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Vitesco – Conference Call

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PRESENTATION

00:00:02 Operator

Dear ladies and gentlemen, welcome to the conference call of Vitesco Technologies Group AG. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen only mode. After the presentation there will be an opportunity to ask questions. Any participants with difficulties hearing the conference, please press star key followed by a zero on your telephone for operator assistance. May I now hand you over to Heiko Eber, head of IR, who will lead you through this conference. Please go ahead, sir.

00:00:33 Heiko Eber (Head of IR)

Good morning. Thank you, operator. Ladies and gentlemen, I'm very happy to welcome you to our call on the financial results of the first quarter 2022. The following presentation and our quarterly statement have been published today at 7am Central European Time on our Investor Relations website, in the reports and presentations section. In addition, the presentation has been sent to you by email earlier today. You can also find an overview of the most important KPIs on a quarterly basis, available for your convenience on the website. We will also make a recording of this webcast available. Before we come to today's agenda, you have certainly all taken notice of our already known disclaimer. As you may have seen in your invitation, Andreas Wolf, our CEO, and our CFO Werner Volz are here to guide you through our presentation of the financial results. As always, they will report on the most important developments in the recent quarter, the group and business unit development, as well as our cash flow and balance sheet. In addition, we will give you an update on our outlook. Afterwards, of course, both gentlemen will also be available for a Q&A opportunity. And, as always, we highly appreciate your feedback. Please feel invited to reach out to our IR team. We will collect your thoughts and jointly work on continuous improvements. And now, without further ado, let me head over to our CEO, Andreas Wolf

00:02:13 Andreas Wolf (CEO)

Thank you, Heiko and thank you very much ladies and gentlemen for joining today. I am really glad that we can report successful first quarter 2022. Sales, profitability, and cash flow came in ahead of expectations. That was, by the way, the reason for the pre-release of our Q1 figures on April 26. We concluded the first quarter with sales of 2.3 billion despite the ongoing semiconductor shortages, regional lockdowns in China as you know, and other supply shortages. This included sales of electrified business of €263 million, so roughly 12% of the Group sales. With €45 million adjusted EBIT 2% percent margin, we continue to improve our profitability. Also, our cash flow of €48 million proved to be resilient in a very difficult market environment. But it is not only the financials that made this quarter successful. We managed to secure an order intake of €4.5 billion in this quarter alone and €3.7 billion, that means more than 80%, came from electrification orders.

We already announced the €2 billion order intake with the Hyundai Motor Group for our EMR4 during the presentation of our 2021 full-year results at the end of March. This is a three-in-one system in a market where everybody was worried about insourcing tendencies. And in addition, we were also awarded with multiple additional awards, for example, almost three €700 million for the EMR3 and almost €600 million for silicon carbide high voltage inverters.

From an order intake perspective, also the second quarter promises to be very successful. We keep up the good momentum and were awarded early May for the battery management system, from one of our global customers. This business amounts to another €1.7 billion lifetime sales. We will supply the 400- and 800-volt battery management system for the battery electric vehicles of our customer. The system consists of our battery management controller and the self-supervision circuit. These components wirelessly communicate with each other, and even though we just now acquired this business, it is our clear target to start production already early 2024.

By the way, with the order intake of 2022, we have now fully booked the business we require to achieve our midterm sales targets for the electrification technology business unit of more than €2 billion. And what I am really happy about is, looking at the order intake, it really goes across the whole portfolio, inverters, eaxles, battery management systems and so on. This proves that what we have explained in other rounds, that we have a very attractive portfolio, we are now taking this momentum into 2022.

But let us now get back to the first quarter. As you can see, the difficult market environment took its toll. The sales of the first quarter was slightly below the prior year, even though FX effects were helping by 4%. Nevertheless, we managed to increase our profitability to 2% of sales, a significant improvement compared to the previous year. Besides the operational improvements and our strict working capital management, also the low capex in quarter one contributed to our free cash flow of €48 million. The prior year figure of €239 million was still heavily influenced by spin-off effects. As explained already last year, it was clear that this was not a representative level of cash generation. Our equity ratio improved by more than two percentage points year on year but was rather stable compared to the year-end 2021 ratio.

I mentioned the difficult market environment a couple of times already, especially in Europe went down dramatically another time compared to the prior year. But also North America and several other countries in the world could not keep up with the light vehicle production of the previous year. Continuous semiconductor shortages, the regional lockdowns in China due to the zero COVID policies, and of course the war in Ukraine were the main factors. The drop in our strongest market, Europe, once more lead to negative effects and our sales mix. And despite the strong market drop in Europe, our core technologies outperformed the market by 2.6 percentage points. On an overall group level however, we could not outperform the market after organically growing by minus 5.6%. The reasons and the main drivers behind these developments will now be presented by Werner Volz.

00:08:09 Werner Volz (CFO)

Thank you, Andreas. Hello and welcome also from my side. Andreas mentioned it already, with our Group sales of €2.3 billion, we were not able to outperform the market. In fact, we came in 1.1 percentage points lower than the light vehicle production. Besides the semiconductor shortage, we were suffering over proportionately from the market drop in Europe, our traditionally strongest market. In addition, especially the regional lockdowns in China impacted our sales development further. We lost 1 to 2% of our quarterly sales volume due to the respective lower production output. Currency effects, on the other hand, were a major positive contributor in Q1. Compared to the prior year, they provided 4% tailwind to our sales and main effects came from the Chinese renminbi and from the US dollar.

If we now look at the adjusted EBIT, I would like to mention a 25 million special burden in Q1 in 2021. This was due to additional supplier charges, which we were able to renegotiate in Q2 of 2021. This resulted in a positive effect of more than €15 million in Q2 2021. As we announced during the annual press conference, we also had to deal with overall increasing cross costs from categories such as our raw materials and electronic materials, freight and energy, amounting for the first quarter to roughly €90 million and burdening our numbers on the bottom line. We are in negotiations with all of our customers, but currently still below the level of 80% cost recovery, which we want to achieve for the full year. Consequently, we should see some positive catch-up effects from our negotiation efforts in the second half of this year. Nevertheless, our margin, excluding electrification technology, which of course still is in a ramp up mode, was at solid 5.4% in Q1 Despite these headwinds.

Looking at electrification technology, I have to report that the semiconductor shortages, meanwhile, led to comparable effects, as in the other business units and resulted in a slight sales decrease. In the past quarters, so in last quarters 2021, we still enjoyed sales growth despite increasing headwinds. Especially the German market drop now led to the overall small sales decrease for electrification technologies. Nevertheless, we managed to further increase our profitability due to ongoing operational improvements, which led to an improved gross margin of now 3%.

Let me highlight another big achievement for our electrification technology business, which is really important. Out of the €3.7 billion electrification order intake Andreas mentioned earlier, €3.5 billion were booked in ET. And as Andreas also mentioned, with that, our midterm sales target of €2 billion is now fully booked and remains unchanged. However, regarding the future sales development of electrification technology, I would like to make one comment. Please do not expect continuous growth rates above 40% in the years 2022 and 2023. When we took over in 2018, we as a new management team put an utmost focus, a clear focus, on developing platform-based products which are modular, scalable, and therefore also profitable. These standardized platforms are the reason why we are currently so successful in terms of order intake. But that is also the reason why we slowed down acquiring new orders in 2019 and beginning of 2020, by all means, orders not matching with our platform concept. The slightly slower growth rates in 2022 and partially in 2023 are a result of this diligent decision back then. We should see further acceleration of sales again towards the end of 2023 and beginning of 2024.

On slide 10, we see that electronic controls, as in the previous quarters, was impacted most by the semiconductor shortage, both on the top line and on the bottom line. And despite 4% tailwind from FX, we reported sales below the prior year. However, we managed to increase the profitability despite the volume reduction compared to the prior year, even if you kept in mind that the previous year was impacted by the already mentioned additional cost of €25 million, of which €15 million occurred in EC. Our core technologies in EC reported €605 million of sales at a 2.1% adjusted EBIT margin. This was already better by 2.5 percentage points than the previous year, despite continuous and even increasing headwinds from the overall market conditions. A prerequisite for further improving our margins here in this business is the assumed recovery of the cost increases in the coming quarters.

On the next slide, sensing and actuation, however, is almost back to a double-digit adjusted EBIT margin in Q1, reflecting the fact that the semiconductor shortage had less impact on sensing and actuation. In our core technologies, we even achieved a 13.1% adjusted EBIT margin, which is up 3.8 percentage points compared to the prior year. Also, here I would like to refer to the cost increase of 25 million in Q1 2021. The share for sensing and actuation on that figure was in the range of around €10 million. In addition, we already saw some supporting impact from reimbursements for (00:16:59 unclear) in Q1 2022 of costs incurred in 2021. In any case, it was a very strong performance by the sensing and actuation business unit in Q1, especially in Germany and North America.

On the next slide, we now see contract manufacturing and the decline in contract manufacturing to €279 million of sales is fully in line with our plans even though it is inflated by 5% currency effects. As we already mentioned, during the year end call, also the adjusted EBIT margin went down to 3.3% due to bilateral price decreases with Continental. And you can expect that the margin will remain on a low level due to further additional bilateral productivity clauses which are reflected in our contracts which we have with Continental.

Let me now get to the cash flow on slide 13. In a challenging market environment, we generated a positive cash flow of €48 million in Q1. The prior year figures are still significantly influenced by spin-off effects and are not representative for our pure operational performance, as I already stated earlier. The main drivers for the positive free cash flow in 2022, despite the negative impacts from inventories, were our operational performance and the low amount of capital expenditure. In addition to our strict working capital management led to a lower cash outflow from working capital compared to the prior year. Despite our CapEx, at currently only 2.3% of sales, we expect the 6% of our full year guidance still as realistic, necessary, and also reasonable. That means the cash outflow from capital expenditure will increase in the coming quarters. Our financing cash flow reflects the positive cash inflow from our Schuldschein loan of €200 million which we were able to place at very competitive conditions in a very challenging market environment. Our positive free cash flow and proceeds from the Schuldschein loan consequently increased our cash position on the balance sheet to €857 million in Q1 from €614 million at the year-end 2021. We used the additional liquidity from the Schuldschein loan to reduce our incremental RCF from €250 million to €50 million in order to further diversify our financing mix. Our available liquidity increased slightly further compared to year end 2021 to a little less than €1.7 billion. Looking at some further balance sheet KPIs, you can see the typical seasonality in the working capital. It is now roughly 1% above year end level at €437 million. We still see rather high inventory levels since we continue to stock material in order to fulfill the customer demand once the availability of semiconductors increases. Net debt ratio of minus 0.5 and our equity ratio of around 36% again demonstrate our continuous very solid balance sheet structure. Finally, let us take a look at our guidance now.

The most important thing first. We did not change the guidance for our financial targets. The first quarter went well, and we did not suffer material and sustainable effects from the war in Ukraine in our operations. Nevertheless, this war and the zero COVID policy in China further increase the uncertainties in the market and the likelihood of other disruptions in the supply chain, and, in addition, to the challenging status quo on the semiconductors. Therefore, we expect Q2 to be a rather difficult quarter and the second half of 2022 will determine how much of the lower volume in H1 we will be able to compensate. Anyhow, we want to cautiously confirm our guidance and leave it unchanged. In the end, the availability of semiconductors and the overall state of supply chains is and will be the limiting factors for Vitesco technologies in the market. However, we had to change the underlying market outlook of our guidance from 8 to 10% growth to now maximum 3 to 5% growth. The main revision had to be made in Europe where we now expect a growth of light vehicle production of 3 to 5%. And we also had to adjust our expectations for the Chinese vehicle production to minus 2 to 0%, also in North America now at 11 to 13% and the rest of the world we had to reduce our expectations for a stronger recovery of these markets as well. Nevertheless, since the worldwide semiconductor shortage is the most important restraining factor for us, we were able to change the market outlook without the need to touch our group guidance. Of course, tailwinds from currency and anticipated price increases are supportive. And with that, I have reached the end of my part of the presentation. Andreas and I are now looking forward to your questions and are happy to answer that. But first back to Heiko.

Q&A

00:25:17 Heiko Eber

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. We would like to offer, as always, all participants the opportunity to ask questions. That is why we kindly ask you to limit yourself to two questions. If time allows, you can, of course ask additional questions after going back into the queue. Operator, we are now ready to take on the first question.

00:25:48 Operator

Thank you. If you have a question for us, because please dial 01 on your telephone keypad now to the queue. Once your name has been announced, you can ask a question.

The first question is from Giulio Pescatore at BNP Exane. Your line is now open.

00:26:20 Giulio Pescatore (BNP Exane)

Hi, morning, thanks for taking my question. The first one on the guidance. Because of the market outlook, the market outlook implies lower growth of about 4%. And probably even more if you adjust for regional exposure How are you able to compensate for this growth? You mentioned effects? You mentioned compensation for rising costs, maybe better out performance. Can you maybe give us a split of how much of that growth is being recovered in other ways? And when we go to the customer compensation, there appears to be a split within competitors. Some of them are describing negotiations as violent, some others as constructive. What are you seeing in terms of how the negotiations are going on your side? Thank you.

00:27:05 Heiko Eber

Thanks, Julio. So, I guess the first question would be for Werner on basically indicating how much of our keeping the sales guidance intact is contributed by FX and passing on material costs to the customers and how much we really can benefit from the still slightly growing market.

00:27:31 Werner Volz

Yes, and thank you for that question. Well, number one, I think we kept our range for the original sales guidance for such reasons, from 8.6 to 9.1, which is a fairly broad range, in order to probably also have some flexibility. Number one, yes, we will see volume, lower volumes as we probably originally have anticipated. Nevertheless, we think that especially currency effects in the size, as we have seen them for the first quarter, will continue through the entire year. And on the other side, we reconfirm our assumption that we will be able to pass on at least 80% of these incurred cost increases, which are in a middle triple-digit range, as we stated earlier. We intend to pass on around at least 80% of these additional costs to our customers and negotiations right now, we are not at the 80% level yet, but we are confident that we will eventually get there.

00:29:12 Andreas Wolf

There, I can only repeat that because the second question was pointing directly in this direction. Yes, we are having discussions with all customers worldwide. Price increases are not so typical in the automotive supply industry, but with the circumstances we are in, material price, raw material price increases, semiconductor price increase, etc., we are confident as Werner just said, that we will achieve at least 80% of coverage means passing through those additional costs on our side to our customers means price increases. So I am quite optimistic that that will work.

00:29:56 Giulio Pescatore

Sorry, on that 80%, is that a one-off payment? Or are you trying to actually renegotiate the contract.

00:30:03 Andreas Wolf

We are basically, without going into too many details, basically repricing our products.

00:30:13 Giulio Pescatore

Perfect. Thank you.

00:30:23 Michael Jacks (Bank of America)

Hi, good morning, Andreas, Werner, Heiko. Thanks for taking my questions. My first one is on EV order intake, where you have clearly had more success in winning RFQs versus your peers. Werner highlighted that scalability was a key underpinning here, which I guess suggests that pricing was a decisive factor? Do you believe that technical specifications had a major role? And how comfortable are you with the margin projections for these, when you do enter into start of production? That is the first question. And the second question is just on contract manufacturing. I appreciate the price increase element there. But if I look at the prospectus, I think you initially expected these revenues to reduce by 50% by 2023. Is this still the case? And if so, is there a specific quarter when we should expect to see a step-down change in this? Thank you.

00:31:23 Andreas Wolf

Maybe, to your first question. Yes, I can confirm again, we were successful in getting all these orders in. I would not link that to technical specifications, in that sense, I would link that to our attractive technology and broad product portfolio. That was the reason why I mentioned that we have that order intake for all products, electric axles, where we were able to sell basically the fourth generation, inverters based on silicon carbide, battery management systems and so on. We have a fresh product portfolio. We invested heavily into innovations. We are modular. We are fast. We are competitive. And that also allows us to not only get those orders, but also be profitable on those orders.

00:32:29 Werner Volz

On contract manufacturing, again, yes, we will see lower profitability, as indicated due to our bilateral agreements with Continental. And that basically is neutral on a bottom line for both parties. But it continues to dilute all the KPIs on … well, it stops, or it reduces further dilutions. Coming to your question on sales. Again, yes, we still keep the old and original plan. And we can confirm that according to the current plan, we see a strong reduction in 2023. And you mentioned around 50%, I think that is the size which is fair to assume. With regards to a specific quarter, I think it will gradually move down. Right now, we have not focused yet on a dedicated specific quarter. That, of course, also depends on how fast eventually the production can be reduced next year. But overall, our target is to reduce sales for contract manufacturing by almost 50%.

00:34:20 Christoph Laskawi (Deutsche Bank)

Good morning. Thank you for taking my questions. The first one will be on the order intake. Obviously, it was very strong in the recent quarters. With EV, still, it can be a bit lumpy. Could you comment please on the RFQs which are in the market and if we could expect further big order wins in the coming quarters or if in your view, the bigger projects are essentially done for this year, and we probably have to wait more towards 2023 in order to see same size tickets being allocated to you. And then, the second question will be on Q2. You already gave a statement in your press release on the volumes that you expect. Obviously, there is high volatility, China, most likely very weak. Could you comment on your expected margin development in Q2? In general, you have two factors, the price pass-throughs, which should be increasing in the coming quarter and then less volumes? Should we expect margins to be slightly down sequentially? Or could they even be flat to slightly up? Thank you.

00:35:31 Andreas Wolf

I would take your first question with regard to order intake. So, if I would simplify your question: you asked, is the game now over and we have to wait for 23 for the next big orders? Or can we expect further major orders? And, how can I say, I would more go to the second, to the latter one, we can expect further major orders. It is running well, currently, for us. I do not want to disclose everything, I always need to throw something new in. But it is not that the order books are now full and we closed them. You can expect further nice information around this topic.

00:36:26 Werner Volz

Okay, with regard to the second question. We expect a challenging second quarter, definitely, coming from the overall lockdown situation mainly in China. And that will have some effects on our top line. And it also will impact our bottom line. We should not expect similar margins as we realized them in Q1, in Q2. Nevertheless, moving forward, right now we expect that we can catch up for these drops in Q2 in the second half. And we also expect to see some positive effects from the recovery on charges coming from the cost increases, which we try to apply over proportionally or higher, of course, since we are not at the 80% level in the first quarter, and we want to achieve the 80% level overall, we should see a positive effect coming from these charges, which eventually also cover retroactively our effects and … I hope that that answers the question. So, on the sales side, again, we should see negative impacts on lower three-digit million-euro amount, and that of course, will cause impacts on our margin effects again, but right now the logic is to recover for that in the second half.

00:39:16 Jose Asumendi (JP Morgan)

(Poor audio quality) Two questions please. First on the orders. Excellent numbers. Could you talk a little bit more about which platforms, maybe, you know, OEMs simply (00:39:30 unclear) Second, R&D what time in the year or quarter do you think R&D will be coming down on an absolute level for the company. And then three, with regards to China, can you talk a little bit about the situation in China and maybe past two or three weeks, is it getting better versus a month ago? Or is it unchanged? Thank you.

00:40:07 Andreas Wolf

Yes, hello, José, good morning. Thanks for your questions. The audio quality was not so good, but I think the first question went in the direction of which platforms, OEMs, we have won with the orders. Unfortunately, we cannot always disclose the customer names. We did that in the case of HMG, where we won the electric axle, the EMR4 as we call it, but other customers are a little bit hesitant therefore, we use descriptions like an American customer, or a global customer, and so on, and more we are not allowed to do. That always has to be aligned with the customers. But what I said before, the orders, which are coming across the world, and the orders are across all platforms, all products, and that makes me really happy. I don't know whether that was directly linked to your second question, José to the to the

R&D sites, quote, the R&D levels come down? In principle, yes, because if we look to our strategy that was mentioned by Werner Volz, that we strongly focus on platforms, then you have basically 60, 70% or so invest of the R&D, the engineering effort into the platforms and only 30 whatsoever percent on the customer side for added patience, software, etc. and that will, over time, help us to reduce in percent of sales, whatever the KPI is, to reduce the R&D costs. That's the big idea, the big concept we had when two or three years back, also that was mentioned, we were sitting down and saying we cannot specifically develop for customers. We have to take out of very intelligent modular approaches, off the shelf, the specific pre-developed items. If not, then we will not be able to control R&D. So, to be short, yes, we expect R&D step by step, in percent of sales, to come down. And the last one was around China, maybe Werner wants to comment on that.

00:42:54 Werner Volz

On China, I think we suffered a very bad month of April. Probably to not hide that situation now in May and also with the call offs for June, we already see a slight improvement. And with that, I think ought to be, careful with my statement, but I would assume that the worst is behind us. And the month of May and June already should go back and come back to normal. Is that okay, Jose?

00:43:44 Jose Asumendi

Just going back to the R&D, the R&D peaking, it will be 22, 23, what do you think does the R&D expenditure peak for the year?

00:43:56 Andreas Wolf

Sorry, Jose, I couldn't understand, or we couldn't hear you.

00:44:02 Jose Asumendi

sorry. The research and development costs. In which year do you think they peak? Do they peak in 2022? Or do they peak maybe next year?

00:44:16 Andreas Wolf

Well, we do not guide on R&D in general. But, just as a general remark, we try to stick with our absolute R&D numbers at the moment as we had it, because we are still in the transformation process. So, we are still shifting resources from old business into the new business. However, if we continue to see this over warming order intake that eventually, of course will lead to the fact that we then also have to increase, at least in absolute terms, whether that is then also in percentage of sales, but in absolute terms, our R&D efforts. Is that, okay, Jose?

00:45:25 Jose Asumendi

Thank you very much.

00:45:41 Philipp König (Goldman Sachs)

Yes, thank you very much for taking my questions. My first question is just sort of on the state of the electric powertrain markets. When you are competing for the RFQs today, and maybe you are comparing that to 2, 3, 4 years ago, do you feel the market is more competitive, less competitive? Are you seeing same other companies that you are competing with? Has anything changed in terms of the negotiations with the OEMs? Any sort of commentary there would be great. And then my second question is just on the semiconductor shortage. What are you seeing today? Is your view still that we are seeing improvements in the second half of the year and then a gradual improvement as we approach 2023? Has that changed at all, from your view from the full year earnings? Thank you very much.

00:46:31 Andreas Wolf

Hello Philip. I will answer both questions. Maybe starting with your second one, my view is still unchanged. I would already see a slight improvement second half of this year 2022. And the more we go into 23, we should come back to a more normal situation. So that view did not change, because we, as explained in other rounds, we see that capacity is extended, we see the feedback of the coverages for 23 or the second half of this year, that all will lead to an improvement of the overall situation. Now to the e-powertrain markets. Yes, there is an acceleration. First of all, there is an acceleration, because we see, looking to the next years, that the BEVs will have a significantly higher share than we originally thought, and 'we' is the whole industry. And also, typically market databases like IHS see now a significantly higher share of BEVs. This leads to this huge order intakes and contracts and RFQs in the market. But I would repeat that there are not so many big suppliers in the market like us. So that, yes, due to the size of those possible orders, there is strong competition. But we are not fighting against hundreds of competitors or 10 or 15. It is a handful of known competitors. And due to the fact that we were able to base all the order intakes we have reported so far on our platforms, we are also competitors and have positive margins on them.

00:48:43 Sanjay Bhagwani (Citi)

Thank you, gentlemen for taking my question as well. First of all, congratulations for the new orders. Especially in battery management system. It is a big and very impressive. So, I have got two questions as well. My first one is, now that basically you are fully booked to achieve these 2025 ET revenue target of 2 billion. And you also confirm that the activity is still quite strong. When do you think you will realize these midterm targets? Because if you, like, whatever orders you receive in the next couple of quarters or next three, four quarters are still likely to be recognized as revenue in 2025. So that is my first question. And my second question is on the pricing and pass through of these electrification contracts. So, just wanted to have a view on let's say, the prices of these electronics components continue to rise. So, my question is like, how is the past through on these new contracts decided? Is there any difference? If you can provide any color on that, like if there are any prices, let's say, 10% higher next year. And so how does that reflect on a product which is just starting production in 2024, for example?

00:50:19 Andreas Wolf

Very good question. Maybe I will start with the second one. So, first of all, new contracts, new orders are based on the new cost situation. And it is clearly outspoken if, for whatever reason, the market will come down and the prices for components come down, then obviously, that will have an impact on the prices. But we are not quoting, I want to be very precise, we are not quoting with old material prices, we are quoting based on the current know how, the current price level, so that we do not have the problem when this product will be produced in 24 or start of production that we then have to renegotiate the price level. It is already built in. So, this is somehow protecting obviously our bottom line. Back to your first question. Yes. I also mentioned that the sales target for the business unit Electrification Technology of 2 billion, is now fully booked. And yes, if you make your mathematics, you might ask yourself, is it not even overbooked? Can numbers be higher, etc. I did not have the time to register all this properly, so far, but we will do so when we have our next capital market day in October. And we will certainly talk about what this order intake means for the midterm outlook. Talking about one specific business unit like electrification technology, or the overall sales, we will see for Vitesco Technologies. So I ask you for a little bit of patience. I know it is long until October, but probably we will have some news here.

00:52:22 Sanjay Bhagwani

Thank you. I have actually got a follow up on the first one, if I may. So, I understood that you basically take into account the current material prices? And also, is there a pass through, let's say, if material prices next year are, let's say 5%, higher than those ordered in 24, they still go on the same price right now? Or is there some flexibility there, of passing this through?

00:52:54 Andreas Wolf

Maybe, to answer this question, first of all, it depends on what we are talking about. In many cases, we have so called raw material clauses in. So we have a reference number for steel, palladium, and so on. And then this reference number is used to adjust the price level. That is quite normal in the automotive supply industry. For the semiconductors, it is a bit different, because we then explain which parts were used, on which price level and in some cases, we have clauses, that if the market calms down, then we have to revisit the prices and then adjust due to lower cost, also prices accordingly. Depends on the customers. But due to the fact that the whole industry was overwhelmed by those price increases, we take the time to detail, in our contracts, what is in and what is out, and how do we deal with prices going up or material cost prices going up or even also, which I would expect, over time going down?

00:54:22 Operator

There are no further questions at the moment. For closing remarks, I give back to Heiko Eber.

00:54:28 Heiko Eber

Thank you very much. So again, first thanks to Andreas and Werner for of course, answering all the questions. But a big thank you to all of you for your interest in Vitesco Technologies. Thank you for your time. And also thank you for the very fruitful discussion. With this, let me close today's call. Nevertheless, of course Max, Jens and myself are happy to answer any question you might have after our session. With this, have a good rest of the day and hopefully a relaxing weekend. Thank you.

00:55:05 Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.