VITESCO TECHNOLOGIES GROUP AG - ANALYSTS CONFERENCE

TRANSCRIPTION

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PRESENTATION

[video]
02:08 HEIKO EBER

Ladies and gentlemen, I'm very happy to welcome you to a first-time event again. We are here today to present and discuss Vitesco Technologies' first full-year results as a standalone company. The presentation and our annual report have been published today at 7:00 a.m. CET on our Investor Relations website, in the reports and presentations section. Andreas Wolf, our CEO, and our CFO Werner Volz are here to guide us through our presentation of the financial results. Afterwards, both gentlemen will be also available for a Q&A opportunity. And as always, we highly appreciate your feedback. Please feel invited to reach out to the Vitesco IR team. We collect your thoughts and suggestions and jointly work on continuously improving. And now, without further ado, let me hand over to our CEO, Andreas Wolf.

03:16 ANDREAS WOLF

Thank you, Heiko. And thank you very much, ladies and gentlemen for joining today. Unfortunately, we had to choose this virtual format. As you know, physical meetings are still only possible to a very limited extent, but I'm sure you will like this presentation, followed by a Q&A session. Anyhow, I'm glad to be here in front of you today. But before we start, in the name of the executive board, let me express our deepest sympathy with all people affected by the Russian war in the Ukraine. We are really shocked. In the name of Vitesco Technologies, I can only call on the Russian Government to end this war immediately. After having touched on such a difficult issue, I now need to find a way to switch to my presentation.

Let me try it like this. 2021 was a successful year. We ended with more than €8.3 billion sales. Our adjusted EBIT margin reach 1.8%, and all this in spite of COVID-19 chip shortages, supply chain disruptions, and material price increases. Next point: transformation to electrification. We made good progress. Let me give you three examples. Profitability: our electrification technology business unit increased the profitability margin by almost 40 percentage points. Sales: the overall electrification sales is now contributing more than 10% of total sales. Order intake: we secured €5.1 billion for electrification and €11.2 billion in total. And our electrification order intake was secured across our complete product portfolio. We were especially successful in the power electronics business. We won orders of more than €2.5 billion, more than 50% of the awarded business was linked to SiC high-voltage technology. In addition, our e-axle drive business secured around €1.1 billion of order intake. This is a very good proof point of the ongoing insourcing discussions. There is plenty of business for suppliers to be won. On top of that, our business units, Electronic Controls and Sensing & Actuation also contributed with an order intake of more than €1 billion in the electrification area. You can see two examples here.

Overall, we have now more than €51 billion of order backlog in our books. The electrification part now accounts for 1/3 already. In addition, the non-core ICE part is steadily declining. The strong momentum can also be seen in the book-to-bill ratio of our business unit electrification technology. It stood at 6.9. However, the group book-to-bill ratio was at 1.5, very strong as well. As you might remember, the sales target for our business unit electrification technology is more than €2 billion in 2025. With the order intake of 2021, we have now covered more than 90% of this forecasted sale. Furthermore, we are very confident to close the small remaining gap in the next months.

By the way, we started even better into 2022. We managed to secure major additional business awards, for example on the EMR4. This is our latest, more compact, more efficient generation of integrated e-axle drives. A global OEM awarded us just recently with platform business of around €2 billion for the 400-volt SiC technology.

That means we continue to prove that OEMs trust in Vitesco Technologies when it comes to the electric drive. And as you can imagine, there's more to come. The year is not yet over. Electrification will shape our future business. We want to reflect this also with a new business structure. Starting in 2023, we focus on two divisions instead of four business units. Klaus Hau will head the division Powertrain Solutions. He will continue to drive the biggest part of our core ICE technologies towards value and cash generation in the changing market environment. In addition, Klaus Hau will be responsible for managing the continuing phase out of the non-core technologies.

The division Electrification Solutions, which will be headed by Thomas Stierle, will comprise all products which are either already electrified today or will be electrified tomorrow. We are convinced that this set-up is the best way to reflect, in the mid-term to long-term basis, the development of Vitesco Technologies in the most comprehensive way. To provide even more details to the financial community, we will also continue to report our electrified business as part of the new divisional structure. This will be corresponding to the €888 million for fiscal year 2021 I just mentioned. We will also continuously report our progress. On top of that, we are planning to host a capital market day this fall. Here we will provide more details on the structural changes and updated mid-term targets for the new divisions, which we are currently finalizing. On group level however, our mid-term targets remain intact.

Let us now focus on sustainability – a very important topic. During the last Capital Market Day, we communicated ambitious ESG targets for Vitesco Technologies. Now, we can finally also provide you with a status quo. We have defined five focus areas of sustainability, which you can see here. More details on other material topics can be found in our sustainability report. Our electrified business, the KPI for clean mobility, now accounts for almost €900 million. That corresponds to 10.6% of the group sales. With our products, we are contributing to the Paris Climate Agreement. We want to achieve carbon neutrality along the entire value chain. Therefore, we are working on Vitesco's climate neutrality until 2030 at the latest. Right now, we have achieved more than 90%. However, we will go well beyond our direct environmental impact. By 2040 we want to be climate neutral considering Scope 1, 2, 3 emissions. We want to ensure this along our supply chain, optimizing our products regarding circularity and by using our own resources efficiently. To achieve our ambitious goals, we also need to be an attractive employer. That means, for example, fostering fair working conditions and diversity across all locations. Currently, the female share in leadership positions is at 13.6% for the whole group. This is an area where we further need to improve.

But let us now take a closer look at the financials. We gave our first guidance as a standalone group, together with the Q3 results in November. As you might remember, those were times of high uncertainty in the market. Overall, the market development was a little bit more favorable than we expected, except for Europe. Nevertheless, we managed to achieve the mid to upper end of our guidance in all KPIs. On the adjusted EBIT margin, we even exceeded the 1.5% to 1.7% span which we had communicated – one of the reasons that led to the pre-release on February 15th. The special effects, basically the factors our EBIT is adjusted for, were below the range we had anticipated. This was mainly due to the reversal of impairment losses in our high-voltage electrification business. Despite the difficult market environment in Europe, we managed to increase our sales by 4% versus 2020. We also significantly increased our profitability by 3%, to 1.8%. The increase in profitability also contributed to our positive free cash flow of €113 million in fiscal year 2021. Offsetting factors mainly came from increases in inventories. Our equity ratio even improved due to the spin-off from Continental. As you can see, it is now at 36.3% for the year-end of 2021.

Let us now talk about the market on Slide 12. As I already mentioned, the semiconductor shortages led to a much slower recovery of the worldwide slightly weaker production than we hoped for at the beginning of 2021. Europe was by far the weakest market in a very challenging environment. The Asian countries contributed the strongest growth. Nevertheless, we were able to outperform the worldwide light vehicle production, despite our high European sales exposure. In fact, we were able to increase our sales in an overall decreasing European market. On a group level, we outgrew the market by 0.7% based on organic sales. Our core technologies were able to outperform by almost 4%. As you can already see, a successful year 2021. And with that, let me now hand over to our CFO, Werner Volz, who will dive deeper into our financials for you. Werner, the stage is yours.

15:43 WERNER VOLZ

Thank you very much, Andreas. As you know, we have already pre-released the figures on February 21st. Therefore, I will keep this session rather short and only talk about the most relevant aspects. Please feel free to use the question-and-answer opportunity if you want to ask or discuss any additional topics. Andreas has already mentioned it: we managed to significantly increase our profitability to 1.8%. Due to shortages in the supply chains, our organic sales growth was at only 4.1%, much lower than expected at the beginning of the year. We were able to offset almost €150 million from semiconductor shortage and an additional €45 million from raw material headwinds.

Let's take now a look at the margin without our business unit Electrification Technology, which still reported significant losses, in line with our plan due to the required pre-investments. The 5.4% adjusted EBIT margin is quite solid in this environment, but the business unit Electrification Technology also showed significant improvements. Sales growth was at almost 45%, and we also managed to increase our adjusted EBIT margin by almost 40 percentage points. The reversal of previous impairment losses in Q4 had no effect on the adjusted EBIT. In addition, we reported a positive gross margin for the first time in the history of our electrification business. The main sales driver for Electrification Technology in 2021 was our strong positioning in Europe, in the European market, but we will continue to grow in all our key regions, which can be seen in our 2021 order intake. We managed to secure business from Chinese, Asian, North American, and European customers. Overall, the order intake came in at €4 billion for ET, at a book-to-bill ratio of 6.9.

Let us now move to our business unit Electronic Controls. As you can see on the slide, both top and bottom line were significantly impacted by the supply situation, especially in the semiconductor area. Overall, we had to deal with a burden from premium freights and higher prices of €60 million in 2021. Combined with the lost volumes, Electronic Controls was the business unit most impacted by the semiconductor shortage. Despite these headwinds and the reduction in our sales, Electronic Controls was able to increase its profitability mainly due to our transformational progress and the corresponding operational improvements. As a consequence, we also had less warranty expenses compared to the previous year. So the core of business unit Electronic Controls contributed €2.2 billion of sales at a margin of 5.5%.

Now, let's move on to our business unit Sensing & Actuation. The headwinds from semiconductor shortage we experienced in Sensing & Actuation were of a similar size and magnitude as in Electronics Controls. However, we were able to support the increased demand for emission legislation in all major markets by covering shortages with broker parts, and to increase our organic sales by 10.8%. The strong performance of our core technologies, with 10.5% margin at €2.5 billion sales, helped us to significantly increase our profitability in Sensing & Actuation.

Finally, let's look at Contract Manufacturing. We continued our phase-out. The overall market rebounds stalled the phase out a little bit. However, the sales decreased by more than 5% versus 2020. The adjusted EBIT came in at 4.1%. This effect was overall offset on group level, as several times explained, because of the goods we purchased from Continental's contract manufacturing on the other side. In the next months, we will see a gradual decline of the adjusted EBIT margin. Our bilateral agreements foresee a certain mark-up reduction on both sides, on the Continental side and on our side. This will further decrease the margin dilution. Overall, the group impact of Contract Manufacturing will remain neutral.

Let us now focus on our cash flow profile on Slide 18. As you can see, we managed to significantly increase the operating cash flow. To a large extent, this was driven by the operational improvement from our business units. In addition, we managed to keep the working capital impact on our cash flow neutral for fiscal year 2021, despite the increase in inventories. The slightly higher CapEx in '21 was overcompensated by cash inflows, which mainly came from selling parts of our Korean entity back to Continental. Also, the transfer of manufacturing lines to Continental due to the contract manufacturing phase-out led to a cash inflow. Overall, our free cash flow came in at €113 million. The positive financing cash flow of €225 million is still mainly related to spin-off transactions with Continental. The financing cash flow of -7 in Q4 '21 was no longer impacted by such spin-off transactions. Therefore, we think this is better reflection of a representative financing cash flow moving forward.

Let's come back to the just mentioned spin-off transactions with Continental, mainly the end of cash pooling with Continental. That also drove the increase of our cash position to €614 million at the end of 2021. With that strong cash position, we did not draw obviously our €1 billion RCF at all. Consequently, our available liquidity amounted to €1.6 billion. As a side note, we managed to place a Schuldschein loan of €200 million in Q1 2022 to partially replace the RCF and improve our financial flexibility. With that, we took the first step of diversifying the mix of our financing instruments.

As a final point on our '21 financials, let us take a quick look at the balance sheet structure now. Our networking capital ratio slightly increased to 4.4% in 2001, mainly driven by the increase in inventories. Our net debt to adjusted EBITDA ratio decreased from -1 to -0.5, predominantly because of our increased adjusted EBITDA, while our net debt is actually still a net liquidity of €345 million. The decrease of our balance sheet total was mainly related to spin-off effects, and also contributed to an increase in our equity ratio, which now stands at 36.3%. As you can see, we continue to have a very strong balance sheet structure and cash position, despite the second COVID-19-affected business year in a row.

Let me come to our guidance for 2022 now, which we have to put under a big disclaimer. We and the entire industry are currently not able to estimate the full effects that the war in Ukraine will have on our markets and consequently also on Vitesco Technologies. Therefore, this guidance is not reflecting potential impacts of the war in Ukraine – not reflecting on Vitesco Technologies, not reflecting on the worldwide supply chains and not reflecting on the vehicle markets. Please keep that in mind when we now discuss the outlook itself. The underlying assumption is we expect a growth of around 8% to 10% for the worldwide light vehicle production. We anticipate the semiconductor situation to gradually ease starting in H2, so we also expect our sales to grow in 2022. Our outlook foresees sales of €8.6 billion to €9.1 billion. Please keep in mind that this also includes phase-out effects of non-core ICE technologies and contract manufacturing. The adjusted EBIT margin will presumably amount to 2.2% to 2.7%. This includes net headwinds from semiconductor shortage, material price increases, and wage inflation of a high double-digit million-euro amount. The gross impact of all these effects, of course, is materially higher. However, we are in close negotiations with our customers regarding the handling of costs which might not be automatically passed through via price clauses in our contracts. We expect our CapEx next year to be around 6% for the entire fiscal year, of course, fully focused on our core technologies and our electrification business. With that, we're confident to achieve a free cash flow of more than €50 million in 2022. This does also include restructuring payments, which we anticipate to be in the mid-double-digit million area. On a business unit level, we anticipate that both sales and adjusted EBIT will significantly increase in our traditional business units. Contract Manufacturing will continue to significantly decrease in both sales and adjusted EBIT, and this is in line with our phase-out plan. But let me repeat: this outlook, again, is not reflecting potential impacts of the war in Ukraine on Vitesco Technologies and our markets. With that, we have reached the end of today's presentation. And now, we are very glad to answer your questions. Heiko.

29:42 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. As we would like to offer all participants the opportunity to ask questions, that's 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.

30:17 OPERATOR

Thank you. Ladies and gentlemen, we will now begin our question-and-answer session. If you have a question for our speakers, please dial 0 and 1 on your telephone keypad now to enter the queue. 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 can dial 0 and 2 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. And if you are listening via the PC, please mute the loudspeakers while asking your question. One moment, please, for the first question.

The first question is from Michael Jacks, Banks of America. Your line is now open. Please go ahead.

I think we lost his line again. Apologies about that.

So we just go on to the next question, then. Christoph Laskawi, Deutsche Bank. Your line is now open. Please go ahead.

31:11 HEIKO EBER

Very good. Hi, Christoph. How are you?

31:13 CHRISTOPH LASKAWI

Hey. I'm good, thank you. Thank you for taking my questions as well. I'll limit myself to two blocks, then. The first one will be on volumes. I appreciate that the guidance is coming with the disclaimer that there is no impact so far from the war in the Ukraine. Still, when looking at your market assumption of 8% to 10% growth, which was the underlying base, I understand that was actually fairly optimistic compared to what others have guided. Could you, as a first comment, tell us a bit more about the current trading that you're seeing, especially also in light of BEV plants being shut down by customers in Germany – now they're ramping back up – just in terms of volumes and volatility?

And then the second block would be on the order intake that you have for your electrification business. Obviously, you have announced quite a lot of big order wins. Would you be able to quantify a win rate or market share in that field? And could you also potentially elaborate a bit on, at what margin those orders come over the life cycle of the project? Simply because, in the end, we see competitors commenting about extremely fierce competition, essentially irrational pricing for some projects. That will be highly appreciated. Thank you.

32:47 ANDREAS WOLF

Maybe I start directly with the second question. So, as some times already mentioned, we are winning significant orders. Just to repeat that last year we won €5.1 billion. I just said in my short speech that we won another huge contract of €2 billion in the first month now. And it continues like that. That's why I said the year is not yet over with the visibility we have today. I'm very optimistic.

Now, looking to the margins, yes, it's a fierce competition, but so far, we are able to win all those contracts with a positive margin. And it's clear and we explained that in other rounds when you when a €2 billion order, the margins differ slightly from a small business where you win a €10 million or €20 million contract. But all in all, we are fine and in line with our plans.

Now back to the first question, the volumes. Quite optimistic? I don't know. But I would say that the Ukraine war is just on and I'm in contact with all major customers. I'm in task forces at Volkswagen, BMW, Daimler, and so on. And what I see is yes, there were impacts, and yes, there were also locations down for a couple of days or reduced number of shifts, but I also see they are recovering again. So in the products we are delivering to those customers, we don't really see a deep drop. And that's why – maybe that's my nature – I'm optimistic that the impact overall on the automotive industry coming from the Ukraine war is relatively limited. But let's see. Therefore, we had that big disclaimer in. Nobody knows what really happens, but with what I see, I'm optimistic that it will not be a huge impact.

35:01 CHRISTOPH LASKAWI

Thank you. A follow-up, if I may, on your comment that the margin is positive. Would that be on group profitability level, roughly? And just considering the current environment we are in, where raw material prices spike quite extremely, is there anything that changed in the way you structured contracts with your clients to account for the volatility and input prices? Or is it still the same like we had it one to one-and-a-half years ago?

35:31 ANDREAS WOLF

No. First of all, the current quotes are based on the current knowledge of the material prices. So what we are not doing is we do as if we are still in 2019, and then quote on this basis. So we are already taking into account increases we see on raw materials, but also on the electronic components side. What I see overall in the industry is that, yes, our OEMs our customers are more and more interested in also putting those possible price increases or decreases – who knows what will happen in the next one to three years? – into contracts, and that they have a reference point already now when those prices might fluctuate.

36:23 OPERATOR

And we'll try again with Michael Jacks, Bank of America. Your line is now open again.

36:27 HEIKO EBER

Hello, Michael. Can you hear us now?

36:30 MICHAEL JACKS

Yes, I can hear you. Apologies. I got cut off. I've two questions, if you don't mind. My first one is, again, just going back to order intake. Factoring in the latest €2 billion intake, where does that position you relative to the 2025 target now, if you were at 90% at year-end? It seems like it will take you now over the 100% mark for 2025.

And just secondary to that, will this additional intake have implications for ramp-up costs and your break-even expectations? That's two questions put in one. And then secondly, just on outperformance, I just want to clarify, you mentioned 4% outperformance by the core technologies business, but Slide 4 seems to indicate something closer to 6%–7%. And what level of outperformance is assumed in your guidance for the core business? Thank you.

37:26 ANDREAS WOLF

Maybe I take the first two questions, and for the outperformance, you, Werner, will answer. So first of all, that's a good question. So I said that, with the order intake in 2021, the sales which we are projecting for the business unit Electrification Technology is covered by 90%. We did not yet make the math, but I can tell you that we will be able to close the gap completely. So what we said also during the Capital Markets Day, €2 billion mid-term is basically now secured by all the orders on hand, be it the order intake in 2021 or the €2 billion I just reported. Now, what does that mean for the ramp-up? It was our plan to move to this €2 billion, and we needed all the orders to make it happen. So it will basically not change our plans in regards to the sales and also in regards to the break-even. Just one side note: we are already in 2022. We talk about mid-term. Mid-term is ’25 for the break-even. So all orders which might come now also during the rest of the year, we'll see its start of production more around ’25, late ’25 or ’26. So it will not have really a huge impact on this very important year for us, but we will see impacts then for the further outlook. Thank you.

39:10 WERNER VOLZ

Probably with regard to the outperformance in 2022, we basically doubled the market growth with our core technologies in 2021. So that assumes and also implies that we had strong ramp-ups and new business ongoing in 2021. We expect our core business also to outperform the market in 2022, but probably not twice the size, as we saw that in 2021.

39:59 OPERATOR

And the next question is from Sanjay Bhagwani, Citi. Your line is now open. Please go ahead.

40:02 HEIKO EBER

Hello, Sanjay. How are you?

40:05 SANJAY BHAGWANI

I'm good. How are you?

40:06 HEIKO EBER

Very good. Thanks for your call.

40:09 SANJAY BHAGWANI

Thank you. Thank you, gentlemen, for taking my questions as well. First of all, congratulations on the new order wins. And the reorganization decision seems to be quite the right step as well. So with that, I've got my first question. On your order conversations, with this new client mandate, are you seeing any increasing interest in that clients are willing to move away from 400-volt to 800-volt technology faster than expected? That is my first question.

And my second one is on the semis shortage. So, if I remember correctly, last year, I think in one of the business divisions, you weren't using the brokers, and another one you were using brokers, and that is why one of them was impacted more than the other. So, do you expect some sort of reversal this year, at least by changing the strategy of the one which was underperforming? So those are my two questions.

41:18 ANDREAS WOLF

Then, let me start with the first one. I can also cover the second one. First of all change from 400-volt to 800-volt technology, that's not what we see in the market. There are big opportunities in the 400-volt area, but also some customers go more towards 800 volt. And I think it depends really – and now it gets really technical – on which car you are focusing, on the use of the car… Is it long range/short range? Do you need fast charging power and possibilities? Therefore, I would see that those technologies 400 volt, 800 volt, will move into the future, and maybe in a later point of time, it might go to the left or to the right. Since we cover all those products, we, at the end, don't really care. As long as we are in the high voltage product portfolio, it's all good. And we are prepared with our products for any change or any final move towards 400 volt or 800 volt. I see both in parallel together.

On the semi side, yes, the business unit Sensing & Actuation is using parts which can be found more at brokers compared to what we have on Electronic Controls. And that is the technical reason why we were able to identify more broker parts for Sensing & Actuation compared to Electronic Controls. It will not switch because micro-controls are specifically developed, so the heart and the brain of a control unit you won't find at brokers. So it will stay the same. The only question is are now all broker parts gone, because we have bought already many of them back in 2021?

43:36 SANJAY BHAGWANI

Thank you, gentlemen. Very helpful.

43:44 OPERATOR

And at this point, I would like to remind you that if you would like to ask a question, please press 0 and 1 on your telephone keypad now. And the next question is from Saj Patel, J.P. Morgan. Your line is now open. Please go ahead.

43:57 SARTH PATEL

Good afternoon. This is Sarth Patel from J.P. Morgan. I'm calling on behalf of José Asumendi. A couple of questions. I think the first one is on your silicon carbide technology. Could you just provide us some color around the competitive advantage that the company has in this technology? And how is that giving you an advantage in the market? Any color on your market share would be very, very helpful here.

And then secondly, in your Electrification Technology business, you have this strong order intake. How does that impact your break-even point and the timelines around that? Do you expect to see that break-even timeline moving closer?

And one final question on semiconductors. You've highlighted a €60 million charge for semis in the EC unit. Could you quantify in 2022 what level of expenses you could see there? Any direction will be very helpful to understand how things are progressing there. Thank you so much.

45:09 ANDREAS WOLF

I would suggest I take the first two questions, and Werner can briefly elaborate on the third one. So, I think SiC technology will be a mainstream in the future. We are offering it. We have one, as also shown, many orders. That helps. There are some competitors a bit behind us. But at the end, it is really not only one technological element which gives you the business. It goes along with the good quality. It goes along with efficiently designing the overall system, not only one part of the system. And as we have all those products in our product portfolio, we can do that easily, plus a competitive cost structure, plus a worldwide footprint. And all this, we have, as I already explained in my short speech. So it is a combination of the fundaments of our business set-up, plus specific technological advantages which we try to protect.

Now, looking to ET, your second question, the new orders we have, so the coverage I mentioned of 90% in our new orders will bring us to that forecasted or assumed €2 billion sales midterm, and also linked to the break-even. For the time being, I would say – and that's a good proof point – we will fulfill our plan, what we have shown and explained also during the Capital Markets Day. So we are fully on track. Depending on how this year now runs, maybe we get even more orders. But, as also explained before, I would assume that those orders will only kick in after 2025. So the increase in sales might be a bit steeper than assumed by us so far, but we did not yet make any simulations if there is any impact on the current years now. All in all, what we wanted to convey as message is we are on track with our plan.

47:35 WERNER VOLZ

Maybe addressing your last question regarding the semi headwinds, I would probably try to answer that in expanding that from semi headwinds to complete material headwinds that we probably have to keep focused for

2022 moving onwards. In 2021, the major effect and the first effect, obviously, was coming from this semi shortage situation. But getting towards the end, we had to add raw material increase, energy increase, special freights. So everything, or many, many different categories were really challenging us. And moving forward into 2022, we have this whole range of picture as well. So focusing on €60 million EC, well, probably I need to put that into perspective. What we also reported earlier was that, in 2021, we had overall company headwinds in excess of €190 million, including semiconductor shortage, but also starting to have raw material increases. And this number, going forward for 2022, we expect to more than double. Well, will that hit our bottom line? Right now, we have in certain instances, especially with regard to raw materials, we have in many cases contracts where we have certain automatisms in order to pass on raw material impacts to our customers. In those areas where we don't have that, we're currently in very intense discussions with our customers in order to pass on these effects to our customers. And the expectation right now, of this overall situation, is that we should be able to at least cover for 80% of that. Does that answer your question? Or would you specifically focus even more on EC?

49:57 SARTH PATEL

No, thank you so much. That’s very helpful and very encouraging, as well.

50:06 OPERATOR

Ladies and gentlemen, once again, as a reminder, if you would like to ask a question, please press 0 and 1 on your telephone keypad now. And the next question is from Philipp König, Goldman Sachs. Your line is now open. Please go ahead.

50:19 HEIKO EBER

Hello, Philip. Can you hear us okay?

50:22 PHILIPP KÖNIG

Yes. Hey. How are you, guys? I just have one question on the reorganization of the business. We were obviously at your first Capital Markets Day exactly a year ago today, where you presented the current structure. And now, one year later, you're proposing to change it to two parts, Powertrain and Electrification. I was just wondering if you could maybe provide a bit of color what has sort of changed in the past year to motivate you to already change the structure at this point? Is it that you view more positive business as non-core? Is it that you want a clear overview for investors to see the progress in electrification? An incremental there would be great to hear. Thank you.

51:15 ANDREAS WOLF

You see, your question is so heavy that I had to drink a little bit of water. So, first of all, the current organization is coming still from the Powertrain time we had at Continental. So that's not a change of the last 12 months. It is a change which we already looked at when we thought about the spin-off of Vitesco Technologies. But due to the fact that the prospectus had to be made, combined financials going three years backwards, we finally said and had to accept that a reorganization at that time was not possible. So the fundamental, the basic idea, of putting pieces more intelligently, and better, and more efficiently together was already on the table maybe two years, three years ago, but we were we were basically hindered by the fact that that we went public, and we were carved out, etc.

The idea of those two divisions now is that we bring those parts together on the P&L side, but also on the engineering side, which will bring us into the future. So if I start with the division Electrification Solutions, you have now all in what was named before electrification, but also those products which can be easily switched, transitioned to electrified products. I'll give you one example. We have transmission control units, and we have a control units for engines, because the type of those products can easily be switched. So you just take an order of functional control units for battery electric vehicles, and you take those resources, you take the same DNA of the engineers to develop those products. That's why we have everything in that one unit now. Maybe you remember that the engineering part for this new unit was already brought together a year ago. And that's the main reason: to now really fully leverage that new set-up to even accelerate our way to electrification, to completely go to electrification.

On the other side, just to mention that also Powertrain Solutions, we have here all the core business which is related to the combustion engine, but also other parts like the aftermarket parts. And obviously, in that unit – and I mentioned it, I think – we have also the part where we said that's non-core. Over time, these sales and those products will disappear. At least for us, the sales will significantly go down. And now with this set-up, with the unit fully strengthened to focus on their respective markets, we think that we will be more efficient, more focused, and even faster.

54:26 HEIKO EBER

Thank you, Andreas.

54:28 PHILIPP KÖNIG

Thank you, guys. Thank you.

54:34 OPERATOR

And once again, as a final reminder, if you would like to ask a question, please press 0 and 1 on your telephone keypad. And we haven't received any further questions at this point. I hand back to the speakers.

54:49 HEIKO EBER

Thank you very much. So, as obviously we have been able to answer all your questions, I would like to close today's Q&A session. As always, if there are any questions coming up after this call, feel free to reach out to our IR team. We are happy to help. So with this, let me thank you for your time and for your interest in Vitesco Technologies. Thanks, Andreas and Werner. Thanks to the entire team making this happen today. Have a good rest of the day and talk to you soon. Thank you.

55:27 OPERATOR

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