Vitesco-Technologies-Group-AG-Conference-Call-Q2-2024
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O Operator

HE Heiko Eber

AW Andreas Wolf

SN Sabine Nitzsche

MT Marc-René Tonn

O [00:00] Good morning, ladies and gentlemen, and welcome to the Vitesco Technologies Group AG conference call Q2 / H1 2024. 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, operator. Ladies and gentlemen, I'm very happy to welcome you to our today's call on financial results of the second quarter 2024. As usual, the press release, the presentation and our half year report have been published today at 7:00 AM CET on our investor relations homepage. And for sure, we will afterwards provide a recording and the transcript of this webcast. Now, before we look at our today's agenda, as usual, I'm sure you have all taken notice of our well-known disclaimer. [01:00] Looking at the agenda, Andreas Wolf, our CEO, and Sabine Nitzsche, our CFO have joined the webcast to guide you through the key information in our presentation on group and divisional level. In addition, we will talk about our cash flow and balance sheet as well as our updated guidance. And afterwards, those will be available for our Q & A session. And now without further ado, let me hand over to our CEO. Andreas, please.

AW Thank you, Heiko, and thank you very much ladies and gentlemen for joining us today. The first half year 2024 is in the books. Unfortunately, the market continued to be challenging. Global Light Vehicle Production saw more or less a flattish development. However, in a volatile market environment, we increased profitability to 4%, thanks to less dilutive business, positive [02:00] mix effects and generally our resilient product portfolio. Consequently, we will see further improvement throughout the next two quarters, thus ensuring that we meet our four year targets. Our sales came in slightly above 2 billion euros. With regards to our free cash flow, this figure ends up quite negative. This has mainly two reasons. First, change in our form of favourable payment terms with contract manufacturing. And second, the return of spin-off related advanced payments to Continental. After all, it aligns with our plans. As already mentioned several times before.

Speaking of our Electrification sales, we see the first indications of recovery as some delayed project ramp-ups materialized in quarter 2, 2024. We assume this trend will continue during the next quarters [03:00] and will lead to further improvements. Another proof point for market recovery is our order intake level, which came in at over three billion euros for our complete product portfolio. Here, Electrification alone accounted for roughly 1.3 billion euros. I know this is still below previous year's numbers, but it shows the Electrification market is trending into the right direction again after a short breather towards the end of last year until beginning of this year. Even though we still see some shifts in the markets to a later date with regards to electrification order intake, the overall market dynamic stays intact. Latest innovations in battery technology and increasingly efficient newer car models will support this trend in the longer run.

And one last highlight from China, we further expanded [04:00] our Electrification product portfolio in China with our battery management electronics. This demonstrates that our strategic decision to strengthen our Electrification footprint in China, especially with local players, is continuing to bear fruit. And this is only the beginning as we will roll out this product on a global scale for major global OEMs. And since this question will naturally come in our Q & A session, I would like to make my statement here. We will be profitable within Electrification in quarter three with another substantial profitability step up in quarter four this year. Nevertheless, this will not totally compensate for the losses we had to bear in the first half year 2024.

Let me now come back to the numbers. The two billion sales are corresponding to a decrease of about [05:00] 17% compared to quarter 2, 2023. However, the sales development is in line with our expectations considering the lack of sales from divested business and the expected decline in contract manufacturing. As mentioned before, supported by our positive price mix, we managed to increase our adjusted EBIT margin to 4%. Our CapEx of 5.9% of sales increased over last year's levels. We still have many Electrification product launches in 2024, which need the respective investments to support our growth in Electrification. Our free cash flow was burdened by different special effects, which are again explained on the right hand side. However, we will return to our normalized seasonal pattern the second half of 2024. At around 39%, [06:00] the equity ratio remains at a very solid level.

Let's move on to the market development. The worldwide light vehicle production saw a slightly negative development in quarter 2 of 2024. Similar to quarter 1, 2024, China and North America saw an increase in volumes, however, those could not compensate for the decline in Europe and the rest of the world. As you can see from the bar chart on the right hand side, our reported group level sales decreased by over 17%. organically. Our Electrification and Core ICE sales underperformed the global light vehicle production by about 3.4 percentage points. Reason being that almost all major markets underperformed on group level. The first half year was a tough ride, however, we have shown once again, we are able to [07:00] perform well even in challenging situations. And with that, you will now receive more insights into our financials from our CFO, Sabine Nitzsche.

SN Thank you Andreas, and warm welcome from my side. So let us now focus on our top and bottom line development at group level. Since Andreas already explained our core KPIs, I will only focus on the most relevant aspects. Our organic sales decreased by 11.5%. That excludes currently related headwinds of 1.4 percentage points and consolidation effects. However, even though we saw declining sales, we managed to achieve higher profitability thanks to positive mix effects and our continuous cost containment efforts. [08:00] Also, I would like to highlight our core technologies, including both Electrification and Core ICE. Sales came in at 1.6 billion euros and we further improved our adjusted EBIT margin to 4.5%. Also, please keep in mind that we are managing in parallel our ramp down and None-Core business, which reduced by about 40%. To sum it up, our Q2 was challenging, but in line with our expectations.

Let us now have a look at each division and as always, we will start with our Powertrain Solutions division. The main reason for declining sales was as mentioned, the blend ramp down of our

None-Core activities, which [09:00] decreased almost by 270 million euros. Please remember that the previous year's figures does not include higher sales and contract manufacturing, but also for meanwhile divested businesses. Overall, sales came in slightly lower than 1.3 billion euros with a further improved adjusted EBIT margin of 9.4%. And I have to say, as already demonstrated in Q1, this is very impressive to see an increase in profitability of our Core ICE business again. Even though our sales declined to 806 million euros, we managed to further improve adjusted EBIT margin to 13.7%. However, this was not only driven by the [10:00] resilience and strength of Core ICE portfolio, but also due to extraordinary items.

Now let's move to our Electrification Solutions division. We saw a volatile market and environment in almost all major markets, which translated into slightly declining sales of 787 million euros. With regards to profitability, we managed to keep adjusted EBIT margin rather flat at about -4%. This number reflects besides other factors, the increased cost for our project ramp-ups in Electrification. And one note on our Core ICE business, we further improved adjusted EBIT margin to 6.3%, making [11:00] another step into the right direction.

Now, I would like to provide more transparency on our categories, Electrification, Core ICE, and None-Core. Given the still challenging market environment, sales and profitability in Electrification remained at the previous year’s level. However, we made a significant improvement compared to the beginning of the year, and saw an increase in sales by about 30% quarter on quarter. With regards to profitability, we are of course seeing a higher ramp up cost for new products in near future.

In addition, some of our customers are switching towards the next generation products such as EMR4 earlier than planned. [12:00] This means we are pushing down projects which were up and running, and at the same time need to ramp up the newest product generation into scale. In addition, this process is taking more time than initially planned given the challenging market environment. With adjusting our cost base and due to upcoming volumes from new projects, we are confident to become profitable in Electrification in Q3, with substantial profitability step-ups in Q4. Core ICE sales came in at about 1.3 billion euros, and we managed to further increase our adjusted EBIT margin to over 10% from previous year's 8.6%. Next to the already mentioned one time effects. [13:00] This again demonstrates the resilience of our Core ICE business which continues the funding of our electrification growth. And last but not least, we are taking a huge step in facing out our None-Core business as we have always promised. I just want to pause here for a brief moment.

Within the Electrification area, we saw the slow start in Q1. We gained traction in Q2 and we will be profitable from Q3 onwards. Our very resilient Core ICE business has seen gradual step ups providing attractive EBIT margins. However, we are missing sales and therefore contribution margin for the full year basis, [14:00] we will be on a similar profitable level as last year. And the ramp down of None-Core, especially in contract manufacturing, continues to progress according to plan with the profitability margin around a black zero on a full year basis. On slide 11, I want to provide some insights on our cash development. Our operating cash flow came in lower compared to last year's quarter. As explained several times before, this was driven by lower accounts payable associated with the change of payment terms within contract manufacturing. Furthermore, the number also includes the payment of spinoff related funding from Continental, which led to an additional cash outflow.

Our investments increased [15:00] resulting in investing cash flow of -176 million euros. This was mainly due to higher spending for project ramp ups in the area of Electrification. As a result, our free cash flow for the period came in at -388 million euros. And I know this figure seems quite high, but please remember we have communicated that a large part of this, let me say special effects, will come due in Q2. Talking about our finance and cash flow. This was characterized by utilization of loan agreements. Hence, it came in positive at 97 million euros. This all resulted in a significantly lower but still solid cash flow.

[16:00] Now let's move on to our balance sheet structure. Our net working capital intensity increased to 9.2% of sales and reflects our significant decrease in accounts payable related to planned phase-out of contract manufacturing. Therefore, the working capital intensity is distorted as our payment terms within contract manufacturing came down from nine months to 30 days. The net debt to adjusted EBITDA ratio in came in positive at 0.2. Given the significant cash outflow in Q2, we are reporting for the first time, a net debt position of 189 million euros at the end of June. However, the financing [17:00] situation remains very comfortable. And to finalize, our equity ratio, it remains at a very solid level of about 39%. As you can see, we continue to have a very robust balance sheet structure and cash position.

I assume we all saw our talk release roughly two weeks ago. Based on the development in first half, '24 and staggering recovery within the automotive industry, we downgraded our guidance for the fiscal year 2024. This applies not only to our globalized vehicle production forecast on the right hand side, but in particular to our guidance on group level on the left hand side of that page. When talking about our group sales, [18:00] we now forecast sales of 8.1 billion euros ±150 million euros considering the very volatile call offs from major OEMs across all regions. The adjusted EBIT margin will presumably come in at 4% ±20 basis points. The main reason tie to lower sales, which result a lower contribution margin. Due to the high number of product launches this year, especially in the second half of 2024, we expect our CapEx ratio to come in at about 7% of sales for the entire year, fully focused to invest into Electrification.

Carrying over to our free cash flow. This is now expected to be around -400 million euros resulting from [19:00] lower profitability. Since the main burden related to contract manufacturing was tied in half year one, 2024, we will see a positive figure for the remainder of the year. And please remember, the outlook for the fiscal year 2024 does not consider any effects related to the integration into Schaeffler. With that, I have reached the end of my presentation. Thank you very much for listening, and back to you, Heiko.

HE Thank you Sabine. And thank you very much, Andreas. Ladies and gentlemen, before we enter the Q & A session for our today's webcast, I would like to hand over to Andreas for some final words.

AW Thank you, Heiko. As you all know, this is my last earnings call. My contract as CEO of [20:00] Vitesco Technologies will end, and that was the planning as always, end of September, means end of next month. So over the last three years, I enjoyed being very close to the capital market and getting direct feedback about Vitesco's performance personally from you and also indirectly via the share price performance. Those years were the best of my professional life, transforming a non-performing Powertrain division to a new standalone company with a decent performance level. It is a great pleasure for me to check the last proof point showing that we can earn money with electrical components. All this was only possible with a great team in the two divisions, the group functions, up to the executive board members. My big thank you goes to all of them. Special thanks also to the investor relations team, [21:00] which intensively accompanied me during the last years. With that, I give back to Heiko.

HE Thank you very much, Andreas. Operator, we would now be ready to take the first question.

O Thank you very much. Ladies and gentlemen, if you would like to ask a question, please press nine and star key on your telephone keypad. If you would like to withdraw your question, please press nine and star again. So we are waiting for your question. Thank you very much. So, the first question comes from Marc-René Tonn, Warburg Research. The line is open.

MT Yes, good morning. And thank you for taking my question. It would be basically two. The first one would be on order intake. And it's good to see that we see some better momentum in the second quarter compared to the start of the year. Nevertheless, would be great to get some more insight on how much proponent you are expecting with regards to the [22:00] order size. So how much better would you expect the second half year to be and going into 2025? So generally, when we look at these around 10 billion run rate, I think we expected that a year ago or half a year ago, is there any opportunity that perhaps a slightly a lower number for this year, maybe then caught up by a higher number in 2025, but just the orders also being put in the market a bit later, but in overall volume the same magnitude that we could have expected before? That would be the first question.

Second question is a bit about the underperformance compared to global light vehicle production in the Core ICE within Powertrain. When do you expect this to end? Is it related to the major rundown of one specific contract with one customer? Is it something we should expect [23:00] also for the quarters ahead? In fact, as a third question added to that one, when we take into consideration that you're expecting Electrification earnings to substantially improve in the second half after say around 60 million negative adjusted EBIT in Q2, that probably when now also taking into consideration your revised guidance would mean that the Core ICE or the ICE business or Powertrain business must be weaker in the second half. But some more additional insight on that one would be great as well. Thank you.

AW Wow. Okay. So let's sort a little bit the questions. I would start with the first one, Marc-René in relation to the order intake. There will be more speed, higher order intake [24:00] in the second half of 2024. One thing which I covered somehow with a side note is of importance. We see, especially on the Electrification side, that the orders, the momentum, the speed goes into Asia, specifically into China. A year ago, we decided that we have to focus more on China. We kicked off a special programme to focus on the business there and to basically cope with the momentum being it speed-wise or on the innovation side in China. And we are ready now. And that's somehow hidden in all the documentation, but we are strong in China. We will gain even more momentum. And the side note was that we start this battery business in China. So we expect significantly higher order [25:00] intake in Electrification in the second half of 2024. And a large part coming from this dynamic part of the world means Asia/China. I don't know...

SN I can take the second question. So the question here is, based on my understanding, our Core ICE business came in at 806 million versus previously 926 million in Core ICE business and Powertrain Solutions. And the question is why is that? This clearly goes into the category where we said we consolidated our businesses, so this means focus on our core business. And here you see that we ramped down or we sold a few parts of our businesses like in Italy and Emitec. And this result [26:00] you see here in our sales. On the other side, what you see is that we improved significantly on our EBIT margin from previous year. And this is exactly the strategy and the focus Vitesco has, that we ramped our None-Core and increase our core business to improve profitability. And this is the result from that. And Electrification earnings development is the third question, improvement, as we mentioned, this is clearly expected starting from Q3 onwards. So we'll see in Q3 that we reach breakeven situation and then improve further in Q4 and onwards.

AW And maybe I can add to that. We gave this information because we also wanted to make clear that we don't have a quarter with a break even, and then we are basically moving sidewards. That's not the case. So we will see profitability [27:00] in Q4. Now, there was the question of is then Powertrain Solutions going down? Because if I assume you're sitting in front of your Excel sheet, you might come to different numbers. We are a little bit conservative in the sense of what will happen in the second half of the year, because we don't know exactly the volume development. There's too many negative political, economical points we have to take into account. And therefore, we don't follow exactly what Excel says, but our gut feeling that the second half of the year might be difficult. Maybe that explains the guidance we have given and shown around 4% a little bit lower than what we expected at the beginning of the year.

MT Perfect. [28:00] Thank you very much. And also thank you very much for all the support and insight you provided to us as analysts in all the earnings calls conferences we've gotten to have together in the past quarters, Andreas. Thank you very much.

AW You're welcome, Marc-René.

O So just a short reminder, please press nine and star, if you want to state a question. We'll wait some seconds. Okay. There are no further questions. I give the floor back to Heiko Eber.

HE Thank you. So as the number of questions does not really come as surprise given our, let's say, special situation, I guess we can close this call. Nevertheless, if there are more questions coming up afterwards, [29:00] feel free to reach out to our IR team. Depending on the merger progress, this might be, as Andreas already said, the last Vitesco Technologies conference call. Thank you for following our story and being part of our journey. We are very much looking forward to continuing our intense and fruitful discussions on our story going forward within the new Schaeffler AG. Have a good day, and talk to you soon. Bye-bye.