



## Vitesco Q2 2023

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Vitesco Technologies Group AG  
Conference Call Q2 2023

O Operator  
J Jens von Seckendorff  
A Andreas Wolf  
W Werner Volz  
S Sanjay Bhagwani  
G Giulio Pescatore  
MR Marc-Rene Tonn  
MJ Michael Jacks  
JA Jose Asumendi

O Hello and good morning, ladies and gentlemen, and welcome to the Vitesco Technologies Group AG conference call Q2 2023. At this time, all participants have been placed on a listen only mode. The line will be open for questions after the presentation. So let me now turn the floor over to your host, Jens.

J Yes, thank you operator. Ladies and gentlemen, I'm very happy to welcome you to our call on the financial results on the second quarter 2023. The press release, the following presentation and our half year report have been published today at 7:00 AM CEST on our investor relations website in the reports and presentation section. Furthermore, you can find a document with an overview of the most important KPIs on a quarterly basis available for your convenience on our website. We will of course, also provide a recording of this webcast after this event. [01:00] Now, before we have a look on today's agenda, I'm sure that you've all taken notice of our disclaimer. Andreas Wolf, our CEO and Werner Volz, our CFO 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 group and divisional level in the last quarter, including our current order intake level, as well as our cashflow and balance sheet. Afterwards, both gentlemen will be available for a Q&A session. And now let me hand over to our CEO Andreas Wolf.

A Thank you Jens. Ladies and gentlemen, welcome to our quarterly earnings call for the second quarter. Thank you for joining us today. We are very pleased to share our quarter 2, 2023 results and provide an overall company update. Before we get started with the [02:00] financial KPIs on the slide, let me express my gratitude to all our employees at Vitesco Technologies who made a recent event possible. Our company is now listed in the German Mid-Cap Index, MDAX. After the positive share price development of the last months, we see confirmation that we are pursuing the right strategy and will continue to implement it consistently.

Our second quarter was again dominated by delivering on two major items, almost finalizing the negotiations on higher prices with our customers based on continuously increasing input costs as well as growing our electrification business. Here I can now tell you that we have made significant progress. Regarding the cost transfers, we now have agreements with nearly all major customers in our pocket. The success of these [03:00] negotiations was partly visible in quarter one and two. However, this effect will manifest throughout the remainder of the year. This was hard work and

I'm happy that we have reached an almost complete status with our customers. On the second item, our electrification progress continues on multiple levels.

As you can see on the right hand side once more, our order intake proved our very attractive portfolio. During the second quarter, we could win about five billion euros new orders in total. Thereof, the share of electrified order intake amounts to about 90%, which is really impressive. Please keep in mind that we will continue to push for sustainable order intake, but we won't see this space quarter over quarter as those orders do not come in on a steady basis. [04:00] It's very important to note that our current order intake for 2023 is profitable and will positively contribute to our mid and long-term profitability targets.

An additional proof point showing our progress in e-mobility, our electrification sales, which have increased to 354 million euros. This is a very good step, up of about 50% compared to last year. But now let us go through the other key figures displayed on this slide step by step. With 2.4 billion Euro sales, we delivered double digit organic growth in the second quarter. This was mainly driven by our strong sales and division electrification solutions, especially in Asia. Our adjusted EBIT margin came in at 3.1%, which is a very solid within our full year range. [05:00] Given the delay in payments for cost increases by our customers, the negative free cash flow in the second quarter was in line with our expectations. Even though we managed to invoice on these customer agreements still in June based on existing payment terms, we see respective cash inflows during the second half of the year.

To sum up, it was again a positive and eventful quarter. Speaking of recent events, let us now talk about news and announcements, which are cued especially in the second quarter. Our strategic initiatives accelerate our transformation and at the same time secure further growth potential. We have achieved this by focusing on two directions, strengthening on our supplier partnerships for critical components, and further divesting our ICE business. [06:00] Talking about partnerships, as we have seen during the last years, it is very important to ensure availability of our parts. If we don't receive components, no parts will be produced. Therefore, we did our homework to ensure availability and competitiveness going forward when we speak about SiC components. We secured an almost three billion euro supply capacity to safeguard the anticipated growth in electrification.

Here we decided to take two major steps. First, we signed a long-term supply agreement with Onsemi by investing in production capacity and consequently gaining access to key semiconductor technology. Second, we further intensified our existing development partnership with ROHM by entering into an additional supply agreement. Coming to the right hand side, we further accelerated our progress in [07:00] ramping down our ICE technologies. This enables us to strengthen our focus on electrification and core ICE technologies. Since our spinoff, we have made more than 10 transactions, including divestitures in the field of ICE technologies. This affects about 2,000 employees but it is very important to us that they found a new home with a better strategic fit outside our company. These transactions also drive our transformation towards e-mobility powerhouse even further and faster as the divested businesses amount to 500 million euros yearly sales.

This will come into full effect by beginning of next year. Our phase out of the non-core ICE sales, including contract manufacturing, will thus further accelerate. Let us now dive [08:00] a little bit deeper into the financial KPIs. The 2.44 billion sales, which I mentioned earlier, corresponds to an

increase of 12.8% compared to the second quarter 2022. The sales development is in line with our expectations taken into account the planned ramp down of non-core business, which also includes as already set our contract manufacturing activities before. Supported by the negotiations of compensation agreements, we managed to achieve an adjusted EBIT margin of 3.1%. Our CapEx remained at quarter one levels. However, when compared to previous years, we see our CapEx ratio trending to the anticipated five to 6% level. Our free cash flow was burdened by an increase in working capital, which results in a negative value of around minus 21 billion euros. [09:00] One important note, the compensation agreements with our customers will largely become cash effective during the second half of the year as I already mentioned.

That's why we are still confident to achieve our full year guidance of around 50 million euros free cash flow. And our equity ratio remains at a very solid level as already in the quarters before. Let's move on to the market view before I hand over to Werner for a deeper financial look on our quarter. The worldwide light vehicle production picked up during the second quarter in 2023. China saw by far the strongest recovery in the second quarter followed by North America and Europe. However, the Chinese commercial vehicle market continues to be challenging. Overall, we see an improved availability in raw materials, which also contributed to an increase in light vehicle production volume. [10:00] As we can see in the bar chart in quarter two of 2023, our reported group level sales increased by 12.8%, which looks rather weak at first glance if you compare it to the global light vehicle product. However, please keep in mind that our declining sales of the non-core ICE business and contract manufacturing is included in the (CGA? 10:26). Organically, our electrification and core ICE sales outgrew global light vehicle production by 8.4 percentage points. This number is more meaningful when comparing ourselves to the overall market environment. And now, as always, let me hand over to our CFO Werner Volz who will give you more insights into our financial development. Werner, please.

W Thank you Andreas. And hello and welcome [11:00] of course also from my side. Let us take a closer look now at our top and bottom line development at group level. Our organic sales growth was at 14.3%. That excludes currency related headwinds of 1.4 percentage points as well as further consolidation effects. To put this into a better context as Andreas has mentioned in the previous slide, please keep in mind the outperformance of electrification and core ICE technologies of 8.4 percentage points compares to the market.

As seen before, we increased our profitability to 3.1%, which is straight in line [12:00] with our full year guidance. In this context, I need to mention again that we finalized our negotiations with almost all major customers regarding the cost transfer agreements on higher input costs. You already see positive effects in this quarter on both top and bottom line, and I expect this to continue during the remainder of the year. To sum up this result is very much in line with our full year target. Now on slide nine, let's have a look at the results by each division. We start with our powertrain solutions division. [13:00] The main reason for a slower growth as the plant ramped down of our non-core activities, which also contains contract manufacturing of around 224 million euros, down about 20% year over year.

Here we will see a further acceleration of this decline in the remaining two quarters. Overall, Q2 sales came in at around 1.6 billion euros with an adjusted EBIT margin of 6.7% in Division P. This was mainly driven by strong regional sales in Europe. One aspect I would like to highlight, our core ICE business continued to achieve double digit adjusted EBIT margins. And [14:00] to put this into figures, we achieved an adjusted EBIT margin of 11.1%. Now let us shift over to our division

electrification solutions. Here of course, we experienced the strongest growth. We enjoyed a very strong top line development, which was especially driven by our performance in the Chinese and German markets. Our sales growth of 34.5% equates to an outperformance of 19 percentage points comparing to global light vehicle production. And with regards to profitability we managed to cut our losses by half. This results in a positive adjusted EBIT margin **[15:00]** for the Core ICE part of this division. And you might remember this figure has been negative in the first quarter and quarter two now benefited in particular from further stabilized supply chains.

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. Let's start with the electrification part on the left side. As you can see, we further increased our electrification sales by around 50% due to further ramp ups of new products and a better availability **[16:00]** of critical components. And we will continue of course to grow. I also would like to mention the improved adjusted EBIT margin by almost eight percentage points, even though we had to bear higher upfront costs for new orders. This was driven amongst others by further improvement of our gross margin to about 7% in Q2, and we foresee gradual step ups until the year end in total. Overall, I'm going to highlight once more, we are well on track to achieve our targeted profitability goal for the next year, which means break even.

Our second category Core ICE, excluding electrification, improved **[17:00]** sales to 1.4 billion Euros. As said, the core ice business slightly outgrew the global light vehicle production, also driven by the positive outcome of price negotiations. Consequently, we saw an increase in our adjusted EBIT margin by 300 basis points. Another aspect here is the incremental margin, which stands out as 27%. As you can see on the right hand side, our Non-Core business is ramping down as planned. It also includes our contract manufacturing business. You may have noticed the EBIT margin being slightly under 1%, but I would like to emphasize here the figure of last year included **[18:00]** a positive one-time effect. However, as we have always stated, our adjusted EBIT in Non-Core is more or less (black zero? 18:15). So if I have to sum up our Q2 results, there are three topics to remember today.

First, we will grow in the electrification area and further improve profitability. Second, our very resilient Core ICE business will see gradual improvements. And third, the ramp down of Non-Core will be progressing according to plan. On slide 12 now, let me give you some insights into our cash development. As you can see, our **[19:00]** operating cash flow came in slightly lower. To a large extent, this was driven by a higher networking capital intensity, mainly in accounts receivables. With regards to our networking capital, please keep in mind that the positive effects from the favorable payment terms with Continental in contract manufacturing in the past will decrease as the business is ramping down. And we already see some negative effects here to date. Now, our investments increased slightly resulting in an investing cash flow of minus 115 million euros.

As stated on the slide, this is mainly due to lower cash in from divestments when we compare it **[20:00]** to the prior year. As a result, our free cash flow for the second quarter came in at minus 21 million euros. This was in line with our internal planning as we are increasing our capital spendings, which is necessary of course to support the ramp up in electrification. We're thus confident to reach our guided 50 million euros for the fiscal year 2023. And Andreas already confirmed that before. Talking about financing cash flow, it came in slightly negative, resulting in minus 25 million euros. Compared to our previous year's figure, the financing cash flow improved

due to significant less negative settlement impacts from financial [21:00] derivatives. However, I want to highlight that we continue to have a very healthy balance sheet and sufficient funding to drive our transformation. Let us take a quick look at our balance sheet structure on slide 30. This might be the least exciting slide in my presentation and it has not changed much compared to the previous quarters, which means we maintain a rock solid structure. Our networking capital ratio slightly increased to 5.9% in Q2 this year, mainly driven by accounts receivables.

The networking capital intensity is therefore in line with our anticipated midterm range of five to [22:00] 6% of sales. The net debt to adjusted EBITDA ratio decreased slightly from minus 0.5 to minus 0.3. However, our net liquidity position of 213 million euros underlines are still very comfortable liquidity situation. On top of that, we still have our existing RCF, so our available liquidity gross is at 1.7 billion euros. And last but not least, our equity ratio. It remains at very solid levels of around 39%. Now, I want to touch on my last slide of this presentation before I hand back to Ian for the Q&A session. [23:00] I guess our guidance is very familiar to you as we have shown it in the last two presentations.

On the market outlook, we saw minor changes in the regional development as the year progressed. This does not affect, however, our estimates on the overall production significantly, and therefore doesn't change our view on the development for the global light vehicle production. There are minor changes in the regional distribution, especially the European and North American markets are seen as the main drivers for the anticipated increase in light vehicle production. Europe is expected to higher growth of around seven to 9%, previously five to seven. North America is also expected to perform better with an increase of around six to 8%, previously five [24:00] to seven. And China on the other hand, is predicted to grow slightly lower by around zero to 2%. That was one to 3% previously. Since our view on the globalized vehicle production remains at three to 5%, the left side with our guidance remains unchanged.

This means we are very confident to reach our targets for fiscal year 2023. And with that, I have reached the end of my presentation. And before we enter the Q&A session, let me say a few words on my behalf. As you may know, this will be my last quarterly presentation before I hand over to my successor (Sabina Nishi? 24:53) in November this year. However, of course, I will continue to give my utmost best until [25:00] the end of my term to ensure that we will achieve our full year targets. And already now, I want to thank all of you very much for this very constructive corporation, for your trust and for the great exchange we had, especially the very honest and lively discussions about Vitesco, our strategy, and of course our financial figures. It was a pleasure and an honor. All the best to all of you. Thank you. And now back to Jens.

- J Thank you very much gentlemen. Ladies and gentlemen, as announced, we will now enter the Q&A part of today's session. We would like to offer all participants the opportunity to ask questions. Therefore, we kindly ask you to limit yourselves to two questions. If time allows, you can of course ask additional questions [26:00] by going back into the queue. And the operator, we are now ready to take on the first questions.
- O Okay, thank you very much. Ladies and gentlemen, if you would like to ask a question, please press nine, followed by the star key on your keypad. And if you wish to withdraw your questions, please press nine followed by the star key again. So let's start now. And I will announce the names in order. First one is Sanjay Bhagwani from Citi.

- S Hello? Thank you very much for taking my question. Sanjay Bhagwani from Citi. First of all, congratulations on executing the pricing negotiations and delivering on the margin expansion and into the Q2. And one, thanks to you too for all these honest and lively discussions and all the best. So, I've got two [27:00] questions. I'll just club them in two buckets. The first one will be electrification. So maybe just on the order intake, can you please confirm your yearly annual order intake on the electrification targets of somewhere around 10 billion? And on that, can you also please confirm the sales growth target for the full year from around 35 to 40%, I think growth is what you had indicated. And in the same bucket, the gross margins for electrification, could you maybe provide some color on how this has developed in Q3 and are you still able to achieve single digit that is around eight to 9% for the full year? That's my first set of questions.
- A Hello Sanjay. There's a short and the longer version. The short version is yes, yes, yes. [28:00] You like it. But maybe going back to the order intake. Yes, we are on the electrification side at 5.3 billion. Year to date, I expect major orders maybe even days. And that's a little bit why I said it doesn't come exactly to the earnings call but it can be one day, two days or a couple of days later or two weeks later. But there are some very hot acquisitions in the pipeline so that I can without hesitating confirm something around 10 billion. As you know, we are also very picky looking to the type of orders. That's why I mentioned in my short speech the profitability side to it. We want to make sure that the orders which are coming in are profitable and support our mid and long term targets. So on the growth side, [29:00] yes, there are a couple of launches in the second half of the year. So that for the full year I can confirm the growth target. And maybe you want to elaborate shortly on the gross margin.
- W Yes. And Sanjay the question, of course, an important question relates to profitability development for the future. We also will confirm and can confirm our gross margin development continuing but right now we are at 7%. We should continue to see further improvements. So eight to 9% which you mentioned should be in our range that we are going to achieve by the year end.
- S Thank you. That's very encouraging. So on this, I think a follow up to the growth margin is, so let's say for first half is I think six and a half or something. [30:00] And if you want to get to eight to 9%, then for H2 we are aiming for, like for Q4, we are probably aiming for more like 12% or something. And then on the top of that, you also have the R&D reimbursement. So, do you expect there's a possibility that this electrification can actually break even in Q4 itself or there are some moving variables around the R&D that we should be aware of?
- W Can I repeat your question in order to make sure that I understood it correct? So first question was on gross margin, how we are going to improve the gross margin towards the year end. Is that right? The second question was break even in Q4 and the third question related or the second question, I'm not sure the sequence, one question related to R&D reimbursements [31:00].
- S No problem. I think just one question that, is there a possibility that electrification could be an EBIT break even already in Q4 given the gross margins expand and R&D reimbursements come in Q4?
- W Well, I would not confirm that right now. I know where your (31:27) calculation but I wouldn't shoot for that right now. So, I think we're going for breakeven next. And of course the fourth quarter would be an exceptional quarter, be linearized or annualized equally when fourth

quarter, again, we receive reimbursements over reimbursement and we also receive (31:56) coming from price negotiations (31:59) [32:00] are all positive effects hitting in the fourth quarter. Now, I wouldn't confirm that right now. Even if I would love to confirm that Sanjay in my last call but I'm not going to do that. So sorry.

S No problem at all. And just a final one on the module progress. So maybe just to understand, it's sad to say that you already have a visibility on getting the full year guidance because you already have progressed in one of the biggest moving variables for the year, which was passing through the inflationary headwinds. So how should we think of the development for Q3 and Q4? That is basically, let's say, I think you already mentioned that it's all agreed, but some of them were actually on the books in Q2, but there will be more in Q3 [33:00] and Q4. So if you could provide some color on, let's say, should we see the margins in Q3 then higher than Q2 and then Q4 higher than Q3? If you could provide more color on that, please.

W Well, yes, of course. Since we are confirming our full year guidance again, we should see catch up effects in the second half but also here I would like to caution everybody a little bit. Q3 typically it's a weak quarter due to, we call it summer hole or the summer breaks, and it'll will be lower months in July and August. September then again, should catch up. So in total, the third quarter typically is a lower and slower quarter but on the fourth quarter, then typically sales is really catching up, and [34:00] then all the positive effects from the price negotiations eventually are going to hit. So, I would rather expect Q3 maximum at the level as we have seen Q2, but then having a strong Q4. And that was pretty much the pattern that we also have seen last year, as you remember. Does that help?

S Yeah, that's very helpful. Thank you very much and all the best Werner.

W Thank you Sanjay. All the best to you too. Thanks.

O Okay, thank you. And next up is Giulio Pescatore from BNP Paribas.

G Hi, thanks for taking my question. Good morning, everybody. So the first one on the divestment, can you maybe shed some color on what assets you sold and any information on the proceeds when you think [35:00] you will get the proceeds and I can maybe quantify those? The second question on the supplier partnerships you locked in. I think these are very important deals that they're closing, but I'm just curious on what type of pricing agreements are you striking and will there be any room for adjusting prices down in case we start to see deflation in the semiconductor space? And then the last point on the order intake, can you maybe share some color on a split of regional or customer mix within that order intake and maybe also some information around product mix as well. Thank you.

A I start with the last two months to warm up. On the order intake side, if I look to the full year, because I said there are some very interesting orders in the pipeline. It is basically the same pattern like last year in all regions and [36:00] across our whole product portfolio. It means from complete axis to inverters only, to battery management systems, it's all high voltage. There are also 48 voltage, there are intakes, some volume increase, et cetera but the majority is on high voltage. You know that we have a clear view of the market, which goes into at the end the battery electric vehicle market. We see this portion significantly growing. Now on the partnerships, the pricing agreements.



Yeah, the pricing agreements are in a way that if the competitive environment would change, that the parties would sit together and negotiate in good faith, reflecting that change in the market. The good thing on the other hand is that we have a [37:00] ceiling, a cap on those components in the sense of if the market prices would go up, what does that mean? Because we always have to think into both directions. But yes, there is a provision in the contracts we have signed that we are always in good faith. Look, what does that mean for the outages? Because those contracts go up to 2035. They start in a couple of years if I look to on same way, but it's a ten years agreement. So we had to make our insert clause what if on the market price side. Now, divestitures, you want to comment on it?

W Yeah, I can comment on it. But we sold our business in China, which was related to injection business, and we sold that to the Belgium [38:00] Punch group in Italy.

A In Italy.

W Yes, in Italy. EBIT was hit by that due to certain impairments that we had to book according to the transaction and basically the transfer as itself for sale. Of course, these impairments are not impacting our free cash flow. And on the other side, in opposite, we will see some cash inflows on these transactions still probably to happen in this year, depending on the closing on that deal. We had now the signing, the closing. Right now, we're still expecting for this year, and depending on that, [39:00] we potentially might see additional cash inflows in the (load to? 39:09) middle double digit numbers that might be further proceeds in the later years to come. So overall, we think this deal makes a lot of sense. Number one, it brings us additional cash inflow. On the other side I think also our employees, they find a new home, a new haven with a more strategic oriented investor being able to utilize the competence and the skills in this plant. And that overall, I think it makes sense to everybody, should be a win-win situation for everybody. Does this answer or help them understand that [40:00] deal?

G Yeah, that's perfect. Thank you. And so, again, maybe just follow up on the order intake. One of your direct competitor has highlighted that some customers in Europe are casting the BV volume forecast for this year. Are you seeing any similar impact or anything on that trend?

W That's hard to comment because I don't know what customers they are talking about. We see some shifts in the market, especially when we talk about plugin hybrids. So everything which is battery electric vehicles, we are okay but some of those as you know were special incentives also related to plugin hybrids in Europe, which have been cut this year. And we see the direct impact, but also the market, as I mentioned before, it's more going into the direction of battery electric vehicles. This is what we see. But on the other hand [41:00] the new cars, new electric vehicles produced worldwide is continues to increase significantly. There will always be also looking to the next years a little bit ups and downs, depending on incentives, et cetera but all in all, the trend is unbroken and very clear.

G Perfect. Thank you.

O Okay, thank you. Next question comes from Marc-Rene Tonn from Warburg Research.

MR Yes, good morning, and thank you for taking my questions. There's two questions a bit outside of operating business. I see from the half year report that you booked some additional expenses for

obligations in connection with the emission issues, perhaps you could give us some update on where you are on the process and when you would expect this to be finally settled or whether there should be any additional burdens to be expected in [42:00] the quarters ahead. And the second question would be a bit regarding the progress you've made in the optimization of your tax expenditure structure. I think yes, of course, second quarter we would be one off and overall limited EBIT. Probably not the best example, but to give us some confirmation that you're on track to significantly reduce your tax rate going forward from the level where is at right now. Thank you.

W Thank you, Marc. Let me try to take your questions and answer it. On the first question related to our emission situation. Yes, we accrued additional amounts for potential own efforts in this investigation context but not directly related to (Conti zone? 42:57) or to [43:00] anything that we would see the overall situation different than what we probably explained earlier and what we originally accrued for. But it is the fact that our own investigations that we started potentially would speed up this overall process, and for that we accrued additional amounts on that. On the second question, the tax expenditure. Yes, we're in the process to already now with changed allocations schemes and with changed allocations specifically also to our foreign subsidiaries to see significant text improvements. However, if you go for the text quote, of course [44:00] measured at the group level result, that probably doesn't give you the right answer. But if we deduct these extraordinary impairments for our divestitures then we see our tax rate right now in the range of 70 to 80% at this point, and it'll drop down to around 50% by the year end. So coming from almost a 100% last year I think we should see a significant effort and a significant improvement already next year. And of course, that's trend is expected also to continue on. And again, our midterm tax target, it's [45:00] between 20 and 30%. And we're progressing there, so everything is in line. Is that helping?

MR Yes. Thank you very much.

W Your welcome.

O Thank you. Next up is Michael Jacks from Bank of America.

MJ Thank you. Good morning, everyone. Thanks for taking my questions. Werner, thank you for your very clear presentation of Vitesco's figures and performance over the past few years. It is appreciated. I have three questions if I may. The first one is just around pricing. Can you comment on the level of cost recovery achieved from your customers and whether this aligns more with the upper or lower end of your guidance corridor? Second question also related to pricing. In terms of the dynamics that we are seeing in China, competition amongst OEMs seems to be intensifying even further in the second half of this year. Just curious as to how [00:46:00] this is or isn't filtrating into your negotiations with customers. And then finally, just on R&D, your capitalization rate is still very low at around 12%, but has nearly doubled year on year. Just curious as to whether or not we should expect any further increases in capitalization rate going forward. Thank you.

A Hello Michael. I would take the first two questions and then on the capitalization side Werner can get the answer. Pricing level, I think I mentioned that before, but we achieved roughly again, the 80% and the 80% is synchronized with our guidance. We are not yet through, we are majorly through, I told you, but we will see then the next weeks, maybe there's a little bit of upside

potential, but for the time being, I would just confirm being completely in line with the guidance [00:47:00]. Now, yes, China, the Chinese market, Chinese price levels, the competition will intensify in future, the pressure on the supply base, on the tier ones like we are, but we had no impacts while negotiating for 2023. So that's still relatively fresh therefore, it was not something we had to cope with or which was part of the negotiations. But we are prepared for the future. We understand the situation our customers are in but for '23, for the negotiations this year, it didn't play a role. Now, on the capitalization side, maybe Werner you can briefly elaborate.

W Yeah. And yes, thank you for that question as well. [48:00] Yes, we see an increase in capitalization, and you correctly mentioned it's currently around 11%. And of course it is due to the recently or last year's booked new orders. So the upfront effort, of course in developing these new businesses, it is increasing. And of course we're capitalizing according to IAS 38, and that requires us to recognize on intangible assets as you are aware of. And of course we're doing that in accordance with IAS 38. However, our approach is rather conservative, I would assume. So we're taking probably the most conservative judgements that we can choose here. However, we start [49:00] to capitalize R&D costs after our technical and commercial feasibility and continue doing that basically until we start with production. And now moving forward, of course, since the amount of new orders and new businesses increasing that effort in exactly that time span is potentially also going to increase. So right now, at 11%, as you mentioned correctly, I consider us to be also comparing with our industries to be on a very rather conservative level. And again, we are going to keep a rather conservative level but in total, since the amount overall is going to increase, this number might likely increase over the next quarters and probably the next two years. Is that fine? [50:00]

MJ Yeah, that's absolutely clear. Thank you. Maybe just a quick follow up, I just want to make sure I understand on the pricing question Andreas. The 80% cost recovery, which you've mentioned, so that aligns with the midpoint of your guidance. Is that a fair assumption to make?

A That's a fair assumption. Yes.

MJ Very clear. Thank you very much.

O Okay, thank you. We have one more question in the line, so please feel free to ask any further questions by pressing nine and star. But next question for now comes from Jose Asumendi from JP Morgan.

JA Thank you. Jose from JP Morgan. Good morning. I'll stick to two questions please. First one, can you comment a little bit on electrification solutions? I know it's a little bit early, but as we think about 2024, can we assume that the [51:00] rate of revenue increase in '24 versus '23 can be similar to the trend we saw in the first half of '23? Because I think this is the key point for the investment case of Vitesco going to '24, '25. And second, Werner maybe you can comment a little bit, please or Andreas actually, please, if you can comment on the strategy in China on two topics. One, what is your share of revenues between local Chinese and international OEMs? And second, do you think you have the right setup in terms of how you're positioned in China in order to be able to capture additional growth in the market or do you think you need to develop additional partnerships to increase the penetration with Chinese car makers? Thank you.

A Okay. I would start with [52:00] the China topic. We don't disclose, I think to the detail, the numbers you are asking. What I can share is that we intensively look into the Chinese market and the competitive environment including things you address, like what is our share with Chinese OEMs, what our winner OEMs in that specific Chinese local market, the share between Chinese and international ones, and also do we have the right setup in China? I mean, from a portfolio side of view, we are okay. We have extremely broad portfolio. We are since long in China. We have a couple of production sites. We have a couple of [53:00] development sites but still with the dynamics we see there we are currently investigating how can we further optimize it, and what you mentioned, even including partnerships will all be checked.

I don't say that we go for partnerships but I said we will check all options we have to make sure that we get a significant portion of the Chinese market independently from whatever dynamics we have there. I hope that answers your question. I think we didn't make any simulations for quarter one, quarter two, comparing '24, '23, but assuming that inside electrification solutions division, I'm talking now about the division, there's the electrification part in knowing that we will have a break [54:00] even in the full year. We will see step ups for the whole division, step by step going up in the quarters. So there will be an improvement obviously for the whole division quarter by quarter. But I didn't make any simulation. A little bit shooting out of the hips now, but that's what I would assume.

JA Got it. But you should be more like in the three and a half, 3.8 billion revenue camp in '24. That's what I'm trying to get to at the end of the day. I mean, you have a huge order backlog revenues, first half are already pointing towards three billion for '23. So '24 give or take with the order backlog you're generating, you should be more in that camp of 3.5 billion or so.

A I don't have that number now close to me, but assuming that we continue to significantly grow [55:00] I would assume that your assumptions are not too bad.

JA Thank you so much. Much appreciated.

A Thank you, Jose.

A Okay, thank you ladies and gentlemen. There are no further questions right now. So I hand back to your host Jens for the conclusion of the conference.

J Yes, thank you very much. So since there are no further questions on the call I would like to hand over to Andreas Wolf once more before we then close the call.

A Yeah, very briefly. As you heard, that was the last earnings call from Werner Volz. Now I wanted to just reflect a little bit what that means because it means a lot to both of us because we started very early this journey of powertrain being still part of Continental, and then being IPO. That was the first idea and then landing into [56:00] a clear cutoff, a spinoff. And looking back, it's really interesting we made a calf out. That was my biggest calf out I ever had in the past, in only a couple of months. That was already beginning of 2019. And then we thought that we should stand on our own feet only a couple of months later, maybe a year later, then Corona came, if you remember. And it was not only Corona, but then also the ship shortage came somehow linked to Corona. And only then September '22, as you all know, we were standing on our own feet. So roughly two years ago, full independence.

And I can only repeat, I like spinoffs because then you have the full drive and the full managerial power in the board running the business. And then I would say that's the cream on top of [57:00] everything moving up into the MDAX due to the share price performance. And there are so many stories and was such an intensive time that I can't share that here, but I'm just very thankful that we did that journey together. And I would say that we were relatively successful. Why is it so? Because what I really appreciated Werner is your deep and broad knowhow that was protecting us doing wrong things. Because as you can imagine when separating two companies, when going into a spin off, you always have to think one step ahead. What does that mean? How do we best organize ourselves that once we sail away, we are rock solid?

And I think that you Werner helped a lot [58:00] to do the right steps, to always, as I said, think one step ahead so that all in all, now after 24 months, we are in a good shape. And to end with, I know that you're very humble and modest person, also now during the last weeks and months making sure that we hit our full year guidance not only on the financial side, but also on the order intake side. I think that would be a surprise if that is not coming. So thanks again for the time together and all the best.

W Thanks all of you and take care. Stay healthy. Good luck. Bye-Bye.

A Handing back to Jens to close the meeting for today.

J I would like to close today's session and of course if there are more questions afterwards feel free to reach out to us. And [59:00] thanks to everybody for preparing this call and of course, a big thanks to all of you for your time and your interest. And take care. Goodbye. Thank you.