

## **VITESCO TECHNOLOGIES - CALL Q2/H1 2022**

**Company:** **Vitesco Technologies**

**Conference Title:** **Call Q2/H1 2022**

**Moderator:** **Heiko Eber**

**Date:** **Wednesday, 10th August 2022**

**Conference Time:** **10:00 (UTC+01:00)**

**Operator:** Good day and welcome to the Vitesco Technologies second quarter and first half of 2022 Conference Call. Today's conference is being recorded, at this time; I would like to turn the conference over to Heiko Eber, Head of IR. Please go ahead, sir.

**Heiko Eber:** Thank you very much operator. Ladies and gentlemen, I'm very happy to welcome you to our call on the financial results of the second quarter in 2022. The press release, the following presentation and our quarterly statement have been published today at 7am Central European Time on our Investor Relations website in the Reports and Presentation section. In addition, you can also find an overview of the most important KPIs on a quarterly basis available for your convenience on the website. We will also make, of course, this recording available afterwards. Before we come to today's agenda, I am sure you have all taken notice of our famous disclaimer. As you have seen in the invitation, Andreas Wolf, our CEO and our CFO, Werner Volz, are here to guide you through our presentation of the financial results and as always, they will report on the most important developments of the last quarter, the group and business unit development, as well as our cash flow and balance sheet. Afterwards, both gentlemen will be available for a Q&A opportunity, and now, without further ado, let me hand over to our CEO, Andreas Wolf.

**Andreas Wolf:** Thank you, Heiko and thank you very much ladies and gentlemen for joining today. Another quarter is in the books, and it really was another challenging quarter that we had to manage; starting with the lockdowns in China, which led to a very weak month of April and it just continued with on-going semiconductor shortages, the war in Ukraine, and precautionary measures we had to take to manage the potential gas shortage in Europe. In this environment, we conclude another solid quarter with sales of almost €2.2 billion and 1.5% adjusted EBIT margin.

That means that we also made further progress regarding the increasing input cost and the pass through to our customers. Also, the free cash flow was slightly positive even though we had increased our investments in the second quarter. Main drivers for the positive free cash flow were some one off effects, especially in

the working capital. And of course, we also made progress in our transformation towards electrification. We had €235 million of electrification sales in quarter two, amounting to a total electrification sales of half a billion Euros in the first half of 2022. In addition, we also managed to win some more significant orders in electrification, the total sum of €3 billion in quarter two only. That means that more than 80% of our total order intake in quarter two are coming from the area of electrification. This does also include the 1.7 billion, battery management order intake, which we have communicated already during the quarter one presentation and, we could also communicate our strategic partnership with Renault. You have certainly all seen the press release a couple of weeks ago.

We will join forces in the development of a high voltage One Box comprising the DC-to-DC converter, the on board charger and the inverter. Our goal is to increase the compactness by 45% and be ready for serial development in the mid of the decade. In addition, we will also start delivering our own high voltage box, which combines the DC-to-DC converter and the OBC starting in 2025. The part of that watch volume is already included in the quarter two, order intake figure. Further order winds should follow once we reach certain development milestones. As you can see, it was a very busy second quarter, but with plenty of good news for Vitesco Technologies. Let us now dive a little bit deeper into the financial part of it. As I've mentioned already, we generated sales of 2 billion and €165 million, an increase of 3.3% compared to the previous year. Of course, there were two major effects, which massively contributed to that increase, FX of 5.4% and the price increases, which we could negotiate with our customers. Without these effects, we would have lost sales year over year, especially due to the China lockdowns.

The adjusted, EBIT came in at 1.5%, still significantly influenced from the semiconductor shortages and increasing input costs, which especially burdened the business unit electronic controls. CapEx was at 5.2% of sales, and I already mentioned the positive cash flow of close to €2 million. Our equity ratio at the end of quarter two was at a very strong 40.4%. If we now look at the development in light vehicle production, you can basically see the trend of the previous quarters continuing. Europe remains challenged and also China lost significant volumes due to the regional lockdowns, especially in April. Overall, the worldwide vehicle production was flat year on year. Our core technologies, we managed to outperform this flat market organically by 3.2 percentage points, mainly driven by the strong sales development in EC and SMA core technologies. At group level, however, we underperformed 1.4 percentage points compared to the light vehicle production, mainly because of our higher exposure to the weak European market, and with that, Werner will now give you some more details and KPIs around our second quarter.

Werner Volz:

Thank you, Andreas, and hello and welcome also, from my side. Andreas mentioned the key facts for the group already and I just want to highlight on additional information to provide some more insight. The main driver for our sales increase to €2.2 billion, were currency effects of 5.4 percentage points, mainly

from the strong U.S. Dollar. The second main effect, were price increases. Which we managed to negotiate with our customers and which at least partially compensated for the higher input costs. On the negative side, I must especially highlight the volume, which could not be produced due to the lockdowns in China. Overall, we lost potential sales of more than €150 million in April and May. In addition, in Q2, we had to deal another time with additional gross costs, which amounted to around €140 million from topics such as price increases in production material, energy, and also freight.

With our progress in our negotiations with our customers, we are still confident to achieve the targeted 80% cost recovery for the full year. The share of actual costs, which we passed on in Q2, has already slightly increased compared to Q1. As a result, our adjusted EBIT came in at €33 million and a margin of 1.5%. As already mentioned during our Q1 call in May, please keep in mind that we had a little bit more than 15 million positive one off effects in the prior year, 2/3 of these in electronic controls, 1/3 in sensing and actuation. Our margin without the ramp up business in electrification technology in Q2 2022 was at 5.1%. Although not showing in my presentation now, I would like –

[Off-Topic Conversation]

Werner Volz: So, I hope I do not repeat too much, and our assumption is right that we skip the call at slide seven. So, I'll try to catch up again with slide seven and I refer to Andreas again, and he mentioned the key facts for the group already and I'm going just to highlight on additional information to provide you some more insight and again, I would like to start at sales. The main driver for our sales increase to €2.2 billion, were currency effects of 5.4 percentage points, mainly from the strong U.S. Dollar. The second main effects were price increases which we managed to negotiate with our customers and which at least partially compensated for higher input costs. On the negative side, I must especially highlight the volume, which could not be produced due to the lockdowns in China.

Overall, we lost potential sales of more than €150 million in April and May. In addition, in Q2, we had to deal another time with additional gross costs, which amounted just in Q2 to around €140 million from topics such as price increases in production material, energy and also freight. With our progress in our negotiations with our customers, we are still confident to achieve the target at 80% cost recovery for the full year. The share of actual costs, which we passed on in Q2, has already slightly increased compared to Q1. As a result, our adjusted EBIT came in at €33 million and a margin of 1.5%. As already mentioned during our Q1 call in May, please keep in mind that we had a little more than 15 million positive one off effects in the quarter of the prior year accordingly, 2/3 of this in electronic controls, 1/3 in sensing and actuation. Our margin without the ramp up business and electrification technology in Q2 2022 was at 5.1%.

Although not showing in my presentation I would like also to address the positive earnings per share in the first half year. Part of that is attributable to windfall

profits in deferred taxes, coming from a revaluation of our pension liabilities beside the fact of our continuous improving, our global tax situation. Coming back to the operational business and talking about electrification technology now. Also, here we continued to suffer from global semiconductor shortages, which significantly held back our production output. Overall, we reported flat sales year over year, especially due to a challenging European market. Only our growth in China with our IT business could compensate for that. If we look at the profitability, we continue to record positive gross margin also in Q2, even though the input costs increased significantly.

Upfront expenses related to our high order intake, especially in research and development, were additional burdens and led to a slightly decrease in adjusted EBIT to -€70 million. As in the previous quarters, order intake was the big positive news for electrification technology. Out of the €3 billion electrification order intake, 2.3 billion were reported in electrification technology. A large part of that was obviously related to the order for battery management systems, which we have already communicated in May. I'm getting to slide nine and let us look now, at business unit, electronic controls. I think it's slide nine, yeah. As in the previous quarters, the impacts from material cost increases and lower sales had the highest impact in EC.

As a result, the €922 million of sales only translated into €20 million of adjusted EBIT, a margin of 2.1% and since most cost increases are related to our core technologies, the margin here was even lower. However, we are starting to see some positive sales momentum, especially in Germany and North America. The exceptionally high profitability in EC's non-core technologies was mainly due to one off effects related to a closure of a warranty case, which led to an income of almost €20 million in Q2. On the next slide, we see sensing and actuation, which on the other hand, continues to navigate very well in these difficult waters. Of course, currency was a helping factor by 5.5%, but the main drivers for the strong profitability of 10% for the whole business unit were solid demands in Germany and North America, as well as reimbursements for higher input costs, which we could negotiate with our customers. As a result, sensing and actuation's core technologies performed well with an adjusted EBIT margin of 13.4% at €673 million of sales. Once more, a very resilient quarter for sensing and actuation, which of course, also allows us to further finance our electrification strategy.

In our fourth business unit, contract manufacturing; we continued with the phase out. Organically, sales went down by 4.2%, even though we saw higher sales from higher input costs also in contract manufacturing, which we of course, completely pass on within higher prices towards Continental. In addition, also, currency effects led to more than 20 million higher sales in Q2, despite declining volumes. The adjusted event margin came in at 3% in line with the bilateral productivity, which we agreed with Continental and a reminder here, at that stage, on a group level, this is still a wash since we purchased a similar amount from Continental, resulting in lower costs of goods sold in our business units ET, EC and sensing and actuation. Let me now get to the cash flow. Despite the lower

profitability, we kept the operating cash flow on previous year's level. This was mainly due to some earlier than anticipated payments, which we received from some customers in a lower double digit, million-euro range.

As expected, we also saw a higher cash outflow from CapEx in Q2 compared to Q1 approaching now the target at 6% of sales. Please remind that Q2 2021 was still heavily influenced by spin off effects with Continental, which materialized mainly in the investing and financing cash flow back then. Anyhow, our liquidity situation, which you can see on Slide 13, remains very comfortable. Despite the slight decrease in cash to €810 million, we still hold liquidity reserves of more than €1.6 billion with no near-term refinancing need. I think this is important to note. Our networking capital has increased year over year to now 5% of sales, mainly driven by the elevated inventory levels. Our net debt ratio remained stable compared to Q1 at -0.5X net debt to adjusted EBITDA. And our equity ratio actually increased significantly to 40%, the main reason for this was the revaluation of pension obligations considering anticipated higher interest rates, which resulted in an increase of OCI of around €280 million compared to Q1 2022.

So, all in all, our balance sheet related KPIs reconfirm again our robust and solid balance sheet structure. Now finally, let us take a quick look at our guidance for the whole year of 2022. And here I think the main message is that there is nothing new to be told, we can confirm both our guidance and the outlook for the worldwide light vehicle production. Despite the continuous challenging markets, we expect and we are confident to reach our targets. This is especially driven by supporting factors like, number one, currency, number two, our price negotiations as well as, number three, gradual improvements of the overall semiconductor availability, which we do already see and anticipate to continue for the second half of 2022. And with that and I hope the line kept stable, I have reached the end of my part of the presentation and Andreas and I are now looking forward to your questions, but first, back to Heiko, I guess.

Heiko Eber: Thank you very much, Andreas. Thank you, Werner, and once again, apologies for the connection problem, and of course, for your patients. So, as announced, we will now enter the Q&A part of today's session, and as always, since we would like to offer all participants the opportunity to ask questions, that is why we kindly ask you to limit yourself to two questions. And also, of course, if time allows, you can ask additional questions, after going back into the queue. So, operator, we are now ready to take on the first questions.

Operator: Certainly, as a reminder to ask a question, please signal by pressing star one. The first question comes from Jose Asumendi from JP Morgan. Please go ahead.

Jose Asumendi: Thank you very much. It's Jose from JP Morgan. A couple of questions please. The first one, I would like to understand a bit better, what you are seeing in terms of the ability to source semiconductors and whether the sourcing is becoming easier. Second, I would like to understand a bit better your view of the production outlook across different regions, mainly Europe and China, if you could share

some thoughts there and the third topic, I see one of your key customers is Stellantis. They are already in sourcing the EV Powertrain and at the same time, simultaneously, it is one of your largest clients and on the other hand, and congratulations on that, you are winning very strong orders in electrification. So, how do we think about this transition in the next maybe a year or two years where maybe you do some orders or sales momentum with one of your largest clients, Stellantis, but on the other hand, you capitalize on the very strong order backlog. Thank you.

[Off-Topic Conversation]

Andreas Wolf: Now looking to the, I understood sourcing, but I think it's meant to house the supply of the semiconductor in the second half of the year. I think Werner Volz touched on that already. So, we see improvements. That's why we are now excluding everything else positive for the second half of the year. The other thing, which is also true, is that we have some surprises with other components from time to time, but all in all, if I look to the situation, we see that what was already announced, that increasing capacities, availability getting better, etcetera. It can be seen for the second half and obviously then also looking into 2023. Now looking to Europe and China, I think it's a little bit linked to that.

So, assuming no further lockdowns, we see China on a positive trend because if I look to the first half year, with all those lockdowns, not only for the automotive industry, but also the supply of components and parts of the automotive supply industry that should all be a little bit better. So, that all in all the outlook should be flat or somehow comparable to H1 first half year, maybe it was a little bit of improvement. That's really hard to say, and on the European side, so, you saw that maybe in the slide Werner has shown and I think your reference to it, we expect a slight growth of 3 to 5%. Now, the question around Stellantis, I did not really get. We have strong business with Stellantis, but maybe you repeat it because I'm looking into the round, we are not sure whether we got it. If it's around in sourcing – yeah.

Jose Asumendi: Exactly please, so Stellantis is going to be in sourcing the EV Powertrain and at the same time, they are one of your biggest customers. So, I think it could represent maybe 10, 15% of your sales within the electronics division. So, I'm trying to understand whether the business winds you are gaining, whether they will offset the potential decline in business, you will have with Stellantis in the next three years.

Andreas Wolf: Yeah, got you so, first of all, this animal, in sourcing, I have to repeat again that looking to the market and the massive growth we have our own view of what is even possible on our customer side to in-source from a technological point of view, but also from a cash flow point of view. Because if all those forecasts come true, the increase in production of mainly battery electric vehicles, every cent is needed to be invested into production lines, etcetera and I'm not sure whether this money is really available also on our customers' side. This is something we will

also obviously cover then during the capital markets day in October and obviously, yes, if that would move into that direction at Stellantis, we can, I don't say easily, but we can compensate this trend, yes so that will not impact our top line.

Jose Asumendi: Thank you and one final one for me. On the order book or on the business winds you have won, can you give some colour by region maybe, where have you done these orders or maybe by OEM, but that will be really helpful. Thank you.

Andreas Wolf: Yeah, Jose, you know that we are not allowed to give customer names, if not especially given the okay, but the answer is very simple; in all product fields, with basically, all customers in all regions of the world. That's the bold statement I know, but that's where we are currently.

Jose Asumendi: Thank you so much, very helpful. Thank you.

Andreas Wolf: Yeah, thanks Jose.

Operator: Christoph Laskawi from Deutsche Bank, please go ahead.

Christoph Laskawi: Hey good morning and thank you for taking my questions as well. The first one would be on a potential outlook on order intake. You've been very strong in H1 already. Do you see the same amount of RQs in the market and would you assume the same wind rate or should we expect most of the RQs for 22 to be done already, and it should be a for a low amount later in the year and I guess in H1 23 we should expect the uptick again? That will be the first and then we've seen other competitors emerging and especially [inaudible] inverters. It seems that the market is getting a bit more crowded there. Do you see an increasing number of competition as well and sitting on the table when you discuss with OEMs or is the market largely unchanged from where you had it? And then the last question on ET. Is there a way because you mentioned that the revenue growth was way down by semi availability, that you could potentially allocate from other divisions to ET and support growth going forward or other services that you use in that division are very different from the others so that there's no allocation possible? Thank you.

Andreas Wolf: Maybe I start with the third one, then the second one, and then the first question. So if wished by our customers and assuming we have the same component in an electrification product or in a product for a combustion engine, yes, we reallocate, inside a given volume for our customers. So, we have really daily calls or twice, three times a week calls where we look into how we can best use the components on hand, but in many cases, it's not just the plug and play component we can use here or there. So, it's a bit more difficult, but as I said, in agreement with our customers, we can do so, also understanding that average consumption is important to avoid any fines, etcetera, yes, we'd do that, but if a simpler component, which is a specific component to an inverter or so is not available, then we have no chance to reallocate. Now, the number two, competition increasing.

Yes, there are smaller companies trying to enter that field because now after a couple of years, obviously everybody understood that that's the playing ground where you have to be, if you're not in, then you're out. And they come with good ideas and PowerPoint, but they don't have the experience we have in the area of 800 volt applications and [inaudible]. We see the, and I think we discussed that point also during Q1 Q&A, we see basically, the same number of competitors which are able to develop and produce those huge volumes on a worldwide scale. And I can only repeat that the experience we have, more than 3 million cars on the road gives us a tailwind in the sense of, we are strong and robust and we have the trust of our customers that we make it, because if the inverter is not working, then you can't sell the car. So therefore, I see the normal suspects around me, but not tons of competitors.

Now the order intake, I can only also again repeat what I said. It's not that we are now stopping or that the market stops to ask suppliers to quote. So, we continue to see significant order intake also in the second half of 2022. And I also assume that huge order intake will be out and possible for us in 2023. The market is not slowing down and if you look to the overall increase in the share of battery electric vehicles or plug in hybrids, etcetera, over the next year, it is natural to assume that the overall volume, and RQs, which will be sent out, will not decline. So, the momentum continues and we will continue to get a large share of those orders also in the second half of the year. Christoph did I answer all your question?

Christoph Laskawi: Okay, yeah you did. Thank you. Just one follow-up, if I may. There must be a certain limit of orders that you can take on, but for now, and with the possibility to scale up the business, towards the end of the decade, there's not a cap with which we should assume for your order intake in the next two years at least right?

Andreas Wolf: Yeah, that's a little bit more complex. It's very good and sounds like an easy question. My answer can be very complex, but I try to make it simple. We carefully watch that on one hand, we get all the orders, which are interesting for us, and which pave the way towards our growth plans for the outer years. On the other hand, we also don't want to overdo it in the sense of not being able to deliver, means we want to run those projects we get from our customers seamlessly, so that they are happy to work with Vitesco technologies and that's a little bit the, how can I say? The optimum we have to achieve, but we obviously plan significant order intake also for 2023. Is that answering your question, your follow up question?

Christoph Laskawi: It is. Thanks a lot.

Operator: Giulio Pescatore, Exane BNP Paribas, please go ahead.

Giulio Pescatore: Hi, everybody thanks for taking my question. And the first one on energy risk in Europe. I think you mentioned that you have started preparations for potentially facing the shortages of energy. Can you maybe outplay what preparations are you

doing and how are you planning to offset this risk or face this risk? Then, the second one on the one off from the warranty case, did I misunderstand it, or there was a 20 million positive effect on adjusted EBIT in Q2 this year and if that's the case was that included in the guidance and expected? Then maybe one last question on the contact with Renault, a very interesting context, well done on the win, but it's interesting to see that Renault will in source production of this product for its BEVs while leaving to you the production for the plug in hybrid vehicles. Why do you think they decided to go down that route and what is driving that? Thank you.

Andreas Wolf: Yeah which one do I now start? First, one was around energy weakness in Europe and how are we prepared? So, when we talk about gas, the simple answer would be we don't use gas in our production processes. We are using gas for heating purposes only. So, it's nothing where we feel threatened. The threat comes more from the fact that gas is used for other industries and those industries are important for the automotive market, like glass, steel and so on so, we would be indirectly hit. I think that that's basically answering your question somehow. Things like we have seen also with the Ukraine war where we are not directly involved, but indirectly when other competitors or the OEMs are not able to build their cars.

Giulio Pescatore: I just wanted to follow up on this. Thanks for sharing that. Can you just maybe share also your views on what could happen in Germany? I know that it's very difficult to predict, but just your high level views on what could be the impact on the supply chain on the industry in general if we do go into a situation of energy shortages. It would be super interesting for us and I know it's very difficult to predict, but yeah.

Andreas Wolf: Yeah, that's exactly the problem because that's a little bit of crystal ball. Nobody knows. I know that on European level, there was this agreement of helping out each other. That helps a lot, because obviously the situation of Germany is quite different from the situation of Spain and so on, but we will have the chance as European community to use gas of the community itself so that will help a lot. What will happen if that comes true is not known so far, it's a little bit of speculation, as you already included in your answer. Now I would go to the third one and maybe Werner can talk about the warranty case. Yes. There is the wish to in source parts of the electrification product field from Renault, but it's also very clear that as I mentioned before, if all that comes – so the increase in production of battery electric vehicles, everybody needs each single cent to be invested into their own lines, meaning car production lines. And the split between who does what, which value add, will be defined in the outer years. So, therefore we see that extremely positive, that very simply speaking, Renault starting 2025, when we talk high voltage applications, it comes from us. Whether everything will produce by us or not, we will see later. And maybe with that Werner, can you briefly elaborate on the warranty case where that's –

Werner Volz: Yes, Giulio, I guess your question was, what was it about? And I think the last point, if I caught it right, was related to our guidance, but it is an older warranty case that we had for injection systems, but due to certain technical measures, but also negotiations with our customers we were able to close that on a lower level, which resulted in these, roughly 20 million additional benefits that we were able to now show in the second quarter. And with regard to our guidance, it would be included in our guidance, obviously and since we provide the range for our bottom line, yes, it is included. Was that your question, Giulio or is there anything else I can tell you?

Giulio Pescatore: Yeah so, you were expecting this €20 million when you gave your guidance at the start of the year?

Werner Volz: Yes.

Giulio Pescatore: Okay. Thank you.

Operator: Okay. We will now move to our next question from Michael Jacks, Bank of America. Please go ahead.

Michael Jacks: Hi good morning and thanks for taking my questions. My first one is just going back on production outlook. As I'm sure, you're aware, late last week one of your U.S. peers cut its guidance, specifically downgrading its outlook for Europe to - 5% year on year for 2022 on reduced production schedules. Can you perhaps give us some insight into the underlying trend that you're seeing in your customer production schedules over the past two months, whether there's been an upward, downward movement or if it stayed the same? And then my second question relates to energy as well, a follow up there. Firstly, how exposed is Vitesco to spot electricity and gas prices for the remainder of 2022? And how should we think about it going into 23? Thanks.

Andreas Wolf: So, maybe I start with your first question, Michael, and then Werner will talk a little bit about energy, spot market and so on, and while I speak, he has the time to prepare himself. For the outlook, it's really difficult because the underlying assumption from us is that, as I said before, availability of semis will be better and assuming so, the outlook in Europe is set something between three and 5%. Now, what is not included is, I don't know, a second war in Europe or aggressive momentums around Taiwan, that's obviously not included. So, this would obviously then also lead to a new forecast for the production outlook, especially in Europe. So, we saw that Aptiv was a bit more negative or more super conservative. We don't see that in the same way. It's a little bit of speculation on all sides, but we are more on the on the positive side, looking also especially to the availability of component supply.

Michael Jacks: Thank you. So, OEMs haven't reduced their schedules in the last month from what you can see.

Andreas Wolf: We don't see reductions of call offs, so we could deliver by far more, slow down as said by availability of semis at the end. And maybe one additional point is, which is not always reflected completely, is that the supply chain, all supply chains worldwide are completely empty. There are no cars on stock. There is no inventory available of those critical components. So, we could just produce another. That's a little bit of also assumption now, another month or one month just to refill or even more to refill the pipelines. Therefore, we are still on the realistic positive side and with that energy wise [inaudible].

Werner Volz: I should always be prepared, but yes, getting back to this to this energy question and just as general information, well, of course, we are suffering from significant increases in energy costs overall on a year over year basis. So, just as a reference, our energy cost increased by roughly 30%, but since that is basically driven by energy increases in Europe, I think I would like to focus my answer on Europe, and here we have, the general answer is we basically are covered in all our plans in all our countries buy long term contracts that we have with utility suppliers and to this extent, of course, we're suffering from the general energy cost increases, but we're not really exposed to spot prices in the energy market. Is that answering, Michael?

Michael Jacks: Yes, and maybe just asking this in a more specific way. Obviously, you are exposed to some degree of increase in underlying prices given the 30% increase that you've experienced year to date. How does that look relative to the increase in market related energy prices? So, how much of the underlying increase in market energy prices are you absorbing versus your suppliers?

Werner Volz: I'm not sure whether I got you a question. The line is not really that good. Sorry.

Michael Jacks: No problem. Let me try and ask it in a different way. Spot energy prices year to date are up significantly more. The fact that your costs are up 30% year on year means that you are having to cover some of that underlying increase so just wondering how much of the underlying energy cost increase your suppliers are passing on to you?

Andreas Wolf: If we look to the energy part of the cost increases coming from our suppliers, I am not sure, but if you talk about the component suppliers, it's already built into their prices.

Michael Jacks: Sorry. Just to be clear, I'm speaking specifically about the energy cost itself. So, your direct payments for electricity and gas.

Andreas Wolf: I think we have to take that afterwards because we don't really understand where you want to go. If you talk energy, price level or getting energy from the energy suppliers or is it the energy costs part of a component, which would be covered by the material price increases, which are already factored in? So maybe we can have a follow up on it afterwards.

Michael Jacks: Thank you.

Operator: Sanjay Bhagwani, Citi, please go ahead.

Sanjay Bhagwani: Hi, thank you very much for taking my question as well. I've got a couple. My first one is just coming back to Renault. So, if I understand this correctly, you are co-developing One Box which is basically integrating the housing of the on-board charger, DC-to-DC converter and inverter, all three of these and as it stands now, Renault is deleveraging your on-board charger and DC-to-DC converter, but still continues to source inverters from a competitor of yours. So, I just wanted to understand that, given the purpose of this whole One Box is to reduce the weight and increase the efficiency of the vehicle, how important that these, all three components come from single supplier? And the second, what are the development milestones after which you feel like Renault could also award you for the inverter component of this three in one Box? That is my first question and I'll follow up with the next one after.

Andreas Wolf: Yeah, our audio line is extremely weak, so it's hard to really answer. So, first of all, when talking about Renault, and I hope that I captured it correctly, we are talking about two products. There is a co-development of a three in one product. It's called One Box, and this new product has those efficiency gains, reduction in size, reduction in weight, etcetera, which we'll see in the light in the mid of this of this decade. But that's where we are co-developing and really physically sitting together with Renault and working with them to have the best and most efficient and most cost wise best product of the world. That's one thing. The other thing is that an existing product, easily speaking, will already – and that's where we have already order intake where the inverter is not integrated plus the on-board charger and both products somehow pave our way to make step by step, more sales with Renault.

So, over time, there will be a situation where, depending on whether we talk about the battery electric vehicle side or the plug in side, that one or the other product will have higher or lower sales, but we will see that step by step. Anyhow, our assumption is that going into the second half of the decade, the battery electric vehicle will be from a technology point of view, the one which is the mainstream. So, as often said, the plug in hybrids and also 48 volt applications are bridge technologies and we build our cases always around the long term sustainable business case, focusing on battery electric vehicles. Is that is that answering your question?

Sanjay Bhagwani: Yeah thank you maybe just, so on the first one, you mentioned three in one product. So, who is going to be supplying these three products? So, when you basically co-develop, what sort of value is coming, let's say for inverter, DC-to-DC converter and on board charges from Vitesco? Is it like these three components are going from Vitesco and integration is taking place at Renault, is that fair to say or just two of these components are going and the third one may go out from Vitesco?

Andreas Wolf: Yeah, it's an interesting question because this is not finally defined because we want to work together. We know that everything, which is, high voltage applications will come from us and the final work split. We talked mid of the decade, are we delivering components? Are we delivering the full product? What is the share of deliveries between components and the full product is not finally defined, but for me it is clear that there will be a large portion of products also for us?

Sanjay Bhagwani: Thank you. And what are the next milestones to get some more colour on this? For example, in three in one product, what is basically on the order side? Because let's say if there's a conclusion that you provide the three high voltage products, then I can imagine more updates to come on the order book.

Andreas Wolf: Yeah the assumption is correct. So, there are some milestones. I don't have them now here with me, but clearly targeting again also mid of the decade, start of production and once specific key milestones are met, this will then also be linked to additional order intake. So, we will report out when that happens and we can obviously do that also publicly because also the cooperation was public and no doubt about it, but it will step by step be clear what is the exact order intake link to it once we met those important milestones.

Sanjay Bhagwani: Thank you. And then there will be a possibility to reach out to Nissan and Mitsubishi as well, given they all are developing these products together?

Andreas Wolf: Yeah, that's a very clever hint on your side. It's somehow the start of a long journey, I would say. We are well aware of Renault and we are happy to have that contract with Renault, but you mention already that Nissan is behind and also Mitsubishi can be behind, but let's start and make a good job for Renault. And while we are working and meeting milestones, I could imagine that Nissan and Mitsubishi might also be very interested to work with us.

Sanjay Bhagwani: Thank you. That is very helpful. And my final question is more on the financial side. So on the cost recovery, how is it working with S&A, which seems to be like facing lower cost headwinds and the recovery is higher versus electronic controls? Can you please provide some more colour on what is driving these like additional, like the differences in the cost itself and the recovery between these business units?

Werner Volz: Well maybe I can take that question and I'll try to explain it with their product portfolio, I think this is some of the basic things we have to understand in this context, Sanjay. It is Sensors and it is Actuators and of course, there are also electronic components included, but we do not see the specific electronic components like for instance, A6, which is very predominant in the EC business, but also starting now in the business. So even though they are also directly impacted from the overall supply chain situation, they're not that specifically negatively impacted as the other two business units and on the other side with

their products and I would call it, with their market position which they have in certain product areas to be really, really with difference to other competitors, number one. They also are first to be able to carry on price increases into the market, I think that's in a nutshell the basic success story that we have here in sensing and actuation. So one side not that heavily being exposed to these negative effects coming from electronics, on the other side having really strong market position, they are also able to allocate price increases easier into the market than probably the other business units at this stage.

Sanjay Bhagwani: Yes, thank you. That's very helpful. So let's say, looking in the next year and the year after? Is there anything structurally changing with EC [inaudible] if let's say the A6 and these microcontrollers continue to see the price of that go up? How would you see? Because this division makes margins up from around 8 to 10% and in quarter two, we are at 1%. So how should we think of this? Is there any structural change here?

Andreas Wolf: I would expect that already second half of 2022 will improve because the full effect of passing through the cost, material cost increases on the semi side also, that's mainly on the semi side for the business unit electronic controls is planned to take place in 2022 second half. So, we should see an improvement of the performance. As you correctly say, with the one or 2%, that's not the performance we have seen in the past. Now, in 2023, the clear goal is to basically stabilize on a comparable old level, higher level, because this is also important. We are not talking about one-time payments or so for those products, but we are talking about real price increases, which then would also carry forward into 23 and onwards.

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

Operator: We will now take our next question from Philipp Koenig from Goldman Sachs. Please go ahead.

Philipp Koenig: Yeah hey guys, and thanks so much also for taking my questions. I just wanted to come back on the pricing recoveries. I know you already provided a lot of colour. I just wanted to sort of gauge how the recoveries or how the negotiations have gone so far. If you sort of look back when you set out the guidance for the year. Has the feedback been or has the progress been more positive? Has it been a little bit more slow? Has it been in line with what you expected and what you had set yourself for the year? And then my second question is on the EV Powertrain market as it pertains to new entrants into the EV space? Are those also already customers? So, thinking about new entrants that want to grow very quickly, but don't have access to the technology that you could provide with the whole system. Are you in negotiations with any of those names? Any colour there would also be very helpful. Thank you so much.

Andreas Wolf: Maybe on the price recovery side, it is in line with our expectations. Obviously, there are differences customer by customer. I can also with all respect say that

those negotiations are running in a very creative, cooperative way, and therefore, we have no reason to change our outlook of the expected 80% coverage of costs we can pass on and therefore, no big disappointments, no big changes, positive changes. It's in line with what we thought is possible. On the powertrain market, new OEMs, yes, we are close to those new customers. We have even specific resources focusing on the DMGs. They come with new technologies. We have also, with one or the other already contracts, one contract. We are really looking into those new customers, but we also know that the traditional ones, so to say, have huge volumes and we have, how can I say, a certain criteria to rank those possible orders and there are some obviously with new entries into that market, but there's also those heavyweights where we talk about 2 billion order intakes, etcetera and sometimes even more, which is also very attractive. So we try to really weigh arguments and using a set of KPIs to decide whether we also take in the specific orders from new customers on the DMG side and this is true for the U.S. and also mainly for China.

Philipp Koenig: Thank you. Can I just quickly follow up on the recoveries? Once you've hit that 80%, which is the target that you've set yourself, for the remaining 20%? Is that then something that you think about negotiating on top of that maybe into 2023 or do you just view it as more realistic that, you will get back 80% and maybe the remaining 20% is something that you will have to pay for?

Andreas Wolf: My view is that this type of price adjustments will continue. So, it's not a one wave and then it's over. Work stream, it is more that it is the first 80% to be precise now, but we see additional cost inflation here and there and we will continue to work with the same spirit with our customers to always adjust accordingly our prices.

Philipp Koenig: Okay. Thank you very much.

Operator: Thank you, Eduardo Ospina, HSBC. Please go ahead with your questions.

Eduardo Ospina: Good morning, thank you for taking my follow up question on the pricing, thanks a lot for all the details that you provided. I just wanted to clarify, perhaps on the scope of these price negotiations, if you can help us to understand, I suppose the raw materials are definitely included in this, but is energy also part of the equation? And finally, on the labour cost, I think usually these are recovered through productivity gains by the suppliers, but now labour costs could be exceptionally high. Are you able to include the labour and other fixed costs in your negotiation with the carmakers or do you need to go to price new products at the higher level? Thank you very much.

Andreas Wolf: Yeah so, first of all, it's true. It was the rule in the automotive supply industry that cost increases should be covered and netted by efficiency gains of the supplier, that's true, that was the past. That's no longer true now, because now with the cost increases we see, we cannot basically eliminate those cost increases with our productivity. That's not that's not working. So, to and then also answer the first

part of your question, Eduardo is – we started the first wave with focusing on the semiconductors, price increases, raw material increases and so on, in some cases also premium freight costs, which we have seen. And as I said before also to Philipp, we continue to monitor our cost situation, be it on the energy side, be it on cost increases, other cost increases. And if they are going beyond the third threshold, which we can really compensate with productivity gains, we have to go back to our customers and ask for further price increases, to be very precise. There's no other way.

Eduardo Ospina: Okay. Thank you very much.

Operator: Thank you. With this, I'd like to hand the call back over to Heiko for any additional or closing remarks. Over to you, sir.

Heiko Eber: Thank you very much. So since I guess we have no further questions in the queue. I would first of all, like to thank you all for your time and your interest that you were bearing with us despite the little connection problem. So, thank you very much for this. Before I close today's call, as always, if there are more questions coming to your mind afterwards, feel free to give a call to the [inaudible] or myself and also, as a reminder, even it was mentioned already before, we will host our Capital Markets Day, October 11th and of course, very much looking forward to meeting you there. So, I hope that you all have the chance to recharge a bit after the Q2 reporting season. So, I wish you on behalf of everybody here in the room, some relaxing days. Speak to you soon, bye-bye and have a good one.

Operator: Thank you. This concludes today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.