



# **Vitesco Q3 2022**

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## Vitesco Q3 2022

### *Participants*

Operator – Operator

Heiko Eber – Moderator

Andreas Wolf – Participant

Werner Volz – Speaker

Sanjay Bhagwani– Speaker

Himanshu Agarwal – Speaker

Giulio Pescatore – Speaker

Philipp Konig – Participant

Christoph Laskawi – Speaker

Jose Asumendi – Speaker

Edoardo Spina - Speaker

**Operator:** Good day and welcome to Vitesco Q3 2022 Conference Call Today's call is being recorded I will now turn the call over to Heiko Eber, please go ahead, sir.

**Heiko Eber:** Thank you very much Andreas Wolf, our CEO and Werner Volz, our CFO [inaudible] to guide you through our presentation and our financial results As always, they will report on the most important development [inaudible] the group, the business development, as well as our cash flow environment Finally, we will discuss our operating [inaudible] And after that, both gentlemen will be available for a Q&A opportunity, as usual And now, without further ado, let me hand over to our CEO, Andreas Wolf.

**Andreas Wolf:** Yeah Thank you Heiko and thank you very much, ladies and gentlemen, for joining today The third quarter is in the books Finally, we have seen the pickup in the worldwide light vehicle production again And we could also benefit from the slightly improved availability of semiconductors As a result, €2.3 billion of sales in the single quarter and an adjusted EBIT margin of 2.1% We are moving into the right direction Even though our third quarter was slightly negative in terms of cash flow, it was another solid quarter overall And very important, our electrification momentum continues with €230 million of total electrification sales in quarter three We are absolutely on track of achieving the targeted €1 billion for the full year Once more, our order intake proves our highly attractive product portfolio €4.3 billion order intake in total, their offer was worth 3.2 billion in electrification That means we have achieved electrification order intake of almost 10 billion in the first nine months of 2022, I repeat, we have achieved an electrification order intake of almost 10 billion in the first nine months of 2022 By the way, the 3.2 billion in Q3 includes the 1 billion thermal management system order which we announced during our capital market day in October And they also include an award of around €300 million, which we received by a global German OEM for our battery management solutions That means a total of €3 billion year to date for battery management alone You see, we are winning business in all major regions and across

our entire electrification portfolio Let us now take a closer look at the financial KPIs The 2.3 billion sales, which I mentioned, correspond to more than 20% increase compared to the third quarter of 2021 Of course, FX was a significant contributor This also resulted in an increase of our profitability by 0.8 percentage points However, the higher input costs are still a significant burden and therefore the operating leverage is rather low Considering the uncertainties in the market, we also limited our CapEx in the third quarter Nevertheless, our free cash flow came in negative This was mainly due to working capital seasonality combined with additional inventory build-up.

Back to sales, if you analyse our sales development compared to the markets which grew by 27.5%, our organic sales development looks rather weak at the first levels However, you have to consider the significant up and down in vehicle production in quarter three and quarter four 2021, which led to a negative and positive base effects combined with our respective outperformance and underperformance in those quarters More concrete, the higher sales base of last year's Q3 leads to lower organic sales rates for both the group and the core technologies as you can see on the chart However, that also means that we will outperform in quarter four again To sum it up, a difficult third quarter when it comes to our performance, but the continued strong performance of its core technologies, when we look at the complete second half of 2022 And as always, you will now receive more insights into our financial development by Werner Volz.

**Werner Volz:** Thank you, Andreas Hello and welcome Also from my side, ladies and gentlemen as it was mentioned already, we almost doubled our profitability in Q3 compared to the prior year We did that despite the continuous cost increases, especially in material energy and freight In Q3 alone, these topics led to cross headwinds of roughly €180 million Especially the material costs show a sequential increase of the cross headwinds compared to Q2 However, despite that, we are making good progress passing on these additional costs to our customers, especially our core technologies improved in Q3 Almost €300 million of sales increased and an adjusted EBIT margin of 4.5% in the single quarter compared to just 0.8% in the previous year And this, of course includes electrification technology, which in line with our plan continues to be loss making Let's zoom now closer into electrification technology You can see that the top line continues to be affected by the global semiconductor shortage In addition, we were extending our production lines in our Chinese ET plant in Q3 This resulted in a lower production output for a time span of roughly two weeks hence respectively lower sales As a result, we organically only grew by 16% to €147 million This sales increase was mainly driven from the development in Germany and North America which is, by the way, true for all our business units As a result of the limited sales increase, also profitability increased only slightly We're now at -48.2% of sales, up 5.5% compared to the prior year Once more, the real positive news is our electrification order intake The business unit electrification technology alone recorded €1.9 billion of orders in Q3 As a group, we managed to win 3.2 billion lifetime electrification sales between July and September Now shifting to electronic controls here, we can see real positive momentum Electronic controls had the strongest organic growth among our four business units, reaching more than €1 billion in Q3 2022 This top line recovery was mainly attributable to a slowly improving availability in semiconductors, as well as pricing effects from the negotiations with our customers, but while the overall availability of semiconductors is improving, partially missing customer specific

electronics continue to challenge our operations And this challenge can also be seen in our adjusted EBIT margin Yes, it improved year on year, but still is only at 4.3%.

The main driver for this improvement, where our core technologies is [inaudible] which benefited most from the slightly improving environment, we increased our sales by more than €200 million to 704 million with an adjusted EBIT margin of 8.1% Now the same thing in actuation, on the other hand, only grew by 11% to €880 million This is mainly due to the base effects in the prior year, which Andreas has explained already Also, here we saw the main increase coming from the German and North American market The profitability, same as the actuation was once more very strong at 8.9%, especially the core technologies contributed with 12.8% adjusted EBIT margin at 683 million of sales In contract manufacturing, we also saw the effects of increased prices and currency tailwinds As a result, we reported 262 million of sales Nevertheless, we continued with our phase out, as you can see, in the lower volumes for that business The adjusted EBITDA, 0.7% is already reflecting the bilateral productivities, which we have now mentioned already a couple of times in our last calls All in all, we remain well on track with the phase out of contract manufacturing Now, let me give you some more insight into our cash developments As you already have seen across our industry, our cash flow is significantly impacted by continuous working capital build-up The increase in accounts receivable is mainly related to the strong sales which we enjoyed in September Also, we continued to build up inventory and yes, this is a necessary measure in the short term to ensure production for our customers But of course, we are not aiming to remain at these high inventory levels in the long term Besides our increased profitability, especially tax reimbursements in Mexico; partially compensated for higher input costs and the increased working capital intensity As a result, our operating cash flow was at €81 billion Despite our cautious spending behaviour, this year CapEx was more than two percentage points below the prior year We saw a slightly negative free cash flow in Q3 overall, again, mainly due to working capital The figures of Q3 of 2021 are still highly influenced from spin off effects and therefore are not really comparable On the next slide here, we see as a result of the negative cash flow and the currency changes, our available cash slightly reduced to €783 million at the end of Q3.

Nevertheless, we continue to be in a very comfortable liquidity situation As a recent highlight, I can tell you that we managed to refinance our existing syndicated loan and replace it with a new one as of October six with a tenure of five years with options to further extend Our solid track record as a standalone company in the last year has certainly helped us here And besides the new tenure we also managed to achieve significantly more favourable conditions in our new RCF despite very volatile credit and financing markets worldwide While the overall available amount remains unchanged at €800 million, we negotiated significant improvements and ESG linked credit conditions And at the same time, we also reduced our financial covenants to just one the leverage ratio, which we comfortably should be able to achieve If we now move to Slide 14, you can see once more the increased working capital levels in Q3 2022 Compared to the previous year, we have built up almost €100 million in net working capital, which came besides negative currency effects, mainly, as I mentioned a couple of times from inventories and the seasonal increase in accounts receivable But I think again, I have more than enough elaborated on these drivers already The other balance sheet related KPIs continue to be very solid And that's that ratio of -0.4 And that's liquidity of more than €300 million and an equity ratio of 40.7% underlying our healthy balance sheet structure

Finally let us come to our guidance Since the year is coming to a close, the view for yearend gets clearer more and more even though uncertainties in the market are still as high as they can possibly be and effects of a potential recession ahead in 2023 are still very, very hard to quantify But back to 2022, as a result of a better than expected worldwide light vehicle production, we feel now comfortable to lift our sales guidance for the group to now 9 to €9.2 billion.

Of course, our achievements in forwarding additional costs to our customers and FX tailwinds are supporting these figures as well However, we're not able to pass on all our input costs so that a smaller part still impacts our profitability And the inflated sales from currency to only have a very limited drop through on our profitability As a result, we will not reach the top end of our guidance, but the consensus, which is at 2.3%, is already reflecting We are now guiding for an adjusted EBIT margin of 2.3 to 2.5% And also, this requires a rather profitable fourth quarter and through the catch up for price increases with our customers since we are still below that range year to date On special effects, the difference between adjusted EBIT and EBIT, we see them coming in lower than expected We now see 50 to 100 million as a realistic figure We have already mentioned today that we are cautious on CapEx in these uncertain markets As a result, we also lowered our CapEx forecast for this year to around 5% The clear focus remains on electrification Therefore, this lower CapEx will not limit our growth opportunities in the future This of course effects our free cash flow positively on one side; however, we see strong headwinds from working capital on the other side Overall, we do not expect more than €75 million to be a more realistic figure for the fiscal year 2022 So €75 million will be our realistic figure for 2022 Consequently, the typical pattern of Q4 as a very cash generative quarter is only true to a limited extent this year And please keep in mind; many of the working capital related movements are backend loaded in December Therefore, we might see further cash flow distortions in the year end as a result Now, I will not go through every single market assumption that we have updated on the right-hand side The main changes come from China, which looks more positive than we have expected and a weaker European environment Overall, we now see 5 to 7% likely production growth as a realistic figure for the full year And with that, I have reached the end of my presentation And Andreas and I are now looking forward for your questions, but first, back to you, Heiko.

**Heiko Eber:** Thank you very much Thanks Andreas, thanks Werner Ladies and gentlemen, as announced, we will now enter the Q&A part of today's session And as always, since we would like to offer all participants opportunity to ask questions, we kindly ask you to limit yourself to two questions Also, if time allows, you can for sure ask additional questions after going back into the queue Operator, we are now ready to take the first questions.

**Operator:** Thank you Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad We will take our first question from Christoph Laskawi with Deutsche Bank.

**Christoph Laskawi:** Hey, good morning and thank you for taking my questions The first one will be on retrospective pricing in Q3, and Q4 Could you give us a comment, helping to quantify the amount that you had in Q3 Other suppliers have shown a fairly sizable margin support there and also for Q4? And I think you've reiterated the pass through on the additional costs that you have Could you just give an update on what was the pass-through share in Q3, and do you go over 100% so overcompensating in Q4? And then, so as the

second block, on energy and wages growth headwind into 23, do you have any comments there? Thank you.

**Andreas Wolf:** So, thank you, Christoph I guess I'll take probably both parts of your questions and let's start with the pricing And as we mentioned now during our last course as well, well of course we see this huge price and cost increase in the midsize of three-digit million euro amounts and obviously we're really trying hard to pass most of that on to our customers While we probably have seen significant first impacts in the second quarter, this is going to continue now, or this continued basically in the third quarter And we indicated also that we at least want to achieve 80% recovery of the overall amount And since we have made progress, I think I wouldn't – we're not quite at 80% in Q3, which requires catch up effects in Q4 and this is what we have anticipated But the current status on negotiations with our customers is indicating that we should see further progress in Q4 in order to achieve our goals and targets With regard, yeah so, I guess Q3 it's probably in the range of 60 to 70% With regard to energy and wages, well, your question was related to 2023 Right now, we're not providing any outlook or guidance for 2023, obviously, but we are expecting costs to further increase also in 2023 and especially energy and wages, we expect with probably, especially the wages we expect with double digit increases moving forward in 2023 And energy, I guess nobody right now is really being able to predict the further development However, I guess it's fair to assume that we will not see a price reduction on energy in 2023 Is that covering the aspects of your questions Christoph?

**Christoph Laskawi:** Thank you there is just one brief follow up on Q4 then Outside of pricing and R&D reimbursements driving your margin, is there anything else that we need to be aware of as positive?

**Andreas Wolf:** Well, I think we typically in Q4, we see a higher amount of reimbursements, R&D reimbursements and I think also the market might be slightly stronger than still in Q3 I think these would be the major additional positive effects we should expect for Q4.

**Christoph Laskawi:** Thanks a lot.

**Andreas Wolf:** Okay You're welcome.

**Christoph Laskawi:** Thank you for the call.

**Operator:** And we will now take the next question from Jose Asumendi with JP Morgan.

**Jose Asumendi:** Thank you very much It's Jose from JP Morgan A couple of questions and I think the first one, I would like to hear a little bit more, in an update with regards to the collaboration with Renault and Infineon and if possible, also if you could comment on the orders you're winning on thermal management I'll be the first one And second, as we think about ET and the progression of this division, I know you don't want to give specific guidance for 23, but as we think about higher costs for energy or labour or the additional headwinds you may have in 2023, does this still allow for ET to improve earnings next year? Thank you.

**Werner Volz:** So, maybe Andreas you could cover the first two questions?

**Andreas Wolf:** Yeah, very briefly to Renault and the Corporation of Infineon, it's progressing I explained that working the strategic partnership with Renault means that we are working together; also, physically working together, we are sitting in a room I have key core members of the team here and are working towards those new products which we are basically co-

developing So, nothing really brand new now to be recorded By the way, the same is true for Infineon Yes, Infineon is a strategic partner on the supply side Also here, you know that we are preparing for the future with those huge orders reflecting also our increase in sales which we shared during the capital market day for electrification We need to have access too, especially looking to the [inaudible] technology access to the capacities of the world And that's why we have initiated also that exclusivity or that cooperation with Infineon, but nothing special to report We are on a regular basis meeting and updating the data so, nothing in the negative or positive way to report So, on the management, we shared that news during the capital market day, that 1 billion I also mentioned during my short introduction We write that as a breakthrough because until then we always said we have also some investment in our portfolio We had all the orders more on the inverter electric [inaudible] battery management side, and now we could prove that also thermal management, we are playing a major role All okay, profitable business with an international OEM so nothing more to say here.

**Werner Volz:** I could say then let me probably take the second part of your question And while reflecting on the headwinds coming from energy, personal costs, material costs, raw material costs and reflecting that on ET, well as we also see already this year, also ET is obviously impacted by such headwinds And again, in general, that is our general major assumption and also our target and objective And we're really fighting hard for that to get recovery for all of that from our customers I also indicated that in our capital markets day already, of course we're supporting and not just supporting, we're confirming, of course, our direction moving forward, but that assumes that we will get recovery from our customers on these cost increases Again, so far this year, as I already indicated, we're on our way However, we're not completely through And moving forward into 2023, obviously, we're not providing any guidance and up front numbers for the next coming year, but it is fair to assume that these cost effects will also impact the upcoming year And negotiations with our customers in all areas will continue to become necessary also for next year So, even if we went through this year, I think we will not be completely done moving into next year Also, next year will continue to be challenging Yes And obviously our general plan, so from an operational improvement in ET, considering process improvements, design improvements, scale effects and so on, we're well on track, but we cannot obviously completely ignore the negative headwinds from the markets right now.

**Jose Asumendi:** Thank you.

**Werner Volz:** Is that somehow answering your question?

**Jose Asumendi:** Yeah, that's very helpful Yeah Thank you so much.

**Werner Volz:** Thank you.

**Operator:** And we will take our next question from Sanjay Bhagwani with Citi.

**Sanjay Bhagwani:** Hi, thank you very much for taking my question also I've got a couple of questions My first one is on ET So, when I look at, let's say the nine-month performance of ET, sales is just slightly above last year and so are the profitability So, could you please confirm that for Q4, you are still expecting a step up? I think initially the message is for somewhere around 15 to 20% full year growth for ET So, looking at the order pipeline and

the seasonality, could you maybe still confirm that you're still going to see a step up in Q4? That's my first question and yeah, I'll just follow up with the next one after this.

**Andreas Wolf:** Okay So, well yeah, I'm happy to take your question Sanjay And yes, profitability and sales are only slightly above prior year I think we mentioned the reasons for that Well, again, basically also coming from the overall market environment finally also ET has been impacted by certain rare chip shortage, by the overall chip shortage and of course also by the cost increase and also here we're in the process of trying to get cost recovery in all aspects from our customers as well And also, this is the assumption moving forward into Q4 for ET And that is basically what we still can confirm right now Again, we're well on the way for recovery It is not 100% recovery, as I mentioned already also for ET, but we should be able to confirm this step up in Q4 for ET as well Is that okay?

**Sanjay Bhagwani:** Yes So, looking at the product pipelines and the projects, you are able to confirm the top line as well, top line growth as well for ET, is that right?

**Andreas Wolf:** Yes, the very simple answer Yes.

**Sanjay Bhagwani:** Thank you Thank you, Andreas Then my next question is on the order intake That is again very impressive And you managed to get somewhere around 10 billion of orders in the first nine months Can you please provide some comparison like what's sort of the new orders this year, the kind of market share you have won or relatively, for example, do you see yourself as number one or number two in terms of win rate? If you can provide some colour on that, please.

**Andreas Wolf:** Cool So first of all, nice that there is a question, Sanjay, related to the order intake, yes 10 billion in months is a real record order intake That doesn't say that we are now stopping taking orders in, but that's really a nice one we had the last nine months Now, it's hard to say for me What does that really mean on the market share side, but what I can confirm is that our growth plans, which we also shared back in mid of October in our capital market day means the 5 billion plus 26 and the 10 to 12 billion for the end of the decade, we can confirm And with the 10 billion now in the nine months and the forecast for the next months, we have a relatively high probability and certainty that those numbers will come Why are we better and what is the take rate and market share percentages? That's a little bit too early really to say, but with those numbers we see ourselves ahead of competition currently.

**Sanjay Bhagwani:** Thank you That is that is very helpful And I've got one more question on the online business, if I may, please So, what we see is a step up in Q3 for the underlying business and specifically quite an impressive margin for the EC [inaudible] in Q3 So, when I say, for example, H1 online business were somewhere around 7½% margins, now this has gone up to 10% margins, should we expect this to go further up in Q4, given that you mentioned a step up in the in the pricing recoveries and also reimbursements along with reducing semiconductor bottlenecks?

**Andreas Wolf:** Very good question and of course, very important, especially for underlining the performance of Q3 Here we saw an improvement basically in our underlying core technologies business in all relevant areas The two major drivers are, of course the markets and the improvement of the overall market environment and the slightly reduced problems in the supply chain with chips now On top of that, of course, the improved price recovery in Q3 in order to recover for the cost increases earlier this year, I think these were one of the major



aspects besides some other issues related to some release of warranty issues where we have been able to positively negotiate with our customers Is that answering?

**Sanjay Bhagwani:** Yes, so should we expect this to increase in quarter four given these favourable trends along with the reimbursement of the R&D and also increasing in the price recovery? That is my question.

**Andreas Wolf:** Yes, Okay Again, as I mentioned already before, Sanjay that that we are expecting further improvements moving forward in Q4 and on top of the increase recovery rates that we expect for Q4, also, reimbursements will be further increased, in the – well typically that's traditionally for our business in Q4 and should support our Q4 performance and the step up.

**Sanjay Bhagwani:** Thank you That is very helpful.

**Andreas Wolf:** You're welcome, Sanjay.

**Operator:** And as a reminder to ask a question press star one We will now take the next question from Giulio Pescatore with Exane.

**Giulio Pescatore:** Hi Thanks for taking my question I just want to go back on the topic of pricing very, very briefly I think it's very important for us to understand, what is the sustainable pricing and what is the fact that relates to previous quarters? Some of your peers have been helpful in this regard and trying to give us an idea of what is not linked to this quarter in particular Can you give us a rough estimate of what was the fact that you felt in the quarter that did not relate to this quarter, but the cost you felt in some previous ones? And then the second one, a bit more technical on FX, just curious to know what you're assuming in terms of FX tailwind for the full year, and then just lastly, quickly on the electrification technology sale is 1 billion of sales still possible, a realistic number for 2023? Thank you.

**Andreas Wolf:** Sorry Giulio, the line was really bad, just to make sure we got the question The first part was what portion of the pricing passed on to the customer is sustainable, right?

**Giulio Pescatore:** Yeah, so how much relates to previous quarters and just a rough idea.

**Andreas Wolf:** And the second part of the question was on the 1 billion electrification sales, it's still realistic given the year to date?

**Giulio Pescatore:** Yeah. And then there was one on FX, just quickly, what are you assuming for this year. Thank you.

**Andreas Wolf:** Very good Thank you.

**Werner Volz:** It's a tough question, your first question, Giulio, and, of course, our goal is to negotiate with our customers in order to get sustainable price increases But it is a valid question And to a certain extent, we have not achieved to have 100% price increases on a sustainable basis moving forward Some of the additional monies that we receive are either one-time payments or all timely limited Nevertheless, of course, we are already in the process in negotiations for 2023 So in order to carry that forward and eventually get these increases for 2022, sustainable into 2023.

**Andreas Wolf:** I want to add on that Werner just to explain a little bit the background of how 2022 was negotiated We always talk about the full year So, whenever we sometimes mention

here quarter three, quarter four, it's just the impact of reflecting recovery for the full year In some cases, negotiations took a little bit longer time wise And then translating the cost increases into price increases is not possible because then you have to basically combine the down payment with the price increase looking forward So, we have a mix of down payments, price increases so that everything which is possible to basically show or give us an incentive on the cost increases, but they are all linked to the year 2022 Even though we have in some cases price increases, they are not automatically agreed for 23, 24 and so on So, whatever the solution was to give us money price wise, down payments, etcetera, we have to negotiate for 23 again Hopefully that answers your question.

**Giulio Pescatore:** Yes.

**Andreas Wolf:** So, your question said, you also asked, maybe to just complete the second part, yes, that's what I had in my speech We are convinced that the 1 billion is realistic for 2022.

**Giulio Pescatore:** Thank you and on FX, just quickly, please.

**Andreas Wolf:** So, sorry, the tax situation Well, the overall tax situation, I think in general, we're making progress in applying our new tax regime on a global basis, driving our tax rates down If you refer to the tax cash issue that we were enjoying this year that relates to VAT tax receivables that we had in Mexico and still have, that is related to spin off effects still in 2019 where we lost certain tax benefits back then, which we're currently able to recover And the size, it's a mid-double digit million-euro amount that we received as a recovery in the third quarter, which on the other side is helping, as I explained or tried to explain, to compensate for the increase in our accounts, our working capital coming from inventory and accounts receivables Is that answering --?

**Giulio Pescatore:** Yeah, apologize for the bad line My question was on foreign exchange The impact you are assuming in your guidance for the top line.

**Andreas Wolf:** Oh okay.

**Giulio Pescatore:** Apologies.

**Andreas Wolf:** Okay Sorry Well, in our actual Q3 numbers, we have a tax FX and fixed impact of roughly seven percentage points increase, reflecting on the increase And I think right now that might change slightly, but also it might be potentially the effect for Q4 moving forward.

**Giulio Pescatore:** Okay Thank you.

**Andreas Wolf:** Yes, And the main drivers are U.S. dollars and Renminbi obviously.

**Giulio Pescatore:** Thanks.

**Andreas Wolf:** Thank you Giulio.

**Operator:** And we will now take the next question from Philipp Konig with Goldman Sachs.

**Philipp Konig:** Yeah Morning, guys, and thanks for taking my questions as well. First question is a quick clarification on the pricing When you mentioned that the pricing only covers 2022, does that just mean anything, any further cost increases in 2023 means you need to renegotiate, or does it also mean that payments or the new payments don't go on

into 2023 and the prices reset again? Just to clarify My second question is a longer term one on the reaching the break-even profitability in your electrification business Given that I think most of the R&D spend for those products is more generic than customer specific, is it fair to say that most of the R&D spend fairly early and then the improvement in margins should accelerate rather towards the late parts or end of 2023 as we think about the path to profitability for that segment? Thank you very much.

**Andreas Wolf:** So, maybe for the for the pricing question, yes, because we were negotiating 2022 and not 2022 and the next years because we have very specific details about cost increases on the materials side and other cost components, which will then translate into price increases, down payments whatsoever for 2022 So, logically, that means I think that that's quite normal for the industry that new prices for 2023 have to be renegotiated independently of how the money came in in 2022 For some customers, they already indicated that now the new base we will carry forward that into 23, but more generically speaking, almost focused in 2022 and now we have to basically extend it into 23 Our goal is to translate it directly into price increases and not negotiate any down payments for about a year R&D and breakeven, maybe the breakeven question.

**Werner Volz:** Well, maybe I take that Right now, we don't have any reason to not believe and not to confirm our mid-term breakeven targets, but again, also here, as I referred to in our Capital Markets Day presentation that requires, of course, 100% recovery or recovery on a large extent for these significant cost increases And with regards to the R&D spend, but we have a certain extent project related, which is typical for our business and due to our modular and standardized product design, of course, we are spending some of the R&D upfront right now as a base development, which is basically not repetitive On the other side, if you expect R&D and the overall R&D amount or the total R&D spend to be reduced, I think this would not be a valid assumption because the overall absolute amounts probably might continue to slightly increase in order to support our significant growth in the future, but in relative terms, of course, our R&D rate is expected to drop Does this both answer your questions, Felix?

**Philipp Konig:** Yeah, Thank you very much, guys.

**Andreas Wolf:** Thank you.

**Werner Volz:** Thank you.

**Operator:** And we will now take the next question from Edoardo Spina with HSBC.

**Edoardo Spina:** Good morning, I have two questions The first on the order book in general and specifically on electrification, because orders are measured in euros What the pricing assumptions are you making for these new orders? Can we expect an increase in the order book in future, if you can push through more price increase or you're already assuming higher pricing for the new orders? And the second question is on non-core sales It was higher than I expected I just wanted to ask if you think there is a scenario in the mid-term where the non-core sales remain higher than you expected, and that would have a dilutive impact on the group margin just mathematically for the mid-term Thank you.

**Andreas Wolf:** Maybe I take those questions I would start with the second one No scenario change on the non-core We shared the timelines; I think also during the capital market day where we said when is what shrinking down to which percentage? So no change, yeah, we

will see significantly dropping the sales down next year already and the years after so no change On the? der book, it depends So, first of all, in many cases we are already quoting with an increased material price portion, which means translated into higher prices, translated into higher sales, and therefore the order book will not change and will not increase once those numbers are then correct They are already in a good shape, but looking to all orders which we have already, the order books, the backlog, they are still based on old, how can I say, old material prices, old cost base Here we think they will be adjusted accordingly over time That's, by the way, the assumption for our future That's what then our source just said that, looking to break even for ET whatsoever, we always assume that cost increases are also compensated.

**Edoardo Spina:** Many thanks.

**Andreas Wolf:** Thank you [inaudible].

**Operator:** And again, as a reminder to ask a question, press star one We will now take the next question from Himanshu Agarwal with Jefferies.

**Himanshu Agarwal:** Hi, Himanshu from Jefferies Thanks for taking my questions the first one is on the pricing and apologies if you've already answered this question because I had a brief interruption So, can you comment on the Q3 pricing? Was there any retroactive pricing benefit related to the first half? And also, you have given us the 180 million gross headwinds related to cost inflation Is it possible for you to tell us what is the Y-O-Y increase so that we can estimate the price increase in Q3? And the second one is on China, so I appreciate the growth in Germany, and North America I think China was impacted by the lockdowns in Q2 and yet we are not seeing any acceleration in China even in Q3 Can you just give us some colour related to that? And I understand here ET had a brief pause of two weeks for ramp up, but in other divisions Thank you.

**Andreas Wolf:** Well, probably Thank you Himanshu for the question and indeed, we were talking about the prices already, but again, I think that the impact in Q3 on recovery through our pricing that is well between 70 and 80% yet, you know that our goal is to achieve at least 80% and recover for 80% That means that our Q3 is still below our expected level, which also means and requires catch up in Q4, for which we have good indications coming from our sales organizations and from our customers on current on-going negotiations I think we should and therefore we're comfortable to see this catch-up effect in Q4 Is that answering the first part of your question Himanshu?

**Himanshu Agarwal:** Yes, and can you confirm was there any retroactive benefit in Q3?

**Andreas Wolf:** No, actually, we're – I cannot It is a complicated process in this recovery So, to a certain extent, yes, there are retroactive recoveries included, but overall, I think that is important We're talking about midsized three-digit million euro amounts that we basically suffer in cost increases And again, we try to get at least a recovery of 80% and in the first quarters, we haven't achieved the 80% yet That requires catch up effects in Q4 And this is what we again confirm that we will see these catch-up effects in Q4 due to our existing status in negotiations with our customers So, does this make it clearer now for you? Okay.

**Himanshu Agarwal:** Yes, it does Thank you.

**Andreas Wolf:** Yeah, Let's talk about China I'll just try to repeat the question and maybe you could correct me if I if I didn't understand it or I didn't get it right When will we be able to profit from China development again? And obviously the current main drivers right now in sales is North America and Germany, was that your second part of the question? We think this is a yes.

**Himanshu Agarwal:** Yes, when should we see the growth coming --?

**Andreas Wolf:** I think on passenger vehicles, we already see the recovery right now and that is already visible and also here we will benefit from this trend On the other side, of course, we have strong business in China, especially in China with commercial vehicles and this market is still very difficult And on the last part of the question, yes, I think right now, for the time being, the German and North American market, respectively, European markets, these are, of course, the main drivers right now Is that now answering your questions Himanshu?

**Himanshu Agarwal:** Okay Thank you.

**Andreas Wolf:** Thank you Very good.

**Werner Volz:** Thank you Himanshu.

**Himanshu Agarwal:** Yes, thank you.

**Operator:** And there are no further questions So, I will turn the call back to Heiko Eber for closing remarks.

**Heiko Eber:** Thank you very much So since we have no further questions, all I can do is say thank you to the operator, say thank you to our speakers, Andreas and Werner And of course, a big thank you to all you guys on the phone for your time and your interest As always, if there are more questions coming up after our today's conference call, please feel free to reach out to us anytime So, thank you very much and talk to you soon.

**Operator:** Thank you for joining today's call You may now disconnect.

[END OF TRANSCRIPT]