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COMPANY EDITED TRANSCRIPT

Operator: Good morning, ladies and gentlemen. Welcome to the HELLA Investor update regarding the first half of the fiscal year 2022. (Operator Instructions) Today's call will be hosted by Michel Favre, the CEO of HELLA; and by Bernard Schäferbarthold, the CFO of HELLA. Now I hand over to Michel Favre.

Michel Favre: Thank you very much. Good morning, ladies and gentlemen. It's not too late to wish you a very Happy New Year 2023, and a lot of success for this new year. So as you know, I will disclose today the first half of results for HELLA, I would say, ending end of November. As you know, we have changed our fiscal year. So we'll come back to you next month with, I will say, the full fiscal year, which is 7 months. So please don't forget to attend our meeting which is next month.

Thank you for attendance again. So I will start with Slide 4. At HELLA what is, I would say obvious, we are comparing this year, a year of recovery on the volumes, partial recovery. You know that we have still low volumes. We have still some disturbance from semiconductors. And of course, we have still some global disturbance linked with energy crisis and Ukraine, I would say, war.

But whatever, we have much better volumes with respect to the period last year, which was strongly impacted by the semiconductor crisis. So in this

context, we posted a 25.7% growth of our group sales, which is, I will say, very important for us and we continue to drive it. It is a very strong growth in Asia, mainly in China, but as well I would like to mention North America. And we have a lot of new products, ramp-ups, and we are more and more global. And when you take, I would say, the balance of sales, more and more overseas, which if we say overseas, that means outside Europe, will go to 50% of our sales. We have, of course, a strong demand of our 2 flagship activities, Electronics on one side, and of course Lighting on the other side. Life Cycle is more, I would say, due to the aftermarket sales more stable.

On the profitability side, Bernard will comment deeply. But we have, I would say, achieved EUR 202 million, up 29.5%. So we are recovering some margin. I know that we would like to do even more. Of course, we have some big difficulties with inflation. Inflation is a major, I would say, parameter to manage today. We try to mitigate inflation. We have, of course, some tough discussions with customers. So pass-through as much as possible of inflation is very important to try to mitigate the impact. And I think we were not bad, I would say, this period. And of course, we continue to work on our cost management. We'll go back on that. And we have, as a good asset, of course, a fantastic reservoir of synergies.

Cash flow, probably a good achievement, I would say, this first half. We now are reaching, I will say, the goal to reduce or to, I would say, have no growth of inventories in a period where there is a strong inflation. So it is a clear improvement. And we'll continue to work on that, to work on the working capital. So the fact that we are generating cash flow, you know that we have some big commitments on this is a key, I would say, priority for HELLA. Page 5. What I wanted to highlight, it is, of course, some very important, I would say, new order intake. I will not give you the figures today. We'll probably with Bernard give you the figure next month. But what I can tell you is that with this technology, with, I would say, the fantastic involvement of our people, we have a very good figure on this side. And you have some examples here.

We were inside the umbrella FORVIA of course, present in the CES, I would say, with a discriminant booth. And I was amazed to see our FORVIA is present on different functions. Our Electronics, we are, I would say, engaging

a lot of things. And as you know, Energy Management is a key motto for HELLA. I think, sorry to be a little arrogant, that HELLA and FORVIA was very present, very successful and we have shown some discriminant technologies, and it was anyway the feedback of our stakeholders. So we are very proud as FORVIA to have made, I would say, this very strong presentation -- very strong presence.

In the period, you have noticed, of course, that we have closed now the transaction of HBPO. It was announced late, I think, July, if I remember, and everything is done. We have received the cash. And we have proposed a special dividend, which will be paid probably after the shareholder meeting, probably in May, but to be finetuned.

And last but not least, because this is the key, we have a growth story. We have a fantastic, I would say, momentum in Electronics. But to do that, we need more and more resources. And you know that it is, sorry to use this word, a war. So we have opened two new technical centers mainly focused on Electronics in order to be able to continue and to drive the growth.

Page 6 is already, I would say, a prior conclusion, which we will continue to do, and we have been for the 7 months, it is to improve the operational performance, to mitigate inflation, to be proactive on all of what is synergies and cost reduction. We will continue to improve our balance sheet, and Bernard will be quite talkative on that, to reduce the working capital, and of course, we continue to optimize our portfolio. But I think you know HELLA, you know that it is a kind of our daily effort for a long time.

Now I pass the floor to Bernard.

Bernard Schäferbarthold: Thank you, Michel. Good morning, ladies and gentlemen, also from my side. And also from my side I wish you a very good and successful year 2023. I would continue on Page 8. So looking at our sales development, reported sales in the last 6 months is at EUR 3.8 billion. There are no portfolio changes in 2022. Around 1/3 of the organic growth is related to price increases and the pass-through of inflation to our customers. The FX effect is as well positive with around EUR 150 million, mainly with the U.S. dollar and China currency relation to the Euro in comparison to prior year. The FX adjusted sales is with that at EUR 3.7 billion. Positively, we are

growing in all regions, specifically in NSA by 33% and Asia by 46% in the first 6 months of our period. We are now very close to have around 50% of our business in Europe and 50% in NSA and Asia.

With that, we are getting more and more a better balance, which is good from our perspective. The growth in the first 6 months on a comparable FX is at 20.8%. And in our second quarter, it was even higher at 25.1%.

Going to Page 9. Looking at the segments, starting with Electronics.

Electronics is growing organically by 25.9% and reaches an external sales volume of EUR 1.5 billion of sales. Highest growth rates regionally are also in NSA and Asia, specifically in China, where we are growing by 50% considering also the FX effect. We are growing within all product centers. So mentioning autonomous driving, body electronics, sensors, actuators, and also energy management in a very similar manner, around 30%. With that, you can see we are very much balanced within our product portfolio overall in Electronics. This makes me also very confident, looking also to the upcoming periods that we can maintain a sustainable growth speed also in the future. The EBIT in Electronics improved to EUR 113 million compared to EUR 65 million in the previous year. This is an EBIT margin of 6.8% compared to 5.1% on a year-on-year comparison. The gross margin in Electronics was at a similar level compared to last year at 25.5%. The inflation compensation improved and also increased to a level of around 80%. Positively, the additional volumes and with that also the increase in efficiency and productivity supported the solid gross margin development. And also R&D and SG&A, even they increased in absolute terms, but under-proportionately, they decreased in relative terms and supported the EBIT improvement. So going forward, I expect also inflation management to be stronger. In addition, we also had, in Electronics, some warranty cases we had to take, which had a negative impact on our result. So all in all, I believe we can continue to improve our Electronics margin going forward in the upcoming periods.

Coming to Lighting. Lighting is growing organically at 21.6% and reaches external sales of EUR 1.8 billion. The growth in Lighting is specifically related to NSA with a growth of above 30% and China with a growth of above

50%. The growth is specifically related to several ramp-ups on headlamps, but also rear combination lamps, mainly in China, but also in Mexico.

The EBIT improved to EUR 37 million. The EBIT margin is now at 2%, which is a slight improvement compared to previous year. The gross margin in Lighting decreased by around 1 percentage point due to the inflation and compensation, which in the first 6 months is around 70%, with that slightly lower compared also to Electronics. Here also we expect to improve this compensation rate in the near future that it will at least be on the same level as Electronics.

R&D and SG&A ratio improved significantly compared to prior year. Overall, Electronics and Lighting were both significantly impacted by the bottleneck and the high volatility in customer demand as we explained also in recent calls. Overall, as said, the compensation rate should continue to improve in both segments going forward, which I assume will improve the profitability in both segments in 2023.

Going to Life Cycle Solutions on Page 10. Life Cycle Solutions is growing organically by 5.7%. Positively, our independent aftermarket and SOE grew by 3%, respectively, by 12%. Independent aftermarket benefited from a solid demand on spare parts in especially some countries like Turkey, the U.S., and also Mexico. On the other side, the business with workshop products had a slight decline of 2% due to a high comparable number in the last year with the introduction of the new diagnosis tool in the last year.

SOE benefited strongly also from a continuous solid demand, especially on our customer segment, agriculture, but also buses and trucks especially. EBIT is at EUR 53 million. The EBIT margin at 10.6%. The reduction in EBIT and EBIT margin is related especially to the investments in our sales network in aftermarket, but also in R&D investments, especially in diagnosis, but also into our SOE product portfolio, especially to Electronics applications.

In addition, we had a negative product mix and also some inflationary effects, which were unfavorable in Life Cycle Solutions. The impact from Russia was only in the independent aftermarket, but had only a slight negative effect.

Looking at Page 11, to the outperformance. We outperformed the market in all 3 regions. The strongest outperformance is related to NSA and Asia. Globally, around 5 percentage points of our outperformance is due to FX, mainly in the

regions NSA, but also in China. Around EUR 200 million of our growth, as said, are related to price increases and inflation pass-throughs. This we have to consider.

Europe is outperforming at a level of around 3%. There are some reasons to that. On one hand side, as I said, last time, sales on tools and R&D was at a higher level in the previous year. So the comparable is here higher in '21. And the bottleneck situation and the reduction on buffer stocks on the OEM side in the last 6 months had a negative effect on Europe as well.

And the last topic is that we have seen some volume effects on some of our nominated car lines. Going forward, we expect Europe in the future, again, to be stronger also in comparison to the volume growth.

If we go to our P&L on Page 12, our adjusted EBIT is at EUR 202 million. The adjusted EBIT margin is at 5.3%. On Q2 only, the adjusted EBIT margin is at 5.5%. The improvement in EBIT and EBIT margin comes from higher volumes and lower R&D and SG&A ratio. Negatively, the inflationary effects impacted our results. On one hand side, the compensation on inflation end of November was slightly below 80%, but also, we have to consider that the effect from the 1:1 compensation of inflation, but also the pass-through to our customers have a negative effect overall on our gross margin and respectively also then on our EBIT margin ratio.

In addition, we had, in Lighting, and as I said, also in Electronics, some warranty provisions overall of around EUR 20 million, which negatively impacted our results, which I would not assume to come again in the future.

And also, we hadn't these kinds of events and effects also in the last period.

On the short fiscal year ending in December, we expect to be around an adjusted EBIT margin of 5%. The month of December had, especially in Europe, lower sales with the Christmas and New Year's period. And also related to China, we were slightly impacted in December on sales due to a high number of COVID cases on our side, but also on the customer side.

On the adjustments on the full 7 months period on our fiscal year, we expect the book gain out of the disposal of HBPO of around EUR 250 million. On the negative side, in addition, we will have most probably to accrue provisions on impending losses around a 2-digit mid-euro-million amount net, so around

EUR 50 million. This is related mainly to Lighting projects, in which volume reductions, but also the inflations on these programs have a negative impact. So overall, this will lead then to adjustments on the 7-month period, which would then be at a level of EUR 160 million positive.

Going to Page 13. On the cash flow, we had a strong second quarter. We are now in the 6 months at minus EUR 9 million. We improved strongly in our working capital. On the other side, we also invested more in the 6 months period, especially with the high level of acquired projects and the preparations we are now doing on the upcoming launches.

Here on the outlook on adjusted cash flow to the end of the year, I can say that we had a very strong month of December on our operational free cash flow. And with that, I can confirm that we will be positive and strongly positive also then in the 7 months period on our fiscal year 2022.

Having said that, I hand back to Michel with the outlook and happy to take your questions.

Michel Favre: Thank you, Bernard. Slide 15, please. It's still complicated to, I would say, comment on the outlook for volumes. We are still -- we see a partial recovery, EUR 84 million, EUR 85 million cash is a big improvement with respect to the year before, but it is still below the historical level, which was about 89 million to 90 million vehicles. So normally for the next years, including 2023, we still continue to see recovery because of these low years since 2020; second, because inventories are low, and not to forget, waiting time to get some cars is still very high.

On the opposite, semiconductors, we see things smoothing. And the only limit that we see is probably the pricing. To comment on very short term, because the guidance is made until end of May, we have 2 months, January, February, where we know, you know that China will be low due to the COVID. This was called first wave of COVID, which was quite harsh, apparently improving, and improving quite quickly, but we will see. So we have this, I will say, downside. So it is why, in our figures, we want to remain cautious due to these 2 months of China, as the visibility, which is still, I will say, low for China. Whatever the fact, we think that there will be, like last year, I would say, a strong recovery afterwards.

So saying that, you see Slide 15 that we maintain the range, 80 million to 84 million cars, 80 million is probably very conservative.

If we go to Page 16, that means more than EUR 7 billion of sales. And probably here we will be in the upper range, mainly because our sales are boosted by the ForEx on one side and mainly as well as a pass-through. And we did our homework. I want to insist, we have to mitigate as much as possible, the impact of inflation. On EBIT margin, 5.5% to 7%. Here, we take the position that it will be in the low range, however, we have seen the 5.3% anyway, which is slightly below this range.

The second thing, of course, China being weak has an impact -- has a mix impact. So this is why we want -- and we have always been conservative on our guidance.

Page 18, if I make a quick wrap up. I think we have a strong momentum of sales. We are recovering now the profitability. We are doing our homework to mitigate the inflation through pass-through and through accelerating the cost management and the synergies. We continue to globalize our business. So HELLA is more and more global. China and North America are becoming strong contributors. We continue with Bernard to improve the operational cash performance, and cash generation will improve. It is a key priority -- was and is a key priority for HELLA.

And with our technology, I will say, leveraging the CES, leveraging what we see with customers, we can continue to be very optimistic to our capability to gain market share and to have an active order intake.

Saying that, now I would like, with Bernard, to answer your questions.

Operator: (Operator Instructions) And first up is Christoph Laskawi from Deutsche Bank.

Christoph Laskawi: Happy New Year to you as well. Three questions, if I may. So the first one would be on the guidance and you're pointing to, I'd say, softer start into calendar '23. I totally hear you on China, a lot of uncertainty, but could you comment on other cost items such as semis, energy wages, et cetera, et cetera. Is there anything in that, which moved up higher than you thought and is an additional headwind? Or is it really just caution on the regional mix there?

And the second question on factoring. You did quite a lot in H1. Is there more to come? Or is the level now basically expected to be flat? And then just on media reports and headlines that people continue to leave HELLA, is this, in your view, creating a bit of uncertainty or execution risk in certain programs, which you are currently ramping up, or more or less digestible and manageable for the overall group

Michel Favre: Okay. I propose that Bernard will take the second question. I will take the first one and the last one. I don't know if we have some guidance, of course, but we have potentially a conservative guidance. Semiconductors inflationary, it is still inflationary. No discussion on that. Potentially less than we were budgeting. If I can give you a flash, it's more than that, but it is not completely secured because, of course, it is an ongoing item. But probably -- and it is the same for the raw material now, probably if the inflation is slowing down, even we will see some small, I will say, recovery. It is what I can tell you today to be confirmed in the next week.

Bernard Schäferbarthold: On factoring, we had now a net effect of around EUR 110 million in the 6 months. The program now we only have in Europe is up to a level of maximum EUR 200 million. We are working on a program in Mexico, which would be an additional EUR 100 million. This would be signed -- the negotiation would be signed most probably end of January. So that the overall program would be EUR 300 million we can work with. So I would assume that most probably, we will run with the factoring volume in this year, which could be EUR 200 million to EUR 250 million. So that there will be an increase of around EUR 100 million.
In the adjusted free cash flow I have shown, there was no factoring effect. Just to be clear on that, this was not considered in this number.

Michel Favre: Christoph, you were mentioning as some people leaving HELLA. Probably, you are referring to 2 members of the Management Board. But unfortunately, they have some change of control clause due to their contracts and mainly given by the previous shareholders and not by Faurecia. So it is their personal decision. I cannot comment on this. But what I can tell you is that, firstly, on

the figures, we are at our, I will say, objective about what you call the turnover of people. We are in a world where there is a strong competition to attract engineers and mainly electronics engineers. So for the moment, we are at our goal, and thanks to the HELLA image, we continue to be very attractive. And inside HELLA of course, we have succession plans. So we are able, with the current, I would say, move to fill positions with our HELLA people, which is very good

Christoph Laskawi: Just one follow-up, if I may. And I know you'll give guidance next month, still try just on the expectation of recoveries from the cost that you incurred in early '23. That is very likely to come in only in the second half of '23 calendar, right? Or could it be quicker this time around?

Michel Favre: If you speak about raw material, et cetera, due to some aging, due to, I would say, the fact that the picture is progressively improving, yes, better, which is what we figure with Bernard. If we have a very good upside, it will be second half. The first half, probably we have to remain conservative.

Operator: So next up is Akshat Kacker from JPM.

Akshat Kacker: Akshat from JPMorgan. Three questions from my side as well the team. The first one on raw materials and input costs. So higher semiconductor costs have burdened your results over the last few quarters. Can you just talk about how your discussions with suppliers here are pending? And if you're still buying microcontrollers or chips in the market, what is the overall margin headwind that you're seeing here? And how do you expect this to evolve, specifically on semiconductor speed?

The second one on R&D expenditure. We have previously talked about overall higher spend supporting the strong order intake that you have, but you have also talked about an increased effort for R&D standardization as well as finding more synergies between the organizations. Initially, you guided for 7% higher spend this year versus last year. Is that now going to be higher? Or do you expect that to remain in that range for FY '23, please?

And the last one on Lighting, one of your French peers Plastic Omnium have just bought Varroc and created a bigger competitor for you in Lighting and Electronics. Can you share your views on the competitive landscape here? And also, just the type of few drivers that would help improve the margin profile for this business. I am seeing that it has stayed at that 2% level for the period of time.

Michel Favre: I am not completely with you for your last question on Lighting. Can you repeat exactly what is your question?

Akshat Kacker: Yes. Just your comments on the competitive landscape in Lighting as Plastic Omnium has bought Varroc and created a bigger competitor for you in Lighting and Electronics, and also the margin profile specifically for Lighting.

Michel Favre: Okay. Thank you very much. I will start with your last question. Varroc was a competitor. Plastic Omnium buying Varroc is a competitor. It doesn't change the landscape. The only thing that it changed is that, of course, Plastic Omnium is a very powerful and very efficient group. So I think there will be nice challenge with Varroc. But I think they will build, I would say, a very good competitor. It will take time. And we don't comment more.

What you can see on Lighting is that we are turning around, I would say, the profitability of this activity. And we have a fantastic team. And I think Yves Andres with his team is making the breakthrough. So I am very confident that we will see -- you will see better figures. And I can tell you, again, the CES, what we have shown, was, I would say, judged by our customers as discriminant.

Going back to your question about semiconductors, we said we will not go into all the details. What I can tell you is that we received a lot of semiconductor suppliers in our booth as a CES. And when you want to get prices and good prices, you have to show that you are a very good customer, and you are, I would say, offering a lot of potential. And I can tell you that on this side, the CES was a breakthrough.

And I am convinced and know that semiconductor suppliers were, I would say, taking advantage of the crisis and to increase prices at that time to, I

would say, rebalance things. But my conviction is that we will enter in a much better cooperation point of view and HELLA, FORVIA, with the growth in Electronics has a fantastic asset. So it is why I am confident that things will improve, of course, on the pricing side, but as well on our global efficiency side in targeting logistics.

R&D expense, on one side you are very right. We have a very strong order intake. And on top of that, if you take the mix, but more and more electronics, which is more R&D consuming. So then surely, we have an increase of R&D. And its value, no discussion, will have an increase, I would say, in value. We will continue to add actual efforts.

And of course, on the other side, we try to be as efficient as possible to standardize, to use platforms, to leverage platforms to mitigate that. So it is, sorry to say that, a permanent race to control the R&D, to avoid to overspend in R&D, to have the right resources. But I think we are in a good way again, and it is probably one of the major expertise of HELLA. On expenses..

Bernard Schäferbarthold: Perhaps to add on the R&D expenses, we had also a negative effect now, in terms of we have taken a lot of people on board. But in addition, we also had, then in parallel, many services we bought now to cover also the development of the project and to onboard the people. So in parallel, we had more resources to cover also the projects we have acquired.

And step-by-step now, we will reduce that with the people we have now on board and do more on our own and reduce the external services. So by that, I think we will also be able to be more efficient in terms of now the actual expenses you have seen. And we also had a certain effect if you look at really the absolute increase in value with the U.S. dollar and renminbi. So with the FX translation effect into euro. So that in absolute terms, we also had a higher number than we originally also expected. That was also an effect on the higher increase.

Operator: And the next in the line is Michael Jacks from Bank of America.

Michael Jacks: It's actually Michael Jacks from Bank of America. The first one is just with regards to the current production environment. Can you comment, please, on

the current situation in relation to customer calls activity or downward volume adjustments in contrast to what you've seen over the last few quarters?

My second question is assuming that your light vehicle production assumption does perhaps prove to be too conservative, what is a fair drop-through rate on EBIT that you think we could work with for the coming quarters? And then my final question is with regards to the recent FORVIA's CMD where they announced cost-cutting measures of around EUR 400 million. And I think, if I'm not mistaken, EUR 150 million for their fiscal 2023. How much of this, if any, relates specifically to HELLA? And if some of this does relate to HELLA, I would imagine it's not included in your current guidance as this was set before FORVIA's CMD.

Michel Favre: Bernard?

Bernard Schäferbarthold: Yes. So on your last one, so we said also in the CMD that our target is to reduce the SG&A ratio, but also the R&D ratio by 1% at least each, and R&D specifically also even a little more. And this comes certainly with a lot of measures in terms of efficiency. We just discussed, in R&D, we are working on platform standardizations and so on, but in SG&A, partially also, with the measures we already also have taken, so having leaner approaches, but on the other hand side, also with the synergy measures we are working on to benefit also from out of the working together from Faurecia. So these targets, we stick to. And I think that we will see, with that, also partially cost reductions in operations will also contribute, especially in indirect, we will see the improvements in margin, bringing us then to the EBIT target levels we have communicated. So this is part of our plan. It's also part of our, let's say, step-by-step improvement in profitability we would expect.

On your first question, so the customer demand, I still see a very similar volatility and deviation actually what we had also in the last 12 months. So no change to that. We still are working with deviations of 25% to 30%, and a little depending on the regions, the highest deviations in Europe. I still also see that now with -- especially for Europe, or with New Year and also the vacation periods of some OEMs, that most of the changes will most probably

been also made now when all are back into operations, so in the second half of January. So there we would continue to expect a high volatility in the demand portals.

So this remains for us and for our operations continuously very challenging and makes it, as Michel was saying, very difficult to our prognosis to sales beside of China, I think, which is let's say, separate in the reasoning with the development of the COVID cases.

And on the pass-through on the -- if we would see higher volumes, I think we should then see at least -- yes, a range around, let's say, 20%, I would assume.

Michael Jacks: That's very clear. If I could just maybe just squeeze in one last question. Is it fair to assume that the main reason for now orientating the margin guidance towards the lower end of the range is driven mainly by the dilutionary impact of pass-throughs and the warranty claims? Or is there perhaps something else there?

Bernard Schäferbarthold: No, that's very clear. That's the reason.

Michel Favre: You can consider that the pass-through is something like 50 basis point dilution.

Operator: And the next question comes from Pierre-Yves Quemener from Stifel.

Pierre-Yves Quemener: Yes. First, let me wish you, Michel and Bernard, a Happy New Year from my side as well. I would have 3 questions, if I may. Lighting is still very, very weak, and you mentioned some explanation to that respect. What could be the recovery trend going forward of that subdivision of autos? What are your expectations to reach, I would say, a more normative level. Is it something that you can see already in the calendar year '23? Or should we think more of a step-up, steeper step-up in '24 and '25. That would be the first question.

Second one would be on Electronics. On the other way around, I found that the margins have reached a very solid level, 7.5% in the first half. Is this surpassing your expectations and do you think we could think about this

division going to double digit at some point in time? And last, my key area of interest, like you, I guess, is free cash flow. I have rightly understood Bernard comment that free cash flow should significantly step up into the calendar year 2023? And could we have maybe some more color to that respect?

Michel Favre: Thank you, Pierre-Yves. Lighting, we see strong improvements. And our first contributor, sorry, was because we were impacted in the first half, which was the second half for HELLA, we were impacted by inflation. So the first thing is that, of course, to recover to pass through the inflation. The second, we have some operations topics in North America. Today, I can tell you, we have made the breakthrough. Third, it is the quality of order intake. It will be progressive, you're right. But anyway, we have given us some, I will say, very positive figures at the CMD, with even as we speak of 6% minimum. And we are convinced that we can do even more. The second point, you will see, I would say, a breakthrough in the figure this year. So the momentum, I insist, has been built by Yves Andres and his team. Electronics, very sweet margin, very sweet business, very good competence and expertise inside HELLA. But the current margin is not the one we expect. You have understood that we have given at the, I would say, CMD, much higher expectations and the expectation of this team is to go back to a high single-digit margin, double digits in some (product) families, but I think it's a good target, but potentially a true target, even we did not commit to a double digit, but high single digit, I am very comfortable to commit on that. On cash flow, Bernard?

Bernard Schäferbarthold: So on cash flow, my comment was on one hand side related already to the December results. So the first 7 months where we will be significantly positive with a strong year-end in cash flow, so a strong month of December. But what I also can say is that our expectation or our plan on 2023 is to be significantly positive. So cash generation will be key. We will, on one hand side, we are working on much stronger EBITDA expectation on 2023. And in addition, we will also work on further working capital reductions. So there can certainly be volatility. Also, especially through the start of the year, so the first months where I mentioned the very high demand we have in the

system where we are a little cautious about how will it come? And will we see some volatility, but we will manage that during the year, so that overall, to the year-end 2023, we should be strong again to comparable levels we had at HELLA in the years before.

Pierre-Yves Quemener: Just to squeeze a follow-up. Should I think of the free cash flow for the HELLA component of the FORVIA Group as the 1.5% at least the free cash flow margin that has been said during the CMD could also apply to HELLA in 2023?

Michel Favre: It's too early to answer. But yes, if you do, it is stupid, depends on sales. But it is too early to confirm this figure. If you don't mind, wait next month.

Operator: And the next question comes from Sanjay Bhagwani from Citi.

Sanjay Bhagwani: Thank you very much for taking my questions also, and congratulations on delivering the improvement in the free cash flow and also for confirming that this is not impacted by factoring. With that, I've got 3 questions as well. My first one is, I think you provided really good detail on your inflation pass-through that, as it stands now, in H1, you've got 80% recovery on Electronics, 70% in Lighting. And I understand that your full year target is somewhere around 80%. So can there be a possibility, because if I go back to, let's say, '21, you had like this huge inflationary headwinds, which were not compensated at all at that time, then in '22 as well, your last fiscal year, you just got 30% compensation. So can there be some of those retrospective compensation coming through as well in this year? That is my first question. And I'll just follow up with the next one after this, if that is okay.

Michel Favre: It's a key point because, of course, if we don't pass through, that means our profitability will be impacted. And of course, we will ask more to our people, which will be answered. So it is very important for all the suppliers to make them work and to pass through the inflation. Our target is, of course, 100%. 100%, no discussion about the raw material price or the semiconductor price, figure very close to that for energy. Of course, on salary, we can discuss, but

we have some, I will say, unbelievable impact. So we will maintain the objective as official objective to be as close to 100% as possible. Bernard, you want to add something.

Bernard Schäferbarthold: No. And I think on your first one, to the factoring, it's -- as you said. So I was talking about let's say, this year's expectation, and this was all without considering factoring

Michel Favre: We have one good asset for the pass-through is the technology, the fact that we are strategic it for suppliers. Sorry, I don't want to be arrogant. But I consider today that with respect to our positioning, we are strategic for our customers in both Electronics and Lighting. So this helps us to pass through. Nobody -- it is not something that we are, as we say, demanding for the finger. We must pass through, and so we are legitimated, and we get a high figure, thanks to our positioning.

Sanjay Bhagwani: That is very helpful. So I can follow up with my second question. And that is basically on the mechanics of pass-through. So I think you already mentioned that the inflation on electronics is reducing, but that is still going to be there. So first thing is like, are you basically doing a price reset, that is basically, let's say, the customer will be paying higher prices going on, like on a product, or this is basically you incur the cost and then you go back to the customer for a compensation?
And also on Electronics, so if you see that probably remains sustainable, are you also planning to get this included in the new contracts? That is my second question?

Michel Favre: You have different questions. The first one, compensation normally is when you have a specific cost one-off and you ask, of course, the customer to compensate you. This could happen on some, I will say, transport, urgent transports, or the request of our customers. This could happen for some inventories today on electronics, because they ask us to store some products for them. So of course, we must be compensated if there is a specific demand.

When you speak of pass-through, we speak of actual price increase, which could be some reference, whatever, but we speak of recurrent price increase. If we don't do that, we'll be killed, and this is a very important topic for all the suppliers. So we need actual price increase, actual adjustment. I don't know if I am clear on that.

Sanjay Bhagwani: That is very clear. And are you probably considering adding, let's say, electronics costs in the new contract? So for example, metals are already included, right, so they get...

Michel Favre: Sorry, I forgot that. I forgot. Of course, and it is same thing. I have been in this industry not, because I have 12 years outside the industry, but since '88. And since '88, I can tell you, for the raw material, I was at that time in Valeo, of course, we have a reference price with the customers. And we are adjusting this price not only for the current business, but of course, for the order book. So when we speak of pass-through, we speak as well of our order books, which is a permanent, I would say, re-rating, but it is a priority, because if you don't do that, of course, by one moment, firstly, you don't give to the customers the real, I would say, reality. And they need that for the project. And second, but of course, it will be a disaster. So when we speak of pass-through reference price, whatever, we speak, of course, for both current business and order book.

Sanjay Bhagwani: That is super helpful. And my last question is just to confirm that I think previously, you know the message was for FY '23, the free cash flow is going to be more like breakeven. But now if I understand that is going to be significantly positive, right, given that you are already breaking even, and if anything, H2 is going to see improvement?

Bernard Schäferbarthold: So 2022 -- sorry, 2022 was where we were originally guiding for breakeven. But even in 2022, so in 7 months, now we will be significantly positive. 2023, we will even improve, with a higher EBITDA, but also a continuous working capital reduction. With the comment that it can still some volatility expected over the year, but to the end of the year.

Michel Favre: But the major contributor will be the EBITDA. And of course, with the full optimization of working capital, I can tell you that Bernard and his team are working, they are taking some big initiative inside. We have to continue to improve in percentage, that is value, because the value it will increase, but to improve in percentage our CapEx.

Sanjay Bhagwani: Yes. That is very, very helpful, gentlemen.

Operator: And now coming to the next question, and it comes from Giulio Pescatore from BNPP Exane.

Giulio Pescatore: I'll try to be brief. I just have a question on demand more long term from carmakers. I mean, we are hearing commentary of carmakers cutting prices. I'm just wondering if you're seeing any changes in the level of orders, not very much in the short term, but how carmakers are thinking about the potential growth in production in 2023, given that demand seems to be weakening somewhat in both Europe and North America.

Michel Favre: We can say -- you can say that the start is smooth, that is normal. January is always actually so. We have, on one side, some countries starting late, Germany, for instance, and usually the first week is not working week in Germany. And you know that the New Year, Chinese, anyway happens between January and February. This year, I think it will be next week or week after 23rd of January. So it's normal. January is one of the lowest month of the year. You have January, you have August, less July, but July is a little affected. Of course, you have December. So January is a low month. So nothing special except that we have some uncertainty in China due to the COVID. And we cannot think it is the same for you. We think that things are improving today. We need, as usual, clues that from March onwards, we will have, I would say, a strong recovery, which is usually what is happening in China when there is a big event. The second thing, what to say about pricing, et cetera. For the moment, we don't see big discounts from our customers. So they can sell what they want.

Some cars could have some difficulties, so they could make some, I would say, very targeted discounts. So for the moment, the pricing of customers remains high. I don't think that they will put further price increase, it is a question. They will have some inflation, but it will be limited because if there is one topic is that prices of cars are today quite high.

Giulio Pescatore: Okay. So just a follow-up on that. You're saying that the market, as things stand today, remains supply-driven, with supply constraints still driving production growth. We are not in a place where you can basically -- car makers can produce whatever they want to sell.

Michel Favre: No, it would be still restricted due to semiconductors. It will improve. We must not be mistaken. This will continue to improve. There are more volumes of semiconductors. On the other side, cars are consuming more semiconductors, like the EVs. So we have this double impact. So we think that things will continue to improve. But anyway, you are right, there will be some restrictions due to semiconductors. It is for the moment what we think.

Giulio Pescatore: Yes. I mean, yes. And then just briefly on the calendar year 2023. Will you be aligning yourself with the 81 million units that FORVIA and yourself presented at the CMD in terms of kind of base scenario for 2023? Because if I try to reconcile the 81 million units with the upper end of your current outlook of 84 million, I know it's a different kind of period, but it just would imply a very, very weak H2 in 2023. So will you be aligning yourself or you could be using a different market outlook?

Michel Favre: No. We are aligning progressively everything between the 2 groups because it will be a known value to have a different way to communicate. So we will align. So we'll align, we are aligning. So there will be no difference. And for volume, it will be the same. But you know, besides the volumes what is important as well is the mix. You know like me that for FORVIA itself or HELLA itself, we have, of course, some imbalanced position between customers.

We are, as HELLA, very strong. And I would like to use the word partner. With the German customers, we've a partner for HELLA. And we are making breakthroughs currently with some of our new customers, some new customers for us, speaking as well from the Chinese EV, but I can mention Stellantis, Renault, GM, Ford, et cetera. So we are, I would say, through our global deployment, through our gain of market share, we are becoming more and more global. But anyway, today, our business is still very much linked with the Germans) and Tesla.

Operator: At the moment, there are no further questions. (Operator Instructions) And we have a question coming from Philipp Koenig from GS.

Philipp Konig: I just had one final question, which is on the disposals. I know that was something that we discussed last year. And I think also back then, your former Special Applications business was always sort of the major part of the talk. There was an article in the press today about the potential sale of your joint venture together with Mahle in the climate business. I don't know if there's anything you can tell us today or when we potentially can think about an update as to the broader strategy of FORVIA to get to that EUR 1 billion of disposals

Michel Favre: Philipp, it's a very good question. But as usual, we will not comment any press comments, et cetera. We as always made, I would say, the optimism of the portfolio. So sorry to remain vague. We cannot comment on it.

Operator: There are no further questions.

Michel Favre: Okay. Firstly, I would like to thank you again for your attendance. I would like to repeat, with Bernard, our best wishes for this new year. You have in the page, the next, I will say, step. So it was a trend exercise to make on this in 6 months. So as Bernard has already anticipated with some guidance for the 7 months. And so we will announce our preliminary figures, the 16th of February. 21st of March, as usual, you will have the complete document. So there will be, I would say, a conference call. What is important, first quarter

27th of April, our AGM 28th of April. We have already the data for the disclosure of the first half. So thank you again and see you soon.

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