



Vitesco Q1 2023

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Vitesco Conference Call on Q1 2023

M Moderator
HE Heiko Eber
AW Andreas Wolf
WV Werner Volz
SB Sanjay Bhagwani
MJ Michael Jacks
CL Christoph Laskawi
GP Giulio Pescatore
JA Jose Asumendi

M **[00:00]** Good morning ladies and gentlemen and welcome to the Vitesco Technologies AG conference call, Q1 2023. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host, Heiko Eber.

HE Thank you very much. Ladies and gentlemen, I'm very happy to welcome you to our call on the financial results of our first quarter 2023. The press release and the following presentation have been published today at 7am CT on our IR website in the reports and presentations sector. As announced, we will provide a like for like comparison for the new structure, latest by the end of May. And for sure we will also provide a recording of this webcast afterwards. **[01:00]** Now before we have a look on today's agenda, I have to draw your attention once again to the by now helpfully well-known disclaimer. Our CEO, Andreas Wolf, and our CFO, Verner Volz, have joined the meeting today to guide you through our presentation of the financial results of the last quarter. As always they will report on the most important developments at crew and business unit level, I'm sorry, division level I have to say in the new structure, in the last quarter, including our current on intake level as well as our cash flow and balance sheet. And for sure, they will also touch on outlook for Q2 and the full year. As always, both gentlemen will be available for a Q&A session after the presentation. But now **[02:00]** without further ado, let me handover to our CEO, Andreas please.

AW Yeah, thank you Heiko, and thank you very much ladies and gentlemen for joining today. As said, the first quarter is in the books. Again, under this very challenging environment, we were able to navigate our way through I think quite well. Our strong focus in quarter one was especially on two topics. Firstly, negotiating higher prices with our customers, because of continuously increasing input costs. Here we are on a good way, and are making strong progress. And secondly, further accelerating our growth in electrification in terms of order intakes. To this day we have achieved an order intake of over four billion euros in electrification alone. Now step by step, with 2.3 billion euros saved in quarter one, adjusted **[03:00]** EBIT margin of 1.6%, we demonstrated again our solid top and bottom line development. Even though our first quarter was negative in terms of cash flow, it was in line with our expectations. Our transformation to electrification continues. Let me give you a few examples. With more than three hundred million euros of total electrification sales, the first quarter, the share of electrification continues to increase steadily. We will see an even higher dynamic growth throughout the year since many projects are currently ramping up. Once more, our order intake proved our very attractive portfolio. Quarter one may have presented a rather slow start into the year, here we could win 1.4 billion euros new orders in total, there of awards was roughly 800 million euros in electrification. **[04:00]** However, as you know, major business awards don't

follow our reporting dates, it is in the nature of our order intakes that those do not come in on a steady basis, already mentioned a couple of times. So with a little delay, I can confirm significant order wins, as we speak and already mentioned before, we have in our order books electrification awards worth over four billion euros, leading to an order backlog of more than 30 billion euros for the electrification business. This also means that we have fully backed our midterm electrification sales target of five billion euros. And I can tell you quarter two is not over yet. It is very important to mention our current order intake for 23 is profitable, and will contribute to our mid and long term profitability targets. [05:00] Again, on an annual basis, I can reconfirm that we will see a similar order intake volume for electrification as last year. Our order backlog proves us that we have a compelling product portfolio, and with our strategic realignment, we made the next logical step for the full transformation of our company. As already discussed, in our petrol market day in October last year, we have adjusted our organisational setup. In power train solutions, Klaus Haubel will focus on the sustainable value and cash generation of our existing core ice technologies. In addition he is responsible to manage the phase out of both contract manufacturing, as well as our non-core ice technologies like pumps, injectors, and turbochargers. Thomas Spieler [06:00], heading electrification solutions, is responsible to execute our electrification strategy. He will grow our electrification business, focus on project execution, and turn it profitable. At the same time he will step by step transform our core ice electronics business into an electrified future. We also incorporated a clearer structure with a focus management team, and we will ensure continuous reporting transparency, as already said. Through this realignment we test for technologies, is further sharpening its strategic focus on electrification technologies. Let us now dive a little bit deeper into the financial KPIs. The 2.3 billion sales, which I mentioned earlier, correspond to a steady increase of 2.5% compared to the first quarter 2022. This development [07:00] is in line with our expectation, taking into account the planned ramp down of non-core business, which also includes our contract manufacturing activities. Despite higher input costs and not finalised negotiations of cost coverages, we managed to achieve an adjusted EBIT margin of 1.6%. As we are executing our huge order backlog, capex increased to 98 million euros, or 4.2% of sales. When compared to previous years, we see now our capex ratio trending to the anticipated five to six percent levels. Our free cash flow was burdened by continuous increase in working capital, which resulted in a negative value of around minus 41 million euros. Here increased inventories are the main factor. Despite ongoing challenges, the worldwide [08:00] weaker production picked up slightly during the first quarter in 23. Europe saw by far the strongest recovery in the first quarter, followed by North America. Improved availability of semi-conductors was the key enabler. China on the other hand was the weakest market in a very challenging environment, especially due to lower production volumes, as we saw an advanced consumption already in quarter four of 2022. This was based on tax incentives and subsidies. As we can see, in the bar chart, in quarter one of 23, our reported group level, sales increased by 2.5%, which looks rather weak at the first glance, if you compare it with a global light vehicle production. But please keep in mind that the phasing out of our contract [09:00] of our contract manufacturing in non-core ice technologies business, is included in this figure. Organically, our electrification and core ice sales outgrew global light vehicle production by 1.7 percentage points. So in total I can say with full confidence, that we steered our ship pretty solid in a rough environment, and as always, you will now receive more insight into the financial development by our CFO, Werner Volz. Werner, please.

WV Yes thank you Andreas. Hello and welcome also from my side ladies and gentlemen. Let us now take a closer looker at our top and bottom level development at group level. Due to the phasing out of our non-core businesses, including contract manufacturing, our organic sales growth was at 1.4%. That excludes currency-related tailwinds of [10:00] 1.4 percentage points as well as further consolidation effects. As Andreas already mentioned, we managed to maintain our

profitability at 1.6% despite many challenges in the first quarter. I need to mention here that we still are in the process of concluding our negotiations regarding the cost transfer of higher input costs, and once those are finalised, we will see a positive effect on both top and bottom line figures. I do expect that we will have agreements by the end of this quarter, at least for the majority of our customers. So that we should have sustainable pricing markup by quarter three. To sum up, this result is **[11:00]** quite solid considering all the headwinds we had to face during this first quarter. Now to further ensure transparency, flexibility and efficiency, we streamlined our organisation in two divisions. We know with that you unfortunately have to adapt your financial models to our new structure and figures. To make your lives easier though, we will provide a fact sheet with restated figures for fiscal year 2022 on our homepage within the next few weeks, latest until end of May. Now let's zoom closer into our newly formed division power train solutions. The main reason for an organic sales decline was the planned ramp down of our non-core activities, which **[12:00]** also contains contract manufacturing sales of around 245 million euros, down more than ten percent year over year. Here we will see a further acceleration of this decline in the rest of the year. That's why we saw slightly lower sales for division power train solutions, now with Q1 sales of around 1.6 billion euros. Due to positive one time effects from claim negotiations and inventory revaluation, which at least partially compensated for the higher input costs, we still managed to increase our profitability. Our continuous cost containment efforts also contributed positively. Now this resulted in an adjusted EBIT margin of 7.3% **[13:00]** for the first quarter. Our core ice business continued to achieve double digit adjusted EBIT margins. Now let us shift over to our second division, electrification solutions. Despite several headwinds already mentioned, we did achieve a strong top line development, which was especially driven by our performance in the Asian and German markets. This equates to an out performance of seven percentage points comparing to global light vehicle production. When we move over to the profitability side, we were at similar level as in the prior year, due to burdening higher input costs, also here again, and ramp up costs for our most recent order wins, **[14:00]** the adjusted EBIT margin came in at minus ten percent. Before we close this financial reporting section of top and bottom line development, I want to provide more transparency on the categories electrification, core ice, and non-core. Moving onto the next slide I would like to split up the three mentioned categories. As you can see we further increased sales in electrification due to improved availability of production materials. Thanks to the ongoing ramp ups, we will see an acceleration further throughout the year. I would also like to mention the improved EBIT margin of almost two percentage points, even though we had to bear higher costs **[15:00]** due to new order intakes. Overall, we are well on track to achieve our targeted midterm profitability goals, which means break even in 2024. To underline our point, I would like to highlight the steady improvement of our cross margin to more than six percent in the first quarter. And we foresee gradual step ups here until the end of the year. Core ice, excluding electrification, improved sales to 1.3 billion euros. As said, our core businesses slightly outgrew the global light vehicle product. However, we saw a decline in adjusted EBIT margin as we experienced, **[16:00]** especially in this area, higher input costs. And as mentioned before, negotiations with our customers are not finalised yet. As you can see on the last part of this slide, our non-core business is ramping down as planned. This includes our contract manufacturing business. You may have noticed the slightly improved EBIT margin here, but I would like to emphasise at that stage, that this figure is including a positive one-time effect, due to favourable settled claim cases with customers. So excluding these, our adjusted EBIT is more or less a black zero. I want to make my message on this slide very clear. First, we will focus on **[17:00]** further growth in the electrification area. Second, we will keep or even improve our sales and profitability level in core ice. And third, the ramp down of non-core will be progressing according to plan, especially contract manufacturing. We will see significant decreases in the next two years. Now let me give you some more insights into our cash development. As you can see, we experienced a lower operating cash flow. To a large extent

this was driven by lower profitability and higher networking capital intensity. Here we saw a continued build up in our inventories, and yes, this is still a necessary measure [18:00] short term, to ensure production for our customers. Of course we are not aiming to remain at these inventory levels in the long term. Our investments nearly doubled compared to Q1 of the previous year, resulting in an investing cash flow of minus 118 million euros. As stated on the slide, this is mainly due to higher capital expenditures in context to recent order wins. Again, here we are trending towards our anticipated range of 5 to 6 percent. Both negative effects burdened our free cash flow, which came in at minus 41 million euros for the first quarter. However, this was in line with our internal planning as we are spending capital that is [19:00] necessary to support the ramp up in our electrification business. We are thus confident to reach our guided 50 million euros for fiscal year 2023. And talking about our financing cash flow, it came in slightly negative, resulting in minus ten million euros, comparing with our previous year's figure, please consider that last year's first quarter financing cash flow included the 200 million euros Schuldscheindarlehen. However, I want to highlight that we continued to remain a very healthy balance sheet, and of course we did not take on further debt. Let us take a quick look at the balance sheet structure. Our networking capital ratio slightly increase to 5.6% [20:00] in quarter one of 2023, mainly driven by the increase in inventories. The networking capital intensity is beginning to trend towards our anticipated midterm range of five to six percent of sales. The net debt to adjusted EBITDA ratio decreased slightly from minus 0.5 to minus 0.4. However, our net liquidity position of 277 million euros underlines our still very comfortable liquidity situation. Considering undrawn credit lines, our available liquidity at the end of March 2023 was at 1.5 billion euros. The increase in our equity was mainly related to a higher OCI from pension revaluation. Consequently this also contributed [21:00] to an increase in our equity ratio of about 39% at the end of the first quarter. As you can see, we continue to have a very solid balance sheet structure, and cash position, despite the mentioned challenges which we experienced during the start of the year. Now I want to touch on our last slide of this presentation before I then hand back to Heiko for the Q&A session. And last slide of course that is the outlook. Our business is still very much burdened by higher gross (21:42) include costs such as material and freight, as we explained. And as mentioned for these costs, we are in the final negotiation stages regarding the cost transfers. Our aim is to [22:00] have an agreement for the majority by the end of Q2, with all our customers. These mentioned challenges have given us a strong headwind in particular in the first quarter of 2023. However, we are very confident to reach our guidance issued with our fiscal year 2022 results. Therefore we confirm the guidance for following figures. Our outlook for (22:33) of 9.2 to 9.7 billion euros. This not only includes price increases due to higher input costs, but also counter impacts due to the planned phaseout of non-core ice technologies and contract manufacturing. [23:00] The adjusted EBIT margin will presumably amount to 2.9 to 3.4 percent, thus demonstrating that we're progressing with our transformation, also in a continuous challenging environment. And despite the margin, dilutive effects we have mentioned before. We expect our capex ratio to be between five to six percent for the entire fiscal year, fully focused on our core technologies and electrification. Lastly we see our free cash flow target of around 50 million euros for the full year. Again, I want to underline the upcoming challenges we have mentioned earlier. But also again, we are well-prepared to tackle those also during 2023 [24:00], as we did that in 2022. And with that, I have reached the end of my part of the presentation, Andreas and I are now ready for your questions. But first, back to you Heiko.

HE Thank you very much Andreas, thank you very much Werner. Ladies and gentlemen, as announced, we will now enter the Q&A part of today's session. And, as always, I would like to remind you that we of course want to offer all participants the opportunity the ask questions. Therefore we kindly ask you to limit yourself to two questions. For sure, if time allows, you can

ask additional questions by going back into the queue. Operator, we are now ready to take the first question.

- M So ladies and gentlemen, as a reminder, if you would like to ask a question, please press nine followed by the star key on your **[25:00]** telephone keypad only once. If you wish to cancel that question please press nine, followed by the star key a second time. And the first question comes from Sanjay Bhagwani, Citi.
- SB Thank you very much for taking my question. Gentlemen, first of all, congratulation on yet another sustained order intake. So I'll cap my questions in two buckets. The first one is on electrification. So of this four billion order intake, can you please provide some colour on what the quality of this is, like is this some one big or two big customers? And on the same, I think you said that the Q2 is not over yet in terms of the orders. So can you maybe provide some more colour on what exactly did you mean by that? **[26:00]** The margin improvement on electrification looks strong, I think the gross margins you mentioned is greater than six percent. So can you maybe provide some colour on what is driving this improvement? And then I'll just follow up with the next one.
- AW First of all thanks for the questions Sanjay, talking about the order intake in electrification and the outlook for Q2. First of all the four billion is, I would rate it, a strong start into the year. And the majority of those contracts or new orders is again high voltage, due to the fact that those wins, a larger part of those wins, is very recent, we cannot yet share what type of orders we have won and which customers are behind, we are just in **[27:00]** clarification with the customers, but as soon as we have clearance we will also issue a press release. I can promise you that you will be the first getting the information from our investor relations department. So I simply have to respect that we have some, how can I say, working relationships with our customers, when to do what, including publishing the names and the type of products. So I hope that you can understand that. Now I want to give you a flavour of quarter two, because I explicitly also said when I started my presentation with those two big points, where are we with negotiating higher price and order intake. I am optimistic, I can even say I'm very optimistic, that still **[28:00]** in quarter two we will have significant further order intake, and this is linked to obviously the pipeline I see in front of me, and the fact that I'm in many cases directly involved in the acquisition of those projects. Therefore, don't take me wrong, I'm a very humble and shy man, but I would say order intake is not a problem for 23. I already said that I think during the beginning, that's not our problem, that's not something where we have to scratch our heads. So I assume that already Q2 will show that we are in the middle of the game and progressing as planned, meaning achieving the same numbers, same range of order intake like in 2022 **[29:00]**. For the gross margin, I think Werner said it, we are already improving, and we see further improvements. Maybe you want to elaborate on the electrification side.
- WV Yes, and we're enjoying of course this improvement, and we're happy that this is in line with what we promised and what we also expected from ourself. But what is behind it, well it's last operational problems, or improvement of operational accidents, let me just call it that. But one side, on the other side, it's scale effects, and third, it's more profitable business ramping up right now, so I think these are the major three criteria.
- SB Thank you. That is very helpful. And my second question is on these margin improvements. So first thing, on the Q2 margins, **[30:00]** if I understood it correctly, you will be the pricing sizing (30:07) negotiations, those will be accelerating? So do you think you can get the margin corridor like full year margin corridor in Q2? And then on the approvals, first of all I'm trying to get my head around is when actually provided your full year guidance of 2.9 to 3.4% margin

guidance, did you already have these approvals still linked in your mind? Or not? And then let's say, if you did not have budgeted for that, then probably you'll end up exceeding the full year's guidance no? If you can provide some more colour on that [31:00].

AW First of all, maybe I can start. I will explain the mechanics of our negotiation, because also here in the majority of cases, I'm also directly, personally involved, which gives me a very good overview where we are. And again I can only tell you we are extremely confident that what we plan for 23 is price increases will also materialise, just to underline that again. But the mechanics is the following. You have to negotiate, you have to conclude, you have a result, and then it is translated into agreements, but later on into price adjustments. We are talking about price adjustments, not one-time payments. And those price adjustments have to be executed, have to be done, in the systems, in the customer systems. We talk here about sometimes ten, 20, 30 legal entities [32:00] and hundreds, for some customers even thousands of line items, where the prices have to be keyed into their system. Therefore we have always this time lag between having already concluded the negotiations, compared to what do we see then in the quarterly numbers. So my expectation is with what I see today, when can we include what, we said that the majority will be basically over end of the quarter. That quarter two should be in the range of the targeted pattern of the full year, maybe a little bit to the lower end, let's see how we progress. Again with that mechanics, I just describe, but we should be moving up, having those contracts negotiated but not yet displayed, but then in Q2, starting Q2, being [33:00] somehow in that range. That is the picture I currently have. Hopefully Sanjay that answers your questions.

SB Yes, that's very helpful, and on the approval side, so what I'm trying to understand is your guidance of 2.9 to 3.4% margin, did this already have this revision of provisional of these approvals. Or is this something you just realised now? So what I'm alluding to is like if you got this tailwind which you hadn't hoped for, in this case non-recurring in nature, then how should I think of this full year guidance number? Did you already have this in your budgeting or it just came now?

WV Well now we're in May Sanjay, and I appreciate your question and of course we obviously are [34:00] striving for improving our profitability, but right now (34:04) impacting the first quarter, add that into our growth plan? (34:16) earlier.

SB I'm sorry, your voice was breaking, I didn't hear you, the last line.

WV Oh, again so yes this was an external effect for the first quarter, but we're in May now, and we're guided adjusted EBIT margin range of 2.9 to 3.4%, and yes we're striving of course wherever we can to improve profitability, but to increase our guidance due to this one-time or [35:00] or extraordinary effect, in the first quarter, that would be too early. So right now we stick and stay with guidance 2.9 to 3.4.

SB Thank you, that's helpful.

M The next question comes from Michael Jacks, Bank of America.

MJ Hi good morning Andreas, Werner, Heiko, thanks for taking my questions. On the EV power train market in general, and recent RSQ activity, could you perhaps comment on the component mix coming to market? Is it still heavily weighted towards power electronics? Perhaps what are the trends you're observing there, and have you noticed any changes in competitors' behaviour around pricing? Or prices in the composition of the peers that you're

coming up against? And then my second question is just on pricing and availability of the electronic components, just curious if price increases materialised [36:00] in line with your earlier expectations? And whether or not perhaps you're seeing some evidence of a more competitive environment or prices softening? Thank you.

AW Yeah, first of all, no big change when I look to the order intake or the current EV market. No change means for me the majority goes to high voltage applications, we still see also no big change when you would elaborate or think about in-sourcing or so, we still see the full span of products from components to fully complete electric axles, so no major change. Also not from the competition side. I mean we elaborated on that [37:00] in other rounds, so I don't see a major change, I always repeat that when talking about this market, it is a very conservative market, there is a couple of big players and that's not really changing. So therefore it stays intact, or it stays with boundary conditions we already discussed in the past, and which I don't see that they will change in the next couple of months. Pricing, or availability of components and related pricing. For availability of components, it's getting better and better, that's the good news, so I would assume you also reference to semi-conductors. The second half of the year will improve, in some cases even significantly improve, and the signals I'm getting out of the market [38:00] is that starting 24 maybe it's even over. And we have that in writing, it's not just interpreting messages, we have that in writing that the major components suppliers are telling us that they should cover our demands the latest beginning of 24, so in six, seven months. But already indicating that that should be the case starting in quarter three. So that's a big relief that will help us also to better manage our business. As explained, the inventory's going up because we have stop and go traffic, so to say, that will all be easier to be managed than afterwards. Now the pricing part of it. It's clear that if you can cover, and there's no competition any longer to get the one and the last component for whatever price, I would expect [39:00] that the price increase or the price mechanisms situation will normalise again. And also to answer that question, yes, we see that already now, and that's in the ballpark of what we anticipated for 23. So how can I say, the big pain is behind us and the big increase also in material costs I would from today's perspective see as not being behind us, but the climax is at least behind us.

MJ Understood, thank you.

M So the next question comes from Christoph Laskawi, Deutsche Bank.

CL Good morning, thank you for taking my questions. The first one being on the electrification ramp in the coming quarters. You already pinpointed to that accelerating, obviously, in line with your targets [40:00] in the months ahead. Should we expect an uptick already with Q2 or is this very backend loaded? If you could comment on that, and around the key drivers there. And then just on the inventory side, as you build quite a lot in Q1, is this more or less a timing thing as well? Should we expect that to go down with Q2 or is it more a problem that you will have to work down throughout the entire year and the improvement is also more backend weighted? Thank you.

WV Maybe I start with the electrification sales picking up, or accelerating throughout the year. Yes, we should see already higher numbers in quarter two, because I mean if you just do the mathematical exercise of three hundred times four, we would land at 1.2, and that's not what we forecasted so far. So yes, we will see already in quarter two an acceleration and then further on. [41:00] Now we see that in the call also, so that's a given. I'm not so optimistic looking to the inventory side, yes, we have special task forces and teams working on it, but due to the fact that when you change your sourcing parameters in the system, it always takes a while until it

takes places. Now in line with what I said before, that overall the number of turbulences is going down, we should be able to better manage inventories this year, they will come down, but I would be a little bit hesitant whether we see already significant step downs in quarter two, but I would be more optimistic to say quarter three onwards we will see those effects.

CL Thank you, and follow up on the electrification growth. Is there any cost related to that accelerating? Which means the margin [42:00] could be at risk to slightly weaken. Or should we just expect the positive leverage to improve margins in that field as well?

WV I mean you heard already that in electrification we are in quarter one on a single digit gross margin level and with what we see today we should increase this gross margin maybe to a low double digit level, and that is showing that in the next quarters it is the acceleration of sales, because capacities et cetera are all installed, is not linked with higher burden but should lead to an improvement of the situation.

CL Sounds good, thank you.

M The next question comes from Giulio Pescatore, BNP.

GP Hi, thanks for taking my question as well. The first one, on the one-offs. [43:00] I mean it does sound like there were a few one-offs in the quarter, so can you just maybe help us isolate them? I think you mentioned a one-off payment linked to claims and then some inventories evaluations, investors of approval? (43:13), so just trying to understand the magnitude of these one-offs in the first quarter. And then the second one, on the outperformance, can you maybe help us understand how much of a regional mix tailwind did you have in the quarter and how much pricing benefitted top line in the quarter? Because, I mean to be fair, I was a bit disappointed with the level of outperformance you showed, not because you're not doing well on the electrification side, but because the regional mix should have been a big tailwind for you in Q1. So if you can help us on that, thank you.

WV Yeah I'll try to give you an answer, even though I cannot specify the detailed amounts [44:00]. These are one-offs, with regard to also the normal course of our business, well, you have to understand that for instance if customer demands are fluctuating, we typically would go after the customer and would try to negotiate volume claims, so that is one of the things that is quite normal to our business. And this is going to happen also in the future. This happened in the past, so that was one issue that we settled. On the other side we were able to settle a warranty claim. Also that is normal course of the business, but it happens as one-timers obviously, it's not gradually allocated throughout the fiscal year. And this is basically what you saw in the first quarter, and we were able [45:00] to positively negotiate these situations and conclude that. And it is in the lower double digit size and magnitude.

GP Thank you.

WV Is that answers your question, yeah?

GP Yeah, so it does sound like the adjusted EBITDA group level would have been close to break even if we adjust for this one-off effect? Is that fair?

WV Sorry, I couldn't...

- AW Yeah that is true, yeah. But it's part of EBIT one-off, because on the other hand they burnt you when you (accrued? 45:40) for it, so yes, that's true.
- GP Thanks.
- WV Outperformance regional.
- AW Well outperformance regional though that last quarter of course, the Asian market, specifically [46:00] Korea, was strong market for us, and also on the German side, the German market outperformed and that of course helped our first quarter.
- WV And pricing benefits from the cost transfers.
- AW Well yes we included, fortunately we already could transfer, some of the incurred costs to our customers, but it is yet obviously below what we have suffered as input costs, increased input costs. So it is less than two thirds that we probably were able to recover as price increases in the first quarter [47:00].
- GP Okay that's very helpful actually, thank you. Can I just maybe squeeze in a last one? We saw car makers increasing their inventories quite significantly in Q1, I think pretty much across the board. I think this effect spooked the market to a certain extent, because I think we're wondering about the outlook for production in Q2. What's your take on this? Is this because they're preparing for higher stage, I mean what's causing this effect? Thank you.
- AW That would be a question more to the OEM than to us. What we can see is that from a call off side, it should be okay. Don't forget that the pipelines, the supply chains, are still completely empty, and even assuming it would happen, even the OEMs say the car sales would slow down, we would continue to [48:00] basically backfill or refill the supply chains. And therefore I don't see an imminent impact, and as I said, I cannot really... we see for our product a strong pull, I cannot really comment on why are there higher stocks on the OEM side.
- WV Probably getting back to normal.
- AW Yeah getting back to normal, that's a good hint, because if you look to the typical KPIs being in the US or on the Asian side, so what is the stock on hand, so how many days on hand do they have as the dealers, as produced cars available, especially in the US, they had nothing, I mean the reason is clear, but they need to backfill and have that typical range like in the US, I don't know, 60 days upwards, and not below 30 or 20, what they suffered basically the last years. So for me it is a correction [49:00] and normalising effect of the industry.
- GP Yeah definitely. It's good to hear from you that you don't think that this is going to have an implication on call offs. Thank you very much.
- AW You're welcome.
- M So ladies and gentlemen, as a quick reminder, if you would like to ask questions still at this point, please press nine followed by the star key on your telephone keypad. So the next question comes from Jose Asumendi, JP Morgan.
- JA Thank you very much, it's Jose, and yes congratulations on the order backlog that keeps on growing. I just wanted to maybe discuss a bit more, if you could give a bit more guidance

towards the past improvement between power train solutions and electrification solutions? Can you comment, to hit this sort of lower end of the margin range [50:00] in the second quarter, what kind of improvement are you looking with electrification solutions? And do you expect power train solutions to go back again to the high single digit margins, maybe towards the upper end, maybe close to double digit margins on the quarter? That would be the first point, and second point, with this order backlog I always wonder if you need to open a new plant or if capex needs to change, not now but maybe in the medium term, if this is something that you think you need to do or as you have discussed in previous calls, the level of capex still is adequate and you don't really need to open any additional plants? Thank you.

AW Yeah, maybe I'll start with the second one. Capex, so as you might know, we have a long term plan of how are we going to ramp up the electrification business. If I look now to the order backlog, because here we basically [51:00] have to install new capacities, the order backlog of the ice, one is more or less capacity-installed. So I would assume your question Jose was also focusing more on the electrification side. So now we have a plan, and you know those dimensions that, those points, like five billion in 26 and the targeting with all what we know, 10 to 12 in 2030, we know also what does that mean for capex, for engineering resources, but also what does that mean for the procurement side, because for some typical and critical components, (51:36) et cetera, we have then also to make sure that supply of components over the next couple of years is secured. So that's always a complete picture over many years and we have all line items in front of us, with all what we know today, the capex which we mentioned, the five to six percent, should be [52:00] okay to basically support the capacity ramp up or the sales ramp up for the next years in electrification. It was a little bit long answer but I wanted to give you that more holistic picture that we are not looking to one number only, but have a complete thought through long term view of where are we going, what is the impact top line, on the related line items, like capex, engineering, whatsoever, procurement. Is that answering your question Jose? Or probably one part.

JA Yeah that's great. Thank you. And if you could comment a little bit on the path of improvement through the year. Clearly there's going to be an improvement across two divisions. How do we think about that path of improvement? And maybe the revenue speed for the year. Thank you.

AW That was the first question you asked yeah?

WV You want to comment on that or should I?

AW I can start and if I [53:00] make big mistakes Werner you can correct me. So first of all, on the division E level, improvement where do they come from already, somehow, we touched on that point, that scaling up with the electrification business. Because I said some numbers like where are we with the gross margin, what do we expect for the outer years, we said that three hundred million is not representative, the first quarter for the full year. So we will see more backend loaded, but starting already in quarter two, sales increasing. That's one part of it. The major part of it is also related to what we call reaction, the price increases we have with our customers, because as I said, only the smaller part could somehow find its way into our P and L in quarter one, the major part [54:00] will find its way in our P and L in quarter two, starting quarter two, and then obviously continuing in quarter three and four. Don't forget that our goal is, and that's I would say 99% of the cases, no longer to work with one-time payments, but with concrete price increases, because then it's by far easier when you move into the next year, 24, just to negotiate where the customers don't touch the prices. We stay under those prices. One-time payments is a little bit a disadvantage, or was a disadvantage in 22, our one-time payments, but you basically have then to renew it, renegotiate the price level you have already

reached again, once you enter into the new year. So that's would be my short answer. I look to the left, no correction necessary. Okay. [55:00].

JA Thank you.

M So there seems to be one follow-up question coming from Sanjay Bhagwani. Please go ahead.

SB Hi, thank you very much for having me back again. Just one quick follow-up on electrification margins. You alluded that the gross margins will step up throughout the year, and is there a possibility that in Q4 itself that the electrification becomes EBIT margin break even? Given that in Q4, if your gross margins are stepping up, and on the back of that you also receive these R&D reimbursements itself in Q4. So yeah, do you see this could perhaps break even by quarter four? Or probably too early to comment on that.

WV Well, thank you, you never give up. I really appreciate. Yes, we're going to continue to improve [56:00] gross margin in electrification to higher single digit gross margin I guess. And of course something to improve overall, profitability, but we (56:14) targets for 2024, even though we also can expect higher reimbursements in (56:22), towards the end of this year. But please consider, we will see further ramp up costs coming with the new orders, and we're accelerating further, and I think that is not for free, so that needs to be considered and again, I think break even, it's getting more and more realistic for 2024.

AW We will tell you the precise date when we (56:52). We open a (56:53).

SB Yeah thank you gentlemen, that's very [57:00] helpful. Thank you.

M So as there are no further questions at this point, I'd like to hand it back to Heiko Eber.

HE Thank you very much. So since there are no further questions, I would like to close today's session. Of course, if there are more questions coming up afterwards, feel free to reach out to our IR team anytime. Thanks to our team for preparing this call and of course a big thanks to all of you for your time and your interest. And I already wish you now relaxing weekend, and looking forward to talking to you soon. Thank you very much.