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C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO
P: Christoph Laskawi; Deutsche Bank AG, Research Division – Research Analyst
P: Akshat Kacker; JPMorgan Chase & Co, Research Division – Analyst
P: Gabriel Adler; Citigroup Inc., Research Division – Assistant VP& Senior Associate
P: Sanjay Bhagwani; BofA Securities, Research Division - Research Analyst & Associate
P: Boris Pennant, private investor
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: Dear ladies and gentlemen, welcome to the conference call of HELLA. At our customer's request, this conference will be recorded. (Operator Instructions). May I now hand you over to Dr. Rolf Breidenbach and Bernard Schäferbarthold, who will lead you through this conference. Please go ahead.

Rolf Breidenbach: Yes. Thank you very much. Dear ladies and gentlemen, good morning to all of you. This is Rolf Breidenbach speaking. Thanks a lot for dialing in. And of course, welcome to the HELLA investor call on our full year results for the fiscal year 2020/2021. Also of course, a warm welcome on behalf of my colleague and our CFO, Mr. Schäferbarthold.

The focus of this call will be on our full year results for the fiscal year 2020/2021. But before we quickly go through our presentation, I would like to make some, let's say, general remarks on the course of the last fiscal year and the outlook. I would like to start with our current business situation and the business situation during the last fiscal year.

The fiscal year 20/21 was characterized by an unusual course of events from our perspective. Our sales in the first quarter were strongly affected by the Corona pandemic. In the second quarter, we had a strong restart of the business activities with the ramp-up of the global product network. And with the beginning of our third quarter, we experienced, let's say, the first interruptions in the global logistic chains due to the shortages of the electronic components. These shortages, particularly for microchips continued over the fourth quarter and thereafter, placed a significant burden on the industry and has also led to major challenges for HELLA, resulting, among other things, in significant additional costs.

Against this background, we were very satisfied with the results we achieved for the financial year 20/21. First of all, our financial results are in the upper range of the forecast ranges that we raised in December 2020. We achieved a currency and portfolio-adjusted sales of EUR 6.5 billion, mainly due to a stronger market recovery.

Given our good cost managing abilities, we have been able to compensate for a lot of negative impacts, especially the already mentioned shortages of electronic components, and we were able to achieve the top end of our margin guidance. Our Group adjusted EBIT margin has reached 8%, which corresponds to a doubling compared to the previous year.

In terms of our free cash flow, we are also satisfied. With the increase in operating performance as well our cost-saving measures have led to a very positive result despite a high level of investments. Given the overall performance, the company management proposes the payment of dividends in the amount of $0.96 per share.

Looking at our future perspectives, I would like to shortly comment on our long-term improvement program we already mentioned in former investor calls. As you all know, we adopted this program at the beginning of the last fiscal year to strengthen our competitiveness in the face of the challenging market conditions and the further increase of material prices and other price elements. The program aims to reduce around 900 head count with focus on the development and administration divisions in Lippstadt. We have made very good progress here.

The Management Board and the Workers' Council of HELLA have agreed on a partial retirement program in September 2020. And furthermore, we reached an agreement on the voluntary severance program. The resulting job reductions will essentially begin in the current fiscal year. So far, the program is implemented in a constructive alignment with the Workers' Council and the negotiations are significantly ahead of time, with more than 70% of the targeted level reached already.

Together with the existing measures for the ongoing improvement program at further German locations and our international sites, we project an annual

EBIT contribution of around EUR 140 million from the fiscal year 24/25 onwards given that all structural measures are implemented successfully. We are well on track and achieved around 55% of the expected EBIT impact till now.

To maintain our long-term profitable growth path HELLA entered since many years into collaboration and partnerships. In the financial year 20/21 we founded, for example, a joint venture with MINTH to develop, produce and market radomes and illuminated logos, primary for the Asian and North American market. The joint venture will enable HELLA to develop new technologies and to better access the targeted China market.

In addition, we started, of course, also new partnerships with cell suppliers, for example, and other open co-operations. We clearly communicated that we pursue a stringent portfolio management along three main criteria, naming technology leadership, market leadership and the long-term achievement of the relevant financial performance. In this context, we conducted the exit from the front camera software business and transferred the business to the car software organization of Volkswagen. Regardless of this divestment, we will continue, of course, to invest significantly in key technologies for automated driving, particularly in the areas of radar sensors and steering sensors. And the same, of course, is also true for many other areas with regard to software.

Our investments in key technologies over the last years paid off and the development of our order book shows that we have set the right priorities. The order intake in the last fiscal year increased significantly compared to the years before, in which we already achieved a record order intake. So this in 20/21, we again, were able to achieve a very, very high record order results. And I think this shows the attractiveness of our product portfolio we currently can offer to the market.

So overall, given our strong operational performance, our leadership position, the initiated programs, our strategic priorities and the extraordinary good order book, we are looking very positively into the future and are confident to reach our short and long-term objectives. Before I comment on the short-term outlook for the current fiscal year, I would quickly add some remarks to the IHS market outlook. Looking at the expected market development for our current fiscal year, we see that the IHS figures came down after the peak in May.

With the July estimates, IHS is expecting a modest growth of the global light vehicle production of 3.7% for our fiscal year 21/22. The August figures are even lower, at a level of around 2.3%. And this means that the global light vehicle production in 21/22 is expected to recover only slightly compared to the previous year and that the market volume remains significantly below the pre-crisis level.

The market environment will remain very volatile and the associated uncertainties will, from our perspective, remain very high. On the one hand, the Corona pandemic continues to have a considerable impact on the industry, especially the uncertainties on the influence of the virus mutations are very high. On the other hand, the resource bottlenecks with the global supply and logistics change, which I mentioned before, will continue.

Currently, it is still unclear how and when the recovery will take place. We do not expect a total recovery in the course of our current fiscal year. We think the whole calendar year 2022 will be affected, and perhaps in 2023, we could come out of this challenge, but not earlier from our perspective. And the company outlook for HELLA takes all these uncertainties into account to a certain extent, of course. Therefore, we expect for the current fiscal year 21/22, a currency and portfolio-adjusted sales in the range of around EUR 6.6 billion to EUR 6.9 billion. And we expect an adjusted EBIT margin of around 8%. The company outlook also assumes that there will be no significant deviations as a result of political, economic or even social crisis.

Having said that, let me now move to Page 4 of our presentation, starting with our financial results for the fiscal year 20/21. Our currency and portfolio-adjusted sales increased by 13.3%. Our adjusted EBIT margin increased by 125% to EUR 510 million. Thus, our adjusted EBIT margin is at a level of 8%. And this is an improvement of 4.0 percentage points compared to the previous year.

Our reported EBIT margin is at a level of 7.1%. This number includes, on the one hand, restructuring costs, mainly for the improvement program in Germany and the profit from the sale of the camera software business. Our adjusted free cash flow declined by only EUR 5 million to EUR 217 million. I'm sure Mr. Schäferbarthold will explain this in some minutes in more detail. On Page 5, we give you an overview of our automotive performance in the single regions. You can see that we were able to outperform the global automotive market as well in Europe and Asia. Especially in Europe, our outperformance was strong. We outgrew the market by around 5 percentage points due to the ongoing project ramp-ups and the high volumes.

In North and South America, we underperformed the market by around 2 percentage points. Here, I think it's necessary to have in mind that in the 3 years prior to the last fiscal year, we had a period of many, many SOPs and strong ramp-ups so that we could show a significant outperformance of the market in North and South America. We could achieve outperformance numbers of 20%, 15% and 13% in the past years.

Given this high comparable basis, our performance of the last fiscal year has weakened. But here, you should also have in mind that in the fiscal year before we got a lot of payments for tools and equipment. And this, I think, also puts this underperformance in North and South America, also under a different view.

In Asia and the rest of the world, we outperformed the market by 3.6 percentage point. This is mainly due to a very strong fourth quarter in China. We communicated already in our last quarter call that our performance in China will accelerate and contribute to our full year's growth in China, where we outperformed by 2.5 percentage points on a full year basis, but around 32 percentage points in the fourth quarter only.

So what we have announced in the last investor call now has become true. We got this outperformance -- this market outperformance in China. And overall, we also, in the end, outperformed the market. So all-in-all, we are quite satisfied with this market outperformance of 1.6 percentage points for the full year. We see the overall positive development of our performance over the quarters. As communicated, we see the improvement from the first half to the second half of our current fiscal year, driven by the extraordinary high outperformance in Q4 with an overall outperformance of 20 percentage points, as I said, driven especially by China.

Yes, having said this, I'm now happy to hand over to my colleague, Mr. Schäferbarthold.

Bernard Schäferbarthold: Thank you, Mr. Breidenbach. Good morning, ladies and gentlemen, also from my side. I'm happy now to add some comments to the summary Mr. Breidenbach already made. So I will continue on our presentation on Page 7. Sales on the full fiscal year is FX and portfolio-adjusted at EUR 6.5 billion, effectively, the mentioned growth of 13.3%. Compared to previous year, the FX effect is negative with a weaker U.S. dollar to the euro in comparison to the previous year. And I want also to make one comment if we talk about outperformance, as you know, we are not correcting FX, if we look at regional outperformance. So certainly, the US dollar development in the prior year was also one reason for the lower outperformance we had in NSA.

The portfolio adjustments are related to the disposal of our thermal management business in Aftermarket in the prior year. Positively, the FX and portfolio-adjusted sales are at the upper end of our updated guidance of December 2020 despite the high volatility of the market we discussed earlier, especially due to the shortage on the supply side with the semis.

If we look at Page 8, our gross profit increased in absolute terms by EUR 207 million to around EUR 1.6 billion. In addition, we were able to improve our gross profit margin by 0.9 percentage points to 24.5 percentage points. Still, we are not back to levels around 25% and 26% we had in the prior years before COVID. That certainly was also due to the fact that the bottleneck situation and the COVID pandemic came with significant on-top cost with stop-and-go in production, and additional freight costs we mentioned also in earlier calls.

We expect this bottleneck situation to remain within our fiscal year 21/22. At least for the first half of our new fiscal year, we do not expect any improvement to the actual situation. Certainly, the uncertainty is high, what it's about the start in 2022. We, for sure, think that the situation will somehow be there that at least, there is also the possibility that we should see some improvements, hopefully, within 2022. But as I said, very hard to predict that from today's perspective.

If we continue on Page 9, R&D expenses are EUR 17 million lower. We mentioned that, especially at the beginning of the fiscal year, we focused very much on activities related to series development and production ramp-ups. And we then started in the second half of the fiscal year with additional R&D activity. We paused like on some improvement projects to maintain our competitiveness also in the upcoming years.

The R&D ratio decreased to 9.5 percentage points. Looking forward, we expect our R&D ratio to be around the level of 10%, also now for this year, reflecting also the significant order intake in the last years and especially also in the last year, Mr. Breidenbach also commented earlier.

If we move to the next page, 10, the SG&A costs decreased to EUR 483 million. On one hand side, we had in the last year, the already mentioned positive effect of one reversal of an impairment that totaled EUR 19 million regarding our Korean joint venture. In addition, the very stringent cost discipline led also to lower expense levels, especially in sales, marketing, but also administration. The SG&A ratio decreased by 1.5 percentage points to 7.4%. Overall, we expect a ratio to remain on a comparable basis also for the new fiscal 21/22.

Looking at Page 11, we here see the development in headcount we had in comparison to previous year. Our headcount is only slightly increasing by 0.5 percentage in comparison to previous year. The increase was only in production due to the sales increase we had. We will continue to strengthen the competitiveness of our organization also in the upcoming quarters and years. We already can see now the reductions already made, for example, in sales, marketing, administration now on a year-on-year comparison. The decrease we now see in the numbers yet in R&D, is especially related to the sale of our camera software business, which was mentioned before.

If we go to Page 12, our adjusted EBIT is at EUR 510 million, as mentioned, the margin at 8%. The strong sales development since the second quarter with a continuous cost saving led to this very decent result despite the mentioned challenging disruptions on the supply chain-related to the semis and also to the already mentioned additional costs, especially in the last months, which occurred around EUR 8 million to EUR 9 million on a monthly basis.

The reported EBIT commented also on Page 13 is at EUR 454 million. The adjustments were mostly related to our structural measures in Germany. Overall, EUR 161 million related to these measures have been recognized as extraordinary costs. But positively, the sale of our camera software business led to an extraordinary profit of EUR 121 million. Overall, net adjustments were totaling to minus EUR 57 million for the full year 20/21.

On Page 14, we show selected highlights on the fourth quarter related to sales growth and adjusted EBIT margin performance. The fourth quarter, certainly, on one hand side, show very high-growth rates in all segments of our business. But certainly, the comparables are very difficult with the start of the COVID pandemic in the prior fourth quarter. But despite this lower comparables, as Mr. Breidenbach said, in Auto, positively, we outperformed the market strongly, which, from our perspective, is an important element. And we also have now seen in the start of this new fiscal year that we had also a quite decent outperformance in the first 2 months of our new fiscal year. The profitability was at a solid level as already mentioned despite all the additional costs we had with the challenging market environment.

Some comments on our cash flow and CapEx on Page 15. Our adjusted free cash flow was at EUR 217 million on the full year 20/21, very comparable to the level in prior year. Also at the upper end of what we were predicting. The reason for that was a very good level on working capital we achieved at the year-end. We also commented earlier that we expect CapEx to increase significantly also in comparison to prior year.

So you see EUR 630 million we invested on one hand side, a shift of prior year with the COVID pandemic in the fourth quarter and a significant shift of activities on customer. But also on our side, on supplier side so that investments have been moved to the last fiscal year. And also high investments now needed with the orders we won, and where investments now have been done in preparation of new launches.

Certainly, we also now expect for this year a level which will also be above EUR 600 million. We mentioned also in the last Capital Markets Day that for the 3 years to come, there is an additional EUR 50 million in CapEx, we plan for measures in automation and also in relation to the initiated program, which should improve our competitiveness, which also leads to structural investments we are now doing in some of our plants in Eastern Europe but also China.

Looking at the segments, Automotive sales was 11.6% higher in comparison to the previous year. As said, no FX adjustments are reflected in these numbers. So that with that, remember my comment to the outperformance. This certainly impacts also outperformance numbers looking at NSA. Profitability in automotive increased to EUR 393 million, respectively, 7.1%. Going to Aftermarket and Special Application on Page 17, starting with the Aftermarket. From our perspective, very decent sales development with a strong demand within our business in independent aftermarket and a slower development, if it comes to our workshop products due to, from our perspective, the still pandemic situation and some prudence also on customer side now to invest in diagnosis programs. So we now see that this is now hopefully restarting now with this new fiscal year. But with overall good growth of 7.3% in Aftermarket. And with that, a very decent profit increase we were able to reach.

In Special Application, also a very solid outperformance in terms of sales and in terms of profitability in our important business segments, agriculture, but also construction, a strong performance, which led overall to this good EBIT increase to around EUR 46 million in total. So having said that, I hand back to Mr. Breidenbach, with the outlook.

Rolf Breidenbach: Yes. Thank you very much. Let's have a quick look on the IHS figures. What's let's say, quite obvious is that we will face 2 weaker quarters with regard to the market development in our fiscal 21/22, the first quarter with regard to the market development will be more or less flat. The July figures show a slight growth of 0.7%. Then shrinking of minus 4.4%. This, of course, has to do with a very strong Q2 in 20/21. But what's also clear is that the real market growth will come in the fourth quarter of our fiscal year with 15.1% in the fourth quarter. Based on that and having in mind that the growth will especially come from Europe and NSA, we came to the conclusion, and this is shown in the next slide, that our guidance, as mentioned, is at the sales side, when we look at the currency and portfolio-adjusted sales at a level of EUR

6.6 to EUR 6.9 billion and the EBIT in a range of around 8% excluding restructuring and portfolio effects.

Yes, having said this, we are at the end of the presentation, and Mr. Schäferbarthold and myself are now looking forward to answering your questions.

Operator: Ladies and gentlemen, we will now begin our question-and-answer session. (Operator Instructions) The first question is from Akshat Kacker, JPMorgan.

Akshat Kacker: Akshat from JPMorgan. Three from my side, please. The first one on end markets and auto production, just saw headlines this morning that Toyota is planning to cut September production by 40% on chip shortages versus what they had planned earlier, and also the COVID situation in South Asia, in markets like Malaysia and Thailand keeps worsening.

I just want to understand, if you can comment on current production levels that you're seeing and if there is any improvement sequentially as you look at the following months? That's the first one. I'll follow up with the other 2 later.

Rolf Breidenbach: We also see that especially now in July and August, the situation is getting worse with regard to the overall bottleneck situation. And you mentioned this very severe impact of COVID in countries like Indonesia, Malaysia and others. And based on that, we think that August and September will be difficult months. But these are, let's say, no structural setbacks or challenges. I think when COVID is getting better in these countries, the plans of the testing capacities, the back ends, will be launched up again very fast.

So I assume it's a temporary effect in August and unfortunately, also in September. But with the structural situation, of course, this situation we have to manage also in the months after September and for our whole fiscal year and the whole calendar year 2022. But August, September will be difficult months with regards to the bottleneck situation.

Akshat Kacker: Second one on cost inflation, and touching different topics across raw materials, freight and logistics, both in the near-term and medium term. I think, firstly, in the near term, you have previously spoken about the monthly

cost of EUR 8 million to EUR 9 million per month. How do you expect that to trend in the coming few months has the expectation changed there?
And also in the medium term, how have your discussions been with key component suppliers as you look into 2022? Any price increases that have been agreed?

Rolf Breidenbach: Let's say, overall, when we talk about this additional cost of EUR 6 million to EUR 10 million per month, this sum is currently increasing due to effects you already have mentioned. The logistic costs have significantly increased, but also material costs and not only for microcontrollers, but also for steel, resin, and others.
We expect this on this level, as a temporary effect. So we are quite optimistic that we can renegotiate this over the course of our fiscal year. But here, also the next, let's say, 3, 4, 5 months are challenging and difficult. Midterm, I think that the logistic costs, also other material costs like resin, steel, but also our LEDs, for example, will again come down. We have a strong order book. We have a good negotiation position. And also the disruptions we currently see in production, but also in the global logistics chains, step-by-step, will get under control.
This, I think, is not true for the microcontrollers. Here I think we are facing a more mid and long-term material price increase. And we have to handle this by redesign, design to cost measures, scale effects. But I think this challenge will not, let's say, fade away in 6 or 9 months from my perspective.

Akshat Kacker: Understood. The last one on R&D expenditure. Can you just talk about what you have budgeted in terms of R&D spend for FY'22? And also on the capitalization ratio, I noticed that the capitalization ratio in FY’21 picked up to more than 20%. So I just want to understand how do you expect that to evolve going forward?

Bernard Schäferbarthold: So as I said, in relative terms, we expect that the number should be very close to what we had in the last year. So it could be slightly higher, so perhaps around 9.8%, but still, let's say, be below the 10% level overall. For sure, at the end, we have to see also how sales will develop. But at least this is our expectation now within this bandwidth of sales we have given.

And the capitalization ratio has increased due to the fact that, as we said, we had a very focused approach also if it comes to our investments we did to booked orders and so in close preparation also to new launches, and less activities in terms of improvement programs and measures what I mentioned. And at least, if we have booked orders, then we have to capitalize. So that's why the ratio increased.

I would expect this ratio not to increase even further with the restart of some of these activities Mr. Breidenbach mentioned, redesign to cost and so on. So the ratio should now remain at the same level or perhaps even decrease a bit.

Operator: The next question is from Gabriel Adler, Citigroup.

Gabriel Adler: Gabriel from Citigroup. I've also got 3 questions. My first is just a follow-up on the production environment. I appreciate that you won't comment on specific customers. But could you maybe give us a sense of whether the 40% cut from Toyota is similar in terms of scale of reduction to the cool offs that you may have been saying from other customers for August, September? Or is it larger or smaller than what you're seeing elsewhere?

My second question is on the guidance. Could you maybe talk a little bit about what cost assumptions you are including in the margin guidance for next year because you're guiding to revenue up but margin flat? Is this largely because of those logistic and raw mat cost headwinds that you mentioned? Or is it more a case of leaving ourselves some headroom on the margin target because of the uncertainties in the market environment that you discussed in the presentation?

And then my final question is on the Faurecia combination. I understand that you didn't want to comment on the synergies on the call earlier this week. But now 'we've heard from Faurecia's management, would you be happy to comment on from HELLA's perspective, where you see the greatest opportunity to extract synergies from the combination? And which areas of HELLA's business do you think will benefit the most from being part of Faurecia Group?

Rolf Breidenbach: Yes. Please understand that we do not comment on the Faurecia announced synergies. Of course, we will discuss with Faurecia in detail and work together at the right point of time. But so far, we cannot comment on this today. I hope here for your understanding.

With regard to the production environment, and as you said, I will not talk about specific customers. But what is clear is that we -- when I look at our systems, do not see any customer who is not affected. And the effects, the sales reduction, the order reductions in our systems come very, very unexpected, very volatile. And there is no -- we cannot see a pattern. But overall, the impact at the customer side, at all the different customer groups in all the regions is significant from our perspective and not depending on any, let's say, customer characteristics. And it's for us, it's a very difficult situation because we have to be very, very flexible in our plans because orders are going out of our systems from one day to the other.

Of course, we know also the very critical situation at our customers because they also sometimes do not exactly know what they can produce in the, I don't know, 2 weeks or 4 weeks to come. But I think when we now see announcements, some customers had huge shutdowns now in the summer period. Others are now shutting down significantly plants or product lines in September. So it's as I said, we cannot analyze a kind of pattern, but it remains unfortunately very volatile, especially when we now are facing this difficult situation in Malaysia and Indonesia, where huge, for example, testing and assembly plants of the one or the other microchip supplier is closed. Then always the question is how fast can you again restart? What is the output in the launch phase and so on? So very difficult to predict, but significant.

Bernard Schäferbarthold: On the cost inflation, so we have assumed that at least for the first half of the year, the mentioned cost levels of EUR 8 million, EUR 9 million on a monthly basis, at least on the first half of the year will occur. We are assuming that the situation should improve in the second half. If it comes to higher raw material prices, as discussed, we have taken into account that raw material prices are increasing. And with that, material prices will increase.

There is a bundle of measures we are working on to compensate that, especially with measures on the supply side also. In addition, there are also with the different programs we have initiated, if it comes to competitiveness of the program in Germany, but also globally, I think the efforts we have done should also bring some cost optimizations, which should compensate that somehow also. We expect overall, still a growth, and we expect also to outperform the market.

So we should see a topline growth in comparison to last year, which should also help also if it comes to the overall utilization, looking at full year perspective comparison also to last year. So for sure, it's a very, let's say, dynamic and volatile environment still as of today. We are very cost cautious still. So this normalization of cost level as you also have seen in the fourth quarter, we have not continued that so that we continue to remain very cost cautious and dependence of how this situation now continues. And let's say, makes our assumptions to say around 8% is the best what we see taking into account at a level of EUR 6.6 to EUR 6.9 billion.

Operator: Next question is from Christoph Laskawi, Deutsche Bank.

Christoph Laskawi: The first one, a bit of a follow-up on the current trading comments that you make. Within the call of the OEMS, do you see that the mix is essentially unchanged of what they are requesting, say, continue to see strong demand for everything that goes into EVs or premium or high-end vehicles? Or is that really, at this point, not really a thing that you can tell, given the volatility of the call-offs?

And then on the semi cost that you commented will likely not come down, the negotiations with the OEMs to pass those costs on to them, is there any progress, are they willing to take on a certain share? Or does it remain difficult? And last question on free cash flow, could you point to specific cash flow level that you would see as realistic for the full year or no comment at this point, and would EUR 200 million to EUR 250 million be a realistic scenario in case you comment?

Rolf Breidenbach: And first starting with the production mix question, of course, what we see, our perspective is that the customers in this bottleneck crisis have concentrated on their high-margin products. And this was in the first phase the case, and they try to especially keep these lines running. And it looks that at many our customers, this is still their strategy.

But due to the fact that sometimes these high-margin products also have a very high take rate of these microcontrollers here and there, they have to find other strategies. And then there is only, let's say, the question, which kind of car, which kind of vehicle I can produce based on the microcontrollers I have on hand or my suppliers can commit.

So first priority is clear, not from our perspective, not electrification here and there, yes, because also our customers have to look at with regard to their mix, especially in Europe but also in China. But it looks as if the first priority is margin, second priority, electrification and then what can be produced based on the availability of microcontrollers. And it looks as if, unfortunately, the second group is becoming more important.

Bernard Schäferbarthold: Mr. Laskawi to the question around free cash flow. So we predict a similar development in comparison to prior year. So that the start into the year is slower. So we even expect a negative free cash flow, slight negative free cash flow for the first quarter due to the fact that the sales numbers were lower with the bottleneck situation and the inventories have increased in the last months due to the changes in the call off, and, let's say, the decisions on not adapting, let's say, immediately also to the supply chain, to stabilize also the supply chain has led now in the last 2 months, especially to higher inventory.

So the working capital is negatively impacted now to the start of this new year. And we then expect to recover similar to last year over the quarters in the free cash flow. So that the number you mentioned, if let's say, the market assumptions, so a recovery somehow -- or not recovery, but a smoothening of this situation in H2, which we then expect, especially if you look at the market, especially in our fourth quarter, then the months of March, April and May are expected to -- the market is expecting to recover somehow. So this should then lead to then also a working capital reduction then again so that this should then bring us to, let's say, our free cash flow targets, which are close to the numbers you have raised. But remember also what I also said that CapEx will remain high with the additional EUR 50 million we also will spend because we think that this is the right thing to do also with the structure investments because they will pay off.

Rolf Breidenbach: So your last question, the negotiations with the customers have started. There's no result, but we are optimistic that at least partially we, here and there can get some compensation.

Christoph Laskawi: And that will be most likely only seen in the second half of your current year, right?

Rolf Breidenbach: Yes, yes, that is the right assumption.

Operator: Our next question is from Sanjay Bhagwani, Bank of America.

Sanjay Bhagwani: My first question is follow-up on the cost assumptions. Around quarter 3, you had also guided for somewhere around EUR 10 million a month of headwinds of reversal of SG&A. So how has that turned out? Has it actually been EUR 10 million? Or have you -- have you kept it low for the H2? And how do you see this one going forward for FY 2022? That is my first question. And then I'll follow-up later.

Rolf Breidenbach: I think this EUR 10 million you mentioned per month was a very good orientation for the last fiscal year. We of course, are currently analyzing and monitoring the situation. And it looks as if this number was a little bit higher in June, July and could be also a little bit higher in August and the months to come. I would now more see a range of EUR 10 million to EUR 15 million.

Sanjay Bhagwani: That is very helpful. And my second question is on the outperformance. What sort of outperformance you are seeing from electronics and lighting? And if you could just remind us some of the key products which are likely to drive the outperformance in next fiscal year?

Rolf Breidenbach: So the products remain, from my perspective, very much the same, then in the last fiscal years. On the one hand, our radar products, now also the first radar product in the area of 77Ghz are launched, then in the area of energy management, battery management system, DCDC converter will also drive our growth. Perhaps not this fiscal year, but in the fiscal years to come also electronic power steering a clear growth engine, but not in this fiscal year. And yes, with regard to lighting, especially our LED SSL HD headlamps will be supporting our outperformance. And with the magnitude, of course, I will not now repeat our guidance, but I think we will start with a very good outperformance in the first quarter.

Sanjay Bhagwani: That is very helpful. And my last question is on the combination. On the combination, it's a bit of technical question, actually, and we keep on hearing these questions from the clients. So what is the threshold for the minorities that the minimum 90% or 95%, after that a squeeze out will be possible? If you know about this?

Bernard Schäferbarthold: It's 95% for the squeeze-out process.

Operator: The next question is from Boris Pennant, private investor.

Boris Pennant: My question is on the announced agreement with Faurecia. There have been some confused comments in regard to HELLA's corporate on GmbH KGaA. Is there any difference between standard KG and AG when it comes to the possible domination agreement or squeeze out?

Rolf Breidenbach: Allow me not to comment on this. We are currently in this process to discuss with Faurecia the next steps. But with regard to the technical topics, please ask our friends from Faurecia.

Operator: And there are no further questions at this point. So I hand back to the speakers for closing remarks.

Rolf Breidenbach: Okay. Then again, thank you very much for listening to our presentation, for asking the questions also on behalf of Mr. Schäferbarthold, I wish you a good and successful day. All the best. Bye.

Operator: Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect now.

END