

Vitesco-Technologies-Group-AG-Conference-Call-Q1-2024
File length: 00:23:37

O Operator

HE Heiko Eber

AW Andreas Wolf

SN Sabine Nitzsche

SK Sian Keegan

O [00:00] Good morning ladies and gentlemen, and welcome to the Vitesco Technologies Group AG Conference Call Q1 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 very much, operator. Ladies and gentlemen, I'm very happy to welcome you to our today's call on the financial results of the first quarter 2024. The press release, the presentation and our quarterly financial statement have been published today at 7:00 AM Central European Time on our investor relations homepage. Furthermore, as usual, you will find a short summary of the most important KPIs on a quarterly and annual basis for your convenience. And for sure, we will afterwards provide a recording of this webcast. [01:00] Now, before we have a look at today's agenda, I again have to ask you to take notice of our well-known disclaimer. And looking at the agenda today, we have Andreas Wolf, our CEO, and Sabine Nitzsche, our CFO. They both (01:18) the webcast to guide you through the key information in our presentation on group and divisional level. And of course, in addition, we will talk about our cash flow and balance sheet. Afterwards, both will be available for our Q and A session, but now without further ado, let be hand over to our CEO, Andreas.

AW Thank you Heiko, and thank you very much ladies and gentlemen for joining us today. The first quarter of the year 2024 is in the books. Unfortunately, the market continue to be challenging. Global light vehicle [02:00] production, especially for electric vehicles, saw more or less a flattish development. However, we managed to manoeuvre our company smoothly through the rough sea. This resulted in a solid quarter for the Vitesco Technologies. But let me guide you through our key figures step by step. Our sales came in at around two billion euros and our adjusted EBIT margin stood at 1.7%. Speaking about our free cash flow, it was in line with our expectations due mainly to special effects related to contract manufacturing, which we mentioned already in our fiscal year 2023 call. Given the change in our form of favourable payment terms and the return of spinoff related advance payments to Continental, this figure ends up quite negative.

Knowing that deliveries of battery [03:00] electric vehicles in the European market remained at previous year's level and due to the postponement of some project ramp ups in all regions, in Q1 2024, sales in electrification were lower than in Q1 2023. Also, to be noted, some customers remain to be cautious with orders and projected volumes. We have seen quite some shifts in the markets to a later date. But we are very confident to see an improvement not only in electrification sales starting in quarter two, but also in the order intake level for the full year

2024. The overall market dynamic stays intact. Latest breakthroughs in battery technology will support this trend. I would like to make a final point on this slide. At both AGMs two weeks ago, Vitesco Technologies [04:00] and Schaeffler shareholders have voted in favour of the pending merger. This means for us we are fully engaged in the next steps to form a new bigger entity fully focused on future technologies according to our stronger together philosophy.

Let me elaborate a bit more on our numbers. The two billion sales are corresponding to a decrease of about 14% compared to Q1 2023. However, the sales development at the beginning of the year is in line with our expectations considering the lack of sales from divested business and the expected decline in contract manufacturing, which decreased by 185 million euros year on year. Supported by less dilutive Non-Core sales, we managed to increase our adjusted EBIT margin to 1.7%. [05:00] Our CapEx of 4.2% of sales remain constant when compared to Q1 2023. One aspect I would like to highlight again, we still have many electrification product launches in 2024, which support our significant growth in electrification. We are fully committed to spend our money in the right area. Our free cash flow was burdened by different special effects as already explained on the previous slide. And a final remark on our equity ratio with about 38%, it remains at a very solid level.

Let's move on to the market view before I hand over to Sabine for a deeper financial insight in a minute. The worldwide light vehicle production saw a flat development in the first quarter of 2024. Only China and North America saw an increase in volumes, however, [06:00] 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 13.9%. But I never get tired of repeating, this figure includes again, our declining sales of Non-Core business and contract manufacturing, as well as negative exchange rate effects. Organically our electrification and Core ICEs outgrew the global light vehicle production by about 4.5 percentage points. So all in all, I can say with full conviction that we have steered our company pretty solidly in a turbulent environment. And with that, you will now receive more insights into our financials from our CFO, Sabine Nitzsche.

SN [07:00] Thank you, Andreas, and warm welcome also from my side. Let us now take a closer look at our top and bottom-line development at group level. Since Andreas already explained our Core KPIs, I will keep this session rather short and only focus on the most relevant aspects. Our organic sales growth was at -7.5%. That excludes currency, the latest headwind of 2.1 percentage points as well as consolidation effects. But I would like to highlight our Core technologies including both electrification and Core ICE. Here we saw a revenue of about 1.6 billion euros and the further improved adjusted EBIT margin of 1.7%. [08:00] Also, please keep in mind that we ramped-down our Non-Core business by more than 40%, including consolidation effects from divested businesses, for example in Italy and negative effects effect. Those three topics dragged down our top line development. To sum it up, our Q1 was very much in line with our expectations.

Let's further look at the results of each division. We will start as usual with our Powertrain Solutions division. The main reason for declining sales was as mentioned, the planned ramp-down of all Non-Core activities. Inside the segment, contract manufacturing sales alone were down by about 75% [09:00] year over year, and the debt all in line with our expectations. Overall, sales came in at around 1.3 billion euros with an improved adjusted EBIT margin of 8.9%. And I have to say very impressive is the profitability of our Core ICE business within this division. Even though

our sales decline to 825 million euros, we managed to further improve our adjusted EBIT margin to 13.4%. These numbers again underline the resilience and strength of our Core ICE portfolio.

Now let's discuss our Electrification Solutions division. As in the past, we continue to increase our sales, which especially was driven by **[10:00]** our performance in Europe. Our organic sales growth of more than 4% equates to an outperformance of over five percentage points compared to the global light vehicle production. And with regards to profitability, we managed to keep our adjusted EBIT margin rather flat at about -10%. This number reflects amongst others, the increased cost which reveals our various project ramp-ups in electrification. And one note on our Core ICE business, we further improve the adjusted EBIT margin to break-even level. This again demonstrates our efforts to turn this business back to our former profitability levels. And as you may remember, this figure was negative in the first quarter 2023.

[11:00] Before we closed the financial reporting section of our top and bottom-line development, I would like to provide more transparency on the categories, electrification, Core ICE and Non-Core. Given the challenging market environment for battery electric vehicles and due to the postponement of some project ramp-up across all regions in Q1 '24, sales and profitability and electrification were below the previous year's level. However, I am very confident that we will see a step up in both figures for Q2 2024. As already experienced at the end of last year, there might be near term ups and downs, but the growth for electrification is still intact. **[12:00]** This will be clearly visible in the remainder of the year. We believe that we are well positioned to succeed across the EV landscape on a global basis. Core ICE sales came in at 1.3 billion euros, similar to Q1 2023. But we saw an incremental increase in our adjusted EBIT margin to 7.5% from previous year's 5.2%, which reflects our resilient Core ICE business. This again demonstrates even when electrification growth is under pressure, it is offset by stronger performance in our Core ICE portfolio. And last but not least, the ramp-down of our Non-Core business is accelerating as planned. Here our adjusted EBIT payment **[13:00]** is slightly positive.

So let's summarize this slide, the three key statements. First, within the electrification area, the hiccups we're currently seeing will not stay for long. We will regain traction in Q2 '24 and onwards. Our very resilient Core ICE business will be gradual step up, providing attractive EBIT margins. And lastly, the ramp-down of non-core, especially in contract manufacturing, is progressing according to plan, as we have once again proven in this quarter. On slide 11, I want to provide some insights on our cash development. As you can see, our operating cash flow came in lower compared to last year's quarter. **[14:00]** To a large extent, this was driven by lower top line development and higher working capital. Our investments increased resulting in an investing cash flow of -134 million euros. This was mainly due to higher spendings for project ramp-up in the area of electrification. And as a result, our free cash flow for the period came in at -91 million euros and was again in line with our expectations. And again, special effects related to contract manufacturing led to an outflow of cash in this quarter. Talking about our financing cash flow. This was characterized by utilization of a loan agreement which was provided by Schaeffler. Hence it came in positive at 66 million euro. **[15:00]** This all resulted in a continuous solid cash situation.

So now let's move on to our balance sheet structure. It has not changed much compared to previous conference calls, which means we still maintain a very solid structure. Our net working capital intensity increased to 6.3% of sales, mainly driven by a decrease in accounts payable related to contract manufacturing. The net working capital intensity will continue to trend around

the anticipated midterm range of five to 6% of sales. The net debt to adjusted EBITDA ratio remain stable at -0.3. Our net liquidity position of 228 million euros underline also **[16:00]** very comfortable cash situation despite the phase out of our Non-Core business. On top of that, we still have undrawn credit lines so that our available liquidity gross remains north of 1.8 billion euros. And to finalize with our equity ratio, it remains at a very solid level of about 38%. As you can see, we continue to have a very robust balance sheet structure and cash position.

The most important message on this slide is, we confirm our guidance for the fiscal year 2024. This applies not only to our global light vehicle production forecast, which can be seen on the right-hand side, but also to our guidance on a group level. When talking **[17:00]** about our group sales, our strong anticipated growth in electrification and Core ICE will not compensate for the almost 1 billion euros of plant decrease in Non-Core activities. (17:15) full year ranging between 8.3 to 8.8 billion euros. The adjusted EBIT margin will presumably come in at 4.5 to 5%. This clearly demonstrates our transformational brokers and also reflects our ambition to achieve break-even within our electrification portfolio.

Due to the high number of product launches in 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. **[18:00]** Coming over to our free cash flow. This is expected to be around -350 million euros. Given the change in our former favourable payment terms and the return of spinoff related advanced payment to Continental, this figure ends up quite negative. And please remember, the outlook for the fiscal year 2024 does not consider any effects resolving from the integration into Schaeffler. Overall, we remain our path towards electrification while ramping down our Non-Core business. This can be ultimately seen in our gradually improving profitability, which will be supported by our anticipated electrification break-even target in 2024. **[19:00]** And with that, I have reached the end of my presentation. Thank you very much for listening. And now back to you, Heiko.

- HE Thank you very much, Sabine. Thank you very much, Andreas. Ladies and gentlemen, we will shortly enter our Q and A session. Before I hand over to the operator for questions, allow me one short personal note. As already mentioned yesterday in the Schaeffler earnings call, I will already go ahead and take over the IR team at Schaeffler effective June 1st. A big thank you to all of you for the very open and constructive and trustful cooperation over the last years. Thanks to Andreas and Sabine for their benchmark leadership. And a special thanks to the best IR team ever. See you soon on the green side. And now, **[20:00]** back to the operator.
- O Thank you very much. Dear ladies and gentlemen, we are starting the Q and A session now. So if you are dialled in the conference call and have a question for our speakers, please press nine, followed by the star key on your telephone keypad. Once your name has been announced, you can ask a question. If you find your question is answered before it is your turn to speak, you may press nine, followed by the star key a second time. So one moment please for the first question. At the moment, there are no questions incoming. So again, if you wish to state a question, please press nine, star on your telephone keypad. **[21:00]** All right. Dear ladies and gentlemen, there seem to be no questions incoming. So I'm handing the floor back over to the host. Oh no, I'm so sorry. Right now one question just dropped. It's of Sian Keegan of Goldman Sachs. One moment please. Please go ahead.
- SK Hi. Good morning. Thanks for taking my question. Can you hear me now?

O Yes, we can.

SK Perfect. I was wondering if perhaps you could help with how to think about your path to the break-even in electrification this year. If I remember correctly, you're looking to reach a level around two billion in revenues in order to be able to achieve that break-even. Obviously given the 269 million posted at 1Q, this leaves quite some way to go over the last nine months. So I guess what I'm trying to understand is whether you still expect to reach that two billion [22:00] in sales in 2024 or if perhaps you scope to reach break-even on the four-year basis at a lower level of electrification sales?

AW Maybe I can answer that question. Yes, over the last years we set two billion somehow the landmark that we can do a break-even. But we have anticipated and seen that sales might come in a little bit lower and therefore we also adjusted our cost basis to it. So even having a lower sales than two billion, we continue to target the break even in 2024.

HE Thanks, Andreas. That was a clear statement

AW As always. Yes.

SK That's great. Thank you. Very helpful.

HE Thank you.

O Thank you very much. So at the moment there are no further questions in the queue, [23:00] so now I do hand over the floor back to Heiko Eber.

HE Thank you. So as the number of questions does not really come as a surprise given our, let's say, special situation. I guess we should close today's call. Nevertheless, if there are more questions coming to your mind afterwards, feel free to reach out to our IR team. So thanks for your interest in Vitesco. Thanks to the team for the preparation. Have a good day, and talk to you soon. Thank you.