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C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO
P: Christoph Laskawi - Deutsche Bank AG, Research Division - Research Analyst
P: Kai Mueller - BofA Merrill Lynch, Research Division - Associate and Analyst
P: Henning Cosman - HSBC, Research Division - Analyst
P: Christian Ludwig - Bankhaus Lampe KG, Research Division - Analyst
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P: Akshat Kacker - JP Morgan Chase & Co, Research Division - Analyst
P: Harald Eggeling - ODDO BHF Corporate & Markets, Research Division - Analyst
P: Sascha Gommel - Jefferies LLC, Research Division - Equity Analyst
P: Sabrina Reeh - UBS Investment Bank, Research Division - Analyst
P: Operator

COMPANY EDITED TRANSCRIPT

OPERATOR: This is Conference #: 8258168

Operator: Thank you, for standing by. And welcome to today's HELLA Investor call for Q1 fiscal year 2019/2020 webcast. (Operator Instructions) I must advise you that this webcast being recorded today Thursday, the 26th of September 2019.

And I would now like to hand the webcast over to your presenters yesterday, Dr. Rolf Breidenbach, CEO; and Bernard Schäferbarthold, CFO. Thank you. Please go ahead.

Rolf Breidenbach: Yes, dear, ladies and gentlemen. Good morning to all of you. Thanks a lot for dialing in. This is Rolf Breidenbach speaking. Welcome to the HELLA Investor Call on our first quarter result fiscal year 2019/2020, also, of course, on behalf of my colleague and our CFO, Mr. Schäferbarthold.

Let me start with a short comment on the market and our business development. As expected the start into our new fiscal year was quite challenging, however and allow me to point this out. In the end, nothing -- really nothing surprising. According to the latest IHS update, the global light vehicle production decreased by 7.1% in the first quarter. Due to this market decline and comparable strong quarter in the last fiscal year, our portfolio and currency adjusted sales decreased by 5.5%.

In the Automotive segment, we were still able to outperform the market by 3.4%. The development, of course, was on the one hand impacted by the reduction in global vehicle production, less and volatile product call offs, and of course, the WLTP preponement effect in the previous year. Especially, the lighting business was affected by fewer ramp-ups as well as slower ramp-up curves. This development was fortunately mitigated by a positive development in our electronic business with a continuous demand for our energy management and sensor portfolio products.

Due to the overall negative economic environment, we were also faced with a sales decrease in our other segments, Aftermarket and Special Applications. Especially the demand in the independent aftermarket as well as the agriculture and truck and trailer business slowed down significantly.

On the profitable side, we are quite satisfied, we achieved an overall margin of 7.2%. This is mainly due to our consistent cost control program we established already one year ago as well as further productivity measures. In addition, the increase in prices for certain raw materials and electronic components was lower than expected. However, due to the missing volumes and volatile call offs, we could not make our costs fully flexible. Thus, we had displayed a certain decline in our gross profit margin, together with high R&D spending for the business the overall margin declined compared to last year.

We are pleased that our adjusted free cash flow increased in the first quarter compared to prior year. The improvement of around 12% to EUR 70 million reflects our continuous efforts with respect to working capital. Here, we are on track with our overall targets.

To sum it up, the start into our fiscal year, 2019/2020 was challenging in a weak and very volatile market environment, but allow me to point out again, nothing surprising for us. For our full fiscal year, IHS, again, revised its market forecast downwards to now minus 4%. In July, a decline of minus 1.3% was expected. This adjustment confirms our expectation of further downward revisions on the production numbers. And we still think that further downward revisions are possible. As of today, we still assume a negative market growth of around 6% for our fiscal year 2019/2020. The market scenario is still unclear. There are many geographical risks and still ongoing discussions on trade restrictions. All these factors are not included in the current market assumptions, thus, there is still much downturn potential.

Mr. Schäferbarthold and I know that perhaps our market perspective of minus 6% for the whole fiscal year was a surprise for the one or the other of you, but we still think that this minus 6% are not so unrealistic. Nevertheless, as of today, our full year outlook is unchanged from what we communicated in August. With other words, we are still on track with respect to our guidance for the fiscal year 2019/2020. Of course, we will continue to work on further efficiency and cost optimization. Moreover, we will also use this period of lower growth to work further on structural optimizations, for example, in the area of product portfolio and footprint.

I would like to stress once more, we are still convinced that we are also able to outperform the market mid- and long-term because we have no major structural issues. In a stabilized market environment that shows slight positive growth, we should be able to achieve the growth in the range presented at our Capital Market Days. This is supported by our intact order book, and of course, also our technology focus on major trends like electrification and autonomous driving.

So after this brief overview, I would like to go on with the presentation on Page 4. There, you can see our key financial figures for the first quarter. As already said, our currency and portfolio adjusted sales decreased by 5.5%, especially Aftermarket was minus 8.9% and Special Applications with minus 17.4% were very weak. With regard to Automotive, the decrease was only at a level of 3.6% and this means, as I said, we are still on a good way in the Automotive segment.

With regard to adjusted EBIT, here, we can see a decrease by 15.6% to EUR 113 million. Our adjusted gross and profit margin is now at a level of 26.1%, mainly due to the decline in Automotive. Our adjusted EBIT margin is at a level now at 7.2% and showing a decrease of 0.9% points.

Yes, with regard to the adjusted cash flow, I already mentioned, we were able to achieve EUR 70 million. So an up of 12.2% especially with regard to our working capital management, we are satisfied and this led us to this good cash figures from our perspective.

In the next page, you can see the different developments in the region. As I said, overall, we were able to outperform the global automotive market by 3.4%. This is especially true with regards to North and South America, here we see plus of 16.7%, also Asia plus 8.5%. Although, of course, we are not satisfied, for example, with our development in China due to the very weak Chinese market. We were able to really develop -- considering this market development on a very solid basis and our outperformance in China is at a level of around 12.8%. In Europe, the development was quite weak with a decline of automotive sales by around 10.2%. We were 5.4% behind the European market. This is mainly driven by fewer and slower ramp-ups in lighting as well as end of productions in Germany. In addition, we had certain prepayment effects due to the WLTP introduction in Germany. Excluding the German markets, we outperformed the European market also by 3.3% in the first quarter.

Yes, having said this, allow me now to hand it over to my colleague, Mr. Schäferbarthold, who will provide you with further details.

Bernard Schäferbarthold: Good morning, ladies and gentlemen. Pease allow me to first also start with some introductory comments. All in all, the start was within our internal expectations. And again, as stated before, the comparable previous year quarter 1 was very strong just before the introduction of WLTP, especially in the demand within the German markets you can really see the changes. Despite that, I'm very satisfied with the bottom line result regarding our adjusted EBIT and also adjusted free cash flow performance in our first quarter, specifically Auto was even a little better than we internally expected 2 months ago. This shows our cost-saving initiatives, and also our cash flow improvement program we have, again, shown good improvements after the first 3 months in our new fiscal year.

Having said that, I will now jump into the presentation on Page 7 and comment on some further details of our results. Sales was at $1.56 billion in Q1 portfolio, and FX adjusted growth was as said at minus 5.5%. The portfolio adjustment reflects the disposal of our wholesale business in the previous year in total that was an amount of EUR 137 million.

Besides the weak automotive market, sales growth also in Aftermarket and Special Application was negative. This, I have to say, internally developed weaker than expected 2, 3 months ago. In Special Application, the closure of our plant in Australia last year is a relevant part also of this negative deviation and is not portfolio adjusted.

On Page 8, our gross profit margin is -- and also gross profit, you can here see the development and the decrease. On one hand side, this development is certainly volume driven, that is the main aspect. We had limited possibilities of flexibilization of our cost structure. So although we are continuously working on structural improvements within our production networks to reduce our cost base and increase overall productivity. We are making here good progress and are benefiting now from these lower volumes now to initiate a lot of measures to sustainably grow our competitiveness in our plants.

On a positive note, the increase in material expenses was less than expected. Here, we see that the reduction in raw material prices, but also less shortages or bottlenecks, especially on the electronic part side supports basically or gives us, again, possibilities to reduce price levels if we compare it to the last quarters. But still I have to say that we are not back to price levels we had 12 months ago.

Looking on the segments. Aftermarket and Special Application positively improved gross profit margins. Here, we see improvements in product mix, but also on the cost side, which is good.

On Page 9, R&D expenses, you see increased on a year-on-year comparison by EUR 9 million. In relative terms, ratio is in Q1 at 10.6%, also due to the negative top line growth. Again, I would like to mention that the majority of our cost here are related to book the business what Dr. Breidenbach also pointed out that structurally we are positive that we should benefit now from the larger trends.

On Page 10, you see the development of our SG&A and expenses. Very positive development here, not only in absolute, but also in relative terms, a reduction of 1.1 percentage points compared to previous year. On one hand side, we see a decrease in logistic cost due to volumes reductions, but also here structural improvements on the cost side are here showing good savings potentials we were already able to realize in Q1. In addition, strict saving programs are leading here to lower expense levels.

Coming to Page 11, adjusted EBIT as said in Q1 at EUR 113 million, this leads us to an adjusted EBIT margin of 7.2%. Overall, you can sum it up that lower volumes with the related scale effects led to a reduced gross profit margin of 0.8%, which is overall the reduction in adjusted EBIT margin in Q1 compared to previous year.

On Page 12, to add to my comments before, you -- in addition, you see tax rate excluding joint ventures is at a comparable level to prior year in Q1. So we are, again, back at the normalized level. If you consider last year, the disposal of wholesale, which led overall in the last fiscal year to a very low tax ratio. Please allow me also here to comment on this page, the adjustments in Q1. The level of adjustments is at only EUR 2.3 million. This number full year is expected to be higher. Overall, we expect roughly EUR 30 million. The main additional block here is related to the announced restructuring program at our lighting plant here in Lippstadt where we are reducing the number of employees by approximately 200 this year and there will be now in the execution provisions over the next quarter's built up for this release and that is overall on this plant an amount of around EUR 24 million we expect.

On Page 13, free cash flow as said developed positively on a year-on-year comparison. CapEx was at a comparable level to previous year as stated before. The further improvements in our working capital supported this positive free cash flow development in the first quarter.

Coming to the segments on Page 14 of our presentation and starting with Auto. Growth in Auto was at a negative 3.6%. Positively, our overall Electronics business was slightly positive in terms of growth, especially in the areas of energy management, but also sensors, we are able to grow very nicely as we expected and we already commented also in previous calls that we are seeing here a good potential for us. Lighting was at a negative minus 7% growth. On one hand side, the previous year was very strong with a lot of ramp-up of new products and also at a high degree also tools and that together with the ramp-ups, we're also sold to our customers, but in addition also the market's weakness and slower new ramp-ups impacted us in the first quarter as Dr. Breidenbach also said and this combination was or made a weaker start for lighting in Q1.

Profitability in Auto was at 7.0%. As mentioned before, scale effects and the additional R&D expenses led to this reduction in profitability.

Aftermarket, on the next page, shows in Q1 a decline in total sales of 8.9%. We have seen a weak market environment in the independent aftermarket in Q1. Globally, beside that, last year, we had a strong growth within our workshop product due to regulatory requirements on emission testing where we benefited from. Despite the volume drop, EBIT margin was at prior year level of 8.4% in Q1, which was okay looking at the market development.

Special Applications, as stated, had a weak start into the new year '19/20. Lower volumes and in addition, also higher investments in R&D related to new electronic products we are using from Auto also to bring them into the market and realizing also further growth in future years had an impact and led to a decline on profitability in Q1. Target is certainly to come back to margins over the full year, which are above 10% level. We are actually working on the different measures also for this segment. This was certainly here weaker than expected in Special Application.

Having said that, I hand back to Dr. Breidenbach for the outlook, and I'm happy to take your questions afterwards.

Rolf Breidenbach: Yes, thank you very much, Mr. Schäferbarthold. According to IHS and we discussed this over the last calls, over the months, the expectations with regards to the global vehicle production figures went down step-by-step. So in January, we started with 2.2%; in July, we discussed this minus 1.3, we are now at minus 4. And as I already said in my introduction, we expect further downward revisions with regard to these figures.

When we look at this minus 4%, on a regional basis, we see that especially Germany with minus 4.1% is very weak; Europe without Germany minus 3.4%; Asia minus 5.5%; here, China is included with a minus of 4.2%; Americas more or less stable with minus 0.7%. But overall, as you can see, with regard to the IHS figures, no real tailwind for our business development. But, again, not unexpected, we see the market even worse developing.

With regard to our guidance, although we have all these uncertainties, we are very, very convinced and optimistic that we can keep the guidance we already have communicated at the starting of our fiscal year. So the currency and portfolio adjusted sales range is still at the level between EUR 6.5 billion to EUR 7.0 billion. And also with regard to our EBIT margins 6.5% to 7.5% is our expectation. And especially with regard to the EBIT range, we feel very, very comfortable to meet this.

Yes, having said that, I'm, together with Mr. Schäferbarthold looking forward to your questions.

Operator: (Operator Instructions)

And your first question comes from the line of Sascha Gommel.

Sascha Gommel: It's Sascha from Jefferies. The first question would be on your working capital situation. Your inventory and receivable levels relative to your revenue decline looked pretty high. So I was wondering if you can explain the background a little bit? And how should we think about that going forward in the coming quarters?

The second question is actually on your gross profile. We saw significant slowdown of the outperformance against car production and you gave some of the reasons. How should we think about that going forward in terms of regional acceleration? And also what -- which product and ramp-ups will drive the acceleration of the outperformance in order to get to your guidance level?

And then lastly, a few model questions. Could you give us the split of R&D capitalization and amortization in the quarter, and then also just to confirm the Australia numbers? Are they out of your base numbers from Q2 onwards? Those would be my questions.

Rolf Breidenbach: Yes, thank you very much. I will start answering the second question, Mr. Schäferbarthold will then take over for the first and third questions. So with regard to our growth development, it's, again, very, very difficult to predict because we see very volatile demands with regard to regions, customers and product lines. But overall, we see a stronger demand for our electronic products, especially in the area of our energy management products like DC/DC converters, so we see a huge demand for mild and hybrid vehicles. The same is true for our radar components and radar sensors and also with regards to our, in general, our sensor and activator portfolio. So to split it in different regions, very difficult because we see from months to months, from customer to customer and also as I said, from product line to product line, very volatile demands. But overall, the demand for our electronic products is still quite strong compared, of course, to the overall market performance. And energy management and autonomous driving products so far are relatively well received by the markets.

And with regard to lightings, there's not much to add than Mr. Schäferbarthold and I've already said. Postponed ramp-ups, slower ramp-ups we see in all regions, especially in Europe and in China. Yes, this is the overall perspective. Very, very difficult to forecast and to predict. A lot of volatility and very difficult also to develop out of all these facts a mid and long-term perspective

Bernhard Schäferbarthold: Coming to your question on working capital, the inventories have increased significantly. Here, you -- this is certainly not satisfying for us. After the first quarter, what we have seen here is that the very -- or the significant changes on customer sides on a very short notice, in partially one day or really only 1 week makes it very difficult for us to manage basically the supply sides in an efficient and good way. And we have seen that now in the inventories going up. And certainly that is something we are intensively trying now to improve. So here also going forward, I would assume that over the coming quarters, we will see here an improvement, again, that inventory levels should come back when volatilities are coming down a little bit, but still volatility is extremely high.

On the receivable sides, we came down also with lower top line growth. But I also have to say that the payment behavior of the customers we are seeing already changes, so that the overdue somehow are increasing a little bit. We are working against it, but the overall market situation does not make it easier, so that payment behavior remains challenging.

On the payable side, we see the increase basically with the improvements we are doing, and the ability now to increase payment terms with our suppliers, we see now that our DPO is constantly increasing and this we are benefiting from. So overall, still, even in this challenging environment, we stick to basically our target at end of the year to get to the 1% improvement in working capital compared to previous year level that we are constantly working on, but it remains challenging.

On your explicit question on R&D and the split on depreciation and amortization, and also, the exact R&D number, we have to come back to you. I don't have the numbers exactly in mind. Overall, what I can say is that still the level of CapEx in relation to the overall depreciation and amortization is still by far higher than 100% as last year where we also have been at 130%, in Q1, we were at 150%. We had a significant increase in depreciation and amortization this year that leads to the fact that if you look at EBITDA, our EBITDA margin isn't improved looking at an EBIT margin, which decreased. So here you see the increase, but we will come back to you and give you the details.

On R&D capitalization, there is no change to our policy, we are doing the same as we have done last year.

Sascha Gommel: That's great. And then a quick follow-up on the growth question. I think you presented at the Capital Market Day the 48-volt powerpack and the dual voltage battery management system. I was wondering if you could comment on the order intake? And if you still expect ramp up to start in 2023.

Rolf Breidenbach: Yes, I can confirm the expected launch 2023 with regard to dual voltage battery. We are currently in predevelopment activities with some customers, therefore, we are -- and the feedback is great. So we are very optimistic to launch this technology in 2023. Nothing has changed and everything goes well.

With regard to powerpack, we are, let's say, still here also in the predevelopment phase. So far, we had no concrete order. We only have a very strong order book for the components as I said, for example, the DC/DC converter. But with regard to our strategy, also nothing changed. We are in intensive discussions with our customers, and we see here also good growth potential.

Operator (Operator Instructions) And your next question comes from the line of Akshat Kacker.

Akshat Kacker: Akshat from JPMorgan. The first one is again on end markets. I know it is difficult to predict already into the second half of your fiscal, but can you discuss your broad assumptions for China and Europe, especially in the second half of your fiscal? And how is the visibility looking into the second quarter? Can we already be looking at flat organic growth for you into the second quarter? And the second question is on the R&D expenditure. You obviously have a clear visibility on roughly the amount you want to spend in FY '20. Is it rough say that expenditure will be up EUR 60 million to EUR 70 million this year? And the final question, third question on net CapEx. The number came in slightly higher than my expectations. Are you still expecting CapEx to be around 8% of sales for the year, or it should be higher, closer to 9% probably?

Rolf Breidenbach: Yes. Allow me to start answering your first question with regards to expectation of second quarter and the full fiscal year or the second half of our fiscal year. With regard to China, when I talked to China executives, joint venture partners and others, their perspective on the Chinese market, at least with regard to my context and discussion partners, is not optimistic. They are talking about winter periods, frozen periods and this, let's say, very conservative development of the Chinese markets will continue in their expectations. And therefore, also with regards to the second half of our fiscal year, we so far, based on the numbers in our systems on the one hand and the feedback we got from our partners in China on the other hand, we see no recovery. And we expect not a growth in the Chinese markets, but the other way around, shrinking Chinese market also in the second half of our fiscal year. Europe, very, very difficult to assess. I mentioned the Brexit topic, which, of course, will affect the second biggest European automotive market, the U.K. I do not know how the discussions between the U.S. and Europe with regard to taxes for cars will end. We will see, I think, a decision in November or December, but how the situation will look like? I don't know. When taxes will increase, of course, this will also significantly negatively influence both markets, Europe and U.S., from my perspective. But to answer your question also with regard to Europe for the second quarter and also for the second half of our fiscal year, we see a shrinking market. No -- we've seen -- as I said also in the last investor call, we see no light at the end of the tunnel in all dimensions with regard to general regulations, specific market demands, customer behavior. Also when I talk to our customers worldwide, unfortunately, so far, nothing is positive. And with regard to the second half -- or with the -- to the second quarter, overall, the second quarter within HELLA is stronger than the first quarter. So I think we will improve our growth performance, where in the end it will be, let's see. I cannot assess it more because, as also Mr. Schäferbarthold says, the reliability with regard to the amount of our customer isn’t any longer there, from 1 day to the other, they changed figures

Bernard Schäferbarthold: CapEx, we expect in absolute numbers to be roughly at the same level of last year. The percentage will then depend on top line. So is it then 8 or 9, this really then depends we're in the bandwidth of EUR 6.5 billion and EUR 7 billion we will then be, especially and then also on volumes in our second half. But in absolute numbers, you could plan with more or less the same number compared to last year. On R&D, we expect only slight increases in the following quarters. So we're now at EUR 167 million. So roughly in the range of EUR 170 million in average in the remaining quarters is basically the run rate we will expect and the ratio is certainly also depending on top line growth.

Operator: We'll take our next question, it's from the line of Kai Müller.

Kai Müller: The first one is coming back to Sascha's point when you mentioned on your inventory side, you've seen significant last-minute changes in the demand by some of the OEMs. Has that changed or has it become worse because I remember we had a similar effect around WLTP last year? And can you give us a bit of color in terms of which regions that's specifically for? And in such scenarios, are you able to get some sort of compensation from the OEMs if you have produced and it's sitting on your inventory so is it just up to you and you possibly even have to write this down? On that point as well, given this effect, have you seen any benefit or how big of your benefit did you have from overproduction in the quarter that you produced but didn't end up shipping? And then as a last question with regards to your cost cutting you've done so far, you've done extremely well, I think, on the SG&A side, and I think some of these costs have been coming lower. I understand that's partially driven also in terms of your quotation process. Is there something that can change and will stay that low going forward? Or is that something more near-term cost cuttings that you've done there in order to stabilize your margin, but that isn't sustainable maybe for the rest of the year and also into the year after?

Rolf Breidenbach: Starting with the topic of, let's say, unstable customer demands. It's getting worse and worse and especially in Europe and in China, and this is true for the short-term behavior and also for the midterm behavior because also a lot of our customers currently from one day to the other reduced their ramp-up curves for new vehicles, which, of course, also affects our baseline growth. And with regard to volatility, these day-to-day changes are also not helpful. Of course, we are adapting to that. And this means that in midterm, we not only see good chances, but we will reduce, of course, and also our level of inventory because step-by-step, we will try to consider this in our production, we have to consider this in our production schedule, but -- and your question was, is it comparable to the WLTP behavior in August, September: it's worse. With regard to your question to cost control. Of course, we as a company have grown in the last decade always between 5% to 10%, and therefore, our cost-control program has 2 directions; on the one hand, in the area of growth, of course, here and there inefficient areas step-by-step we'll build up, and of course, we are now using this period of downturn and restructuring to overall improve our general cost position. And again to give you a feeling, in the last 12 months, we reduced the number of HELLA employees by around 2,200 people. And this, of course, on the one hand, has something to do with the reduced demand in the market and our weakening sales figures. But on the other hand, of course, we also improved our cost position. And this will go on.

Of course, we will continue to very strictly manage our costs and flexibilize as much as possible in all dimensions, above the gross margin, material costs, direct, indirect personnel. And also, of course, when we look at our R&D spending, SG&A spending, we are here very strict, and we will continue to do that.

Bernhard Schäferbarthold: Perhaps to add on your questions, we do not see any risk of write-downs because you've asked that. So basically, there is no risk that we are producing on stock and then the components are not needed. So there is a timing effect as Dr. Breidenbach was saying. And it is then reflected in future production plans as we are then reducing basically volumes, but as of today, no write-downs we see as a risk. On your question on commercial, basically, commercial abilities to negotiate this for sure. We look at basically our contractual conditions. And if there is any lever, then that is something that we try to negotiate with our customers. And certainly, in some areas, they are with these high-volume changes and also high volatilities possibilities for us to get partially reimbursed on the additional expenses we had. You had then -- I'm not sure about your last question of overproduction, can you perhaps again…

Kai Müller: Yes. I was just thinking about, obviously, when you've build up inventory, you've produced more than you required, so you had a better fixed-cost absorption. Was that something that helped your margin in Q1 that, obviously, as you now have these inventories to sell off into Q2 and reducing your production schedule that, that might not be reoccur in Q2 -- sorry, in Q1 and then one reoccur in Q2.

Bernhard Schäferbarthold: Certainly, the fact is right that there is some kind of fix cost absorption. On the other hand side as we said we try to flexibilize at the maximum level when volume are reduced. So we are then taking out costs, reducing shifts in our plant and taking out people. So that this let’s say support on plant level, there is not significant impact that supports somehow the numbers. We do not see any effects now which is for us a problem Q2.

Operator: The next question, it's from the line of Henning Cosman.

Henning Cosman: I'm still struggling a little bit with how we should think about the more midterm growth outlook now. I don't want to obsess about the guidance for this year, again, and whether you're leading by the absolute guidance range or the outperformance that's implied or the market guidance that's implied. But just on your point about the 5% to 10% organic growth over your last decade, I'm just sort of thinking what's required for you to remain in that range? If we just very roughly think about a level of 5% outperformance in a flat market in your 2021/22 business year then if you like, is that basically how you're thinking about this still? And within that, have we just seen the sort of structural shift to electrification growing a lot more than lighting? I know you've discussed a few of the product or product line ramp-ups within electronics. It seems like you're feeling a bit more comfortable with those than the continued ramp-ups in lighting. If you could just discuss that a little bit more? I don't actually have a very specific question on that. I was just going to invite you to maybe shed a little bit more light on how you're thinking about this over the midterm. So that's the first question. And I'll ask a much shorter second one then. I think Mr. Schäferbarthold, you discuss provisions to be built in the rest of the year. So I just wanted to make sure that's incorporated in your guidance already, or do we not have to worry about that because it's going to be adjusted away anyway? So I'll just have those 2, but if you could maybe elaborate a little bit more on that first question block, that would be great?

Rolf Breidenbach: With regard to our, let's say, growth performance between 5% to 10%, let's say, we need a moderate market development, 1%, 2%, 3%, then I'm very optimistic to come back to this growth performance. So market conditions like in the last 10 years, and we also come back to this growth trajectory. You are right. We currently see an increasing demand for both products for electrification, but also for, let's say, assisted driving functionalities. And therefore, we see a huge demand in all areas for our radar sensors. We are -- although the markets are so weak, positively surprised about that, and the same is true to with regard especially our DC/DC converters. The ramp-ups are now underway, and the demand from our customers are significantly. And this is, from our perspective, will go on and will secure that the growth perspective of our electronic division will continue to be satisfying for us. And as you see also in such a weak market, of course, we are not growing at an exceptional level, but we are slightly growing, and it shows that we are here very well positioned and that our strategy to really focus our activities on the 4 trends, autonomous driving, electrification, digitalization and individualization, step-by-step pays of -- and this is especially true for our electronic products. And as I said, when we look at the regional split, we especially see Europe and China and but also step-by-step NSA will come back, but the demand for these electronic products, especially with regard to electrification a clear focus on Europe and China when we look at the radar sensors, the demand is worldwide and better than we have expected it. Yes. As a general remark with regards to our overall growth performance and with regard to the market. And as I said, this will continue. So also when we look at our order book, when you look at the growth perspective in the next fiscal years, we are very optimistic to show a very strong growth in electronics. And with regard to lighting, difficult to assess because when we talk about lighting, of course, we talk about relevant value per car and due to this volatile development, demand development in the market per car line and region, of course, the growth perspective for lighting is more difficult for us to assess, but midterm, of course, also lighting will grow because we see very positive developments with regard to interior lightings, these integrated lighting functions step-by-step will come. We have just got the first orders also for our joint venture with Faurecia. We got outstanding feedback with regard to our integrated car body solutions we showed at the IAA to our customers. These are efforts we are doing together with Plastic Omnium. Here also we see a huge midterm growth possibility. With regard to headlamps and taillamps, of course we see that the overall money, which is available per car for these lighting packages will step-by-step be limited but also here we also feel very well positioned. We just launched our new LED technology, SSL HD. I think I've already mentioned that the first very, very big order we got in for a huge German car manufacturer. We are in discussions with many, many other customers worldwide to launch this technology, and this will also give a lighting midterm a very strong growth perspective because this SSL and HD LED technology combines both, on the one hand, cost efficiency, and on the other hand, lighting functionality, and therefore, we think this will be the dominating LED technology mid- and long term. So this is a general overview.

Bernhard Schäferbarthold: On the provisions, I was only mentioning the amount, which would be adjusted. And so that is related to the restructuring program now here in Lippstadt where we got now -- we have the agreement now with the unions, and then we are now executing this plan actually. So that was not guided before. So around EUR 30 million overall we will see as adjustments and EUR 24 million on that aspect where we will build up provisions, but all of these will be adjusted.

Henning Cosman: So no effect at all on the guidance and, therefore, nothing to be incorporated or not incorporated outside of the scale of guidance, right?

Bernhard Schäferbarthold: Exactly

Operator: That next one, it's from the line of Christian Ludwig

Christian Ludwig: Two very quick follow-up questions. First of all, again, on Q2, I mean, last year's Q2, your Q2 saw rather weaker quarter due to WLTP drop in sales. Should we expect due to that low base effect, a more positive development than in Q1? And then on the provisions for Lippstadt, will they be evenly distributed through the next 3 quarters or will there be a chunk of EUR 20 million in Q2 and then just the rest very small? How should we distribute it over the 3 quarters?

Rolf Breidenbach: With regard to Q2, so overall, we expect to grow, because Q2 is one of the strongest quarters for HELLA and, although, we expect a very, very weak market, we expect a very low but a growth rate – a positive growth rate

Bernhard Schäferbarthold: On the provisions, it depends on the agreements we are able to get with our employees. The program is, in the first step, a voluntary program so discussions are ongoing with our employees. I would personally expect a vast majority of the provisions already taken now in Q2 of that overall amount and perhaps the rest in Q3.

Christian Ludwig: And just as a quick follow-up. What kind of cost savings do you expect to generate, which will then be applicable, I guess, in the next business year?

Rolf Breidenbach: Roughly perhaps EUR 20 million

Christian Ludwig: EUR 20 million? Okay

Rolf Breidenbach: Sustainable cost reduction

Operator: Your next question comes from the line of Marc Tonn

Marc-Rene Tonn: Just talking about the bit smaller business segments now, first on aftermarket we have seen this a 8.9% decline. Perhaps you could give us some indication what you're expecting here going forward. I think this is regional weakness, but you alluded on, then it seems to be some consolation on the customer side, some inventory reduction, perhaps some thoughts on how we should think about that segment going on. And then secondly, also talking about Special Applications, which is a sharp decrease in revenues of 17.4% where you, as I mentioned agricultural construction also trailer specifically. Is it something which was, let's say, very surprisingly for just these 3 months or is there any indication that this should also, let's say, continue in that speed of decline in the next quarters? Or is there any signs of stabilization? Some insight here would be appreciated.

Rolf Breidenbach: So starting with your second question with regard to the SOE market, we do not see an improvement in the months to come. Trailer is significantly down. I think you also know the announcement of the fixed trailer manufacturers, the markets are down by 20%, 30% and in some areas more. Also we now see a sustainable decline in the agriculture markets and also construction step-by-step is getting weaker. So this is not a quarterly effect. This, from our perspective, will continue also in the next months. How long this will remain? I don't know, but we do not expect a short-term improvement with regards to the overall market development for SOE here, of course, and especially in Europe it's important that we do our main business in this business segment in Europe. And yes, it's unfortunately not a short term, but more a midterm effect. With regard to the independent aftermarket, our European market is down, of course, also the cost pressure due to the consolidation activity, of course, is going on. With regards to the cost pressure, we were able to compensate that, as Mr. Schäferbarthold said we are relying the business at the same percentage level, but here also we do not expect a stronger market in the months to come. It looks as here we're also talking about more a midterm effect.

Operator: And next question comes from the line of Sabrina Reeh

Sabrina Reeh: I just have 2 smaller follow-ups. So thanks for providing some more details on your expectations regarding electronics and lighting business. But as a follow-up for the second quarter specifically, you said you expect to grow, again, does this also imply a sequential improvement in the lighting business or is that too difficult to say at this point? And the second question would, again, be regarding the costs. I'm sorry, if this was already asked. But do you think -- I mean, I'm trying to understand whether you would be able to achieve this kind of margin, again, like in the first quarter if we would assume a similar negative decline in the next quarter as well? I mean have the low-hanging fruits already been achieved through SG&A measures and employee reduction? Or how do you feel about that?

Bernhard Schäferbarthold: First of all, to our Q2 expectation on EBIT, the volume -- in my view, as I see it today, the volume will help to even improve profitability now compared to Q1, so that scale effect will play here an important role. On the other hand side, we continuously see that the cost programs are running in a way that they are supporting basically the low-cost base we actually have so we should see an even stronger quarter in Q2.

Rolf Breidenbach: With regard where the growth comes from as you also mentioned in your question, it's difficult to assess, but as of today, my estimation would be that the growth will first of all come from electronics and perhaps also a little bit from lighting. But the electronics growth will come, this is clear, more or less clear.

Operator: And next question comes from the line of Christoph Laskawi

Christoph Laskawi: Christoph Laskawi from Deutsche. Just a minor question on the performance you've seen in lighting. In the discussions that you have with customers, do they indicate a fixed time line, essentially when they will start ramping up, or could those projects slip into the next fiscal year as well or in general seen as at risk of starting at all?

Rolf Breidenbach: Not at risk starting at all, but we see some, let's say, postponement of SOPs over a period of half a year, 9 months, so it could be that also these ramp-ups are taking place in our next fiscal year and very often, it's not a official postponement of the SOP, but a very, very, very slow ramp-up, where we deliver I don't know, 100 pieces per week, and therefore, we see that the ramp-up, of course, will take place, especially all the ramp-ups where we have booked business in Europe, but this is mainly true for China, but very, very slow ramp-ups and significantly postponement of ramp-ups, it could, in the worst-case, be that the one or the other ramp-up will only take place in the next fiscal year.

Christoph Laskawi: And then last question on the volatility that you see with regards to the car lines It looks like your electronics business does not really has the same volatility as the lighting business. Is that a fair assumption? Or is it across products where you see the volatility and also across all regions?

Rolf Breidenbach: Yes. The reason is that lighting, we are more or less developing car line specific products. Yes? So we are one to one depending on specific car lines and how successful they will be in the market. Therefore, the volatility in lighting is much higher than in electronics because in electronics, we sell a lot of standardized products to one customer across its car lines. And therefore, the dependency on one specific car line or model is significantly lower in electronics.

Operator: And next question comes from the line of Harald Eggeling

Harald Eggeling: Last question on equity results. We have seen a bit volatility in automotive between Q1 and Q2 of last year. Is there a guidance for Q2 at equity results in Automotive? And how should we think of the run rate of the equity results in Aftermarket going forward?

Bernhard Schäferbarthold: Overall we have seen that the equity result was weaker, more or less due to also the weak market environment, you could say, and also slower ramp-ups. Overall, we expect over the next quarters, an improvement, also which at the end should bring us to a comparable level of last year. There is one, additional aspect if it comes to our joint venture together with Mahle (not in Auto) which is not reflected any longer in our equity results, so this you have to take out also in the comparison to previous year so BHS the thermal products joint venture, but we expect an improvement over the next quarters.

Operator: And no further questions at this time. Please continue

Rolf Breidenbach: Yes. Again, thanks very much for joining our Investor Call. Also on behalf of Mr. Schäferbarthold, thanks for your questions and discussion. And I wish you all the best. Bye

Operator: Thank you. And that does conclude our webcast for today. Thank you for participating. You may all disconnect.

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