability you already mentioned, it gets close to the lower end in H1 already. How should we think of the free cash flow? Do we get to the break-even already in H1? Given that maybe some sort of lump sum payments in Q2?

Bernard Schäferbarthold: So our latest estimate is that we should get positive. We should be positive in H1.

Sanjay Bhagwani: Yeah. Thank you. That's very helpful.

Operator: (Operator instructions) As I can see, there are no further questions coming in. I will hand back for the closing to Mr. Bernard Schäferbarthold.

Bernard Schäferbarthold: So thank you very much for joining this call and showing the interest for HELLA, and I'm very happy to hear you, see you soon latest with our next call on H1 numbers. Thank you and have a good remaining day.

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