Full Year Results 2022

Wednesday, 8th March 2023

Operator: Dear ladies and gentlemen, welcome to the Fiscal Year 2022 Analyst Conference Call of FUCHS Petrolub SE. This conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity for the analysts of FUCHS to ask questions.

May I now hand over to Lutz Ackermann, Head of Investor Relations at FUCHS Petrolub SE, who will start the meeting today. Please go ahead.

Welcome and Introduction

Lutz Ackermann

Head of Investor Relations, FUCHS Petrolub SE

Welcome

Yeah, good afternoon, ladies and gentlemen, this is Lutz Ackermann speaking. On behalf of FUCHS Petrolub, I wish you a very warm welcome to today's conference call on the fiscal year figures. With me on the call today, and I am very happy for the call, and I am very much looking forward to that, is Stefan Fuchs, our CEO. On for the first time in the conference call, our CFO, Isabelle Adelt. Stefan and Isabelle will run you through the presentation, as always, which will be then followed by a Q&A session.

As always, all the relevant documents have been uploaded in our IR section of our home page at 7.00 this morning and you can find them there. Having said this, I would like to hand over to Stefan. Stefan, please go ahead.

Highlight FY 2022

Stefan Fuchs

Chief Executive Officer, FUCHS Petrolub SE

Challenging year

Ukraine war

Thank you, Lutz, and hello to all of you. It's nice to meet you again, also if it is only virtual. We have today published what we think is very good results for a very challenging year last year. If I say very challenging, we all remember 24th February, when the terrible war started in Ukraine, which now unfortunately lasts over 12 months already and we continue to condemn that war. And we can only hope that there will be soon a solution if it's at the negotiation table.

China's COVID policy

But at the end of the year, we had another massive impact on our business, which was the COVID policy in China. I mean, we had the impact all over the year with the zero COVID policy, but then towards the end of the year, they went from one extreme to the other. And we had about 98% of our people infected with COVID in the months of December and January, and the country almost came to a complete standstill towards the end, so, in one of our largest growth markets, and we were quite bound.

Supply chain issues and inflation

And all of that led to a further disruption of the supply chain, which anyway, had issues after 2020/21 with the Texas freeze at that time. We saw significant raw material cost increases all year long, also coupled with energy price increases. Also, we are not as intensive as some of the other chemical industries, but all of that was topped up with high inflation rates of 10% in the US, in Germany, more than 15% in countries like Poland. So, for me it was really a challenging year and I think, bearing that in mind, that we were down in China and made up for it in all the other countries, it was, for us, a very good result.

Board member changes and additions

If we move on, we have issued a couple of press releases now regarding our board and we are now complete for the years to come. On the very right, you will see our colleague Lutz Lindemann, he was our CTO for many years. He is in the group since more than 25 years, a really wonderful guy. He is a PhD chemist, but he understood the business in and out and we are sorry to let him go, but it was his wish to always retire when he hits the age of 63, which will be in May. So, he will move out of the board at the end of March and then stay on for another two months, and then we will be back to five people in the board.

I think we are very happy with Isabelle. We don't want to introduce her again because I think you all met her at the Capital Markets Day and numerous conferences, but that was a great addition to her team. As is Sebastian, our new CTO. They are both fairly young, and both – I mean, Isabelle came directly from the outside, Sebastian came two years ago. It is also, I think, a good mixture with continuous people who are there for the long-term and then also get some ideas from the outside.

And, yesterday, we made a press release that with Timo and Ralph, their contracts expire normally at the end of this year, and they've got another five-year extension from 1st January 2024 until 30th December 2028. So, I think it's a good combination of people who were a long time with FUCHS, and with two additions. And I think it is a fairly young board, and therefore, I can only say we, as a team, are very happy together.

Diversity and Inclusion

If you go to the next page, diversity is a big matter for us. And we were proud last year because, in the year 2021, amongst all listed German companies, DAX, MDAX and SDAX, we keep the place number three. And in the year 2022, we actually hit the place number one, and it is measured with the women quarter in the board and in the supervisory board, as well as the equal pay principle. And I think that it is something which Isabelle took into her hands last week and made us very proud, and I just wanted to mention it here.

Now I hand over to Isabelle and she will run you through all our numbers, and I look forward to that.

Financial Report 2022

Isabelle Adelt

Chief Financial Officer, FUCHS Petrolub SE

Highlights FY 2022 – FUCHS successfully completes challenging year 2022

Thank you, Stefan and Lutz, and warm welcome from my side as well to what is my first financial results presentation for the FUCHS Group. Very much looking forward to that. And, as Stefan already mentioned, I think the headline says it all, 'FUCHS successfully completes challenging year 2022'.

So, turning the clocks back a little bit more than a year, I think none of us would have expected what has happened during the year, with the terrible war in the Ukraine and then all the ripple effects we saw. So, we are very happy that we were able to increase our sales strongly for the first time ever, more than €3 billion worth of sales volume in the FUCHS Group, which is a 19% increase year-over-year.

This is majorly price driven since we saw an uptick in raw material costs in goods we purchase of 70% over the last two years. And our sales team did an amazing job passing on those price increases to customers, as well as discussing substitution of ingredients in the products for the customers in case something was not available. So, I think this is why we were able to, in this challenging environment, to increase our sales by 19% and this is on the prior year level. We think this is a good performance due to the circumstances we were looking at.

So, there are two things to mention here to put this into good factor[?] for you, is on the one hand side, the strong price increases. Once we do this, we have two effects. So, point one, we see a lag effect. The moment we increase our prices to the customers, it takes between 8 to 12 weeks until those price increases really hit our P&L. And, of course, on the other hand side, in times where you see unprecedented increase in raw material pricing, for us it is very important to partner up with our customers, to be transparent and somehow share the pain of this increasing price environment.

On the other hand side, we suffered a little bit from the continued COVID lockdown at the end of the year, the easing of the COVID policy in China. In volume sales as well as EBIT, we saw a decline in China, which is one of our three biggest markets in the FUCHS Group and one of our strongest profit contributors. So, this means for us, that the Group was able to compensate for China in the shortfalls we saw because of Russia and the Ukraine.

To pour a little bit of water into the wine, we, as well, saw our FVA coming down, whilst in times of rising prices, of course, networking capital, so mainly inventories and receivables towards customers, go up as well. We saw an impact, a negative impact of €200 million this year alone. In combination with the rising interest rates, this had an impact of minus 16% compared to last year.

Sales development

I will now guide you through a little bit more in detail and we will come to the outlook in dividends on slides to come. So, looking at the next slide, you will see our quarterly sales development. We are quite happy with what happened in Q4. We saw a very, very strong organic growth with good contributions from all regions, especially strong performance by the

EMEA region on Q3 level and well above prior year. What was good to see, we saw an uptick in demand from the automotive market in Germany again, which was the first time after the industry had suffered quite a bit.

Two things we didn't like, was one, the impact the loosening of the COVID restrictions had on the economy in China. In December alone, more than 50% of our employees were impacted. This was more or less the same across the entire country and we are now looking into the economy coming back to normal. So, we think this will be somewhere in the course of Q2, but obviously, that had some impact on our December results in China.

The same thing holds for the cold front we saw in the US. A lot of our products over there are water-based, so this had quite an impact on our performance and delivery in the US when temperatures dropped that significantly.

EBIT development

How does that look like when we look into our EBIT development on the next slide? Well, a strong finish to the year, €85 million, which is on prior year level. Obviously we had some local mix effects for the same impacts we just talked about when we saw the sales slide, as well as some impacts on the year end, where we usually do our inventory cycle counts, and then the devaluation of the inventories. But we think overall, EBIT came out as well as expected as to be for the full year, so a good result.

FY 2022 group sales

To look at little bit more into the details. Where did the growth come from? All of the growth we had was organic growth, so almost no contribution by newly acquired companies. Although, one thing I'd like to mention, the acquisition of Nye we did a couple of years back, performed exemplary well and had a very big contribution to our growth, so this was a really nice acquisition. And in the past year, we saw strong tailwinds by currency, which was more than €100 million or 4%.

FY 2022 earnings summary

To give you a little summary of our earnings, how has this developed? We already talked about the sales increase, so I am not going through this again, but to share with you, the view on the other line items. Obviously, gross profit is up, but the margin suffered. This is due to those two facts we already discussed. So, point one, we had the lag effect; once we increased the prices, it takes a little bit of time to really show in the margin. So, part of this we will now see recovering this year. And then, of course, part of it was sharing the pain with our customers and meeting somewhere in the middle once prices grew too much.

Other functional costs grew as well at 14%, so slightly under proportionate to sales, which led to a decrease in the EBIT margin, but not at the same level we saw in the gross profit.

What were the major contributors when you look at functional cost? Point one, obviously, and looking at personnel costs as a whole, we increased our personnel costs by more than €40 million last year. Most of that was due to inflation and the salary increases we gave to our employees. And we only increased the number of employees themselves very modestly, so this is something obviously we need to absorb.

And then two other main drivers are obviously, as with all other companies probably as well, freight, which grew by somewhere around 20%. You might think while there was a relief on freight costs, yes, this is true for sea freight, but more than 80% of the freight we are looking at is either street or rail, and this is still going up slightly.

And then, the next thing is the energy. Luckily, we are not a heavy energy-consuming entity, so the 20% increase we saw in this cost is not a nice thing, but it is not hitting us that heavily. The bigger effect of the energy price increase and cost price increase we had in Europe, we saw in the raw material pricing because our suppliers passed them on to us.

We believe the EBIT margin we see now is the inflexion point. We are well set for this year because we have the price increases, we have good cost management in place, so we believe the margin will pick up from here on.

Europe, Middle East, Africa

To give you a little view on the regions, how they developed. EMEA, good organic growth, which I think is really worth mentioning, looking at what the region suffered from. So, included in those numbers is the performance of Russia and of Ukraine as well. Obviously, both countries will have declined in volume for other reasons. EMEA[?] is still a little bit strapped automotive market, so I think the sales organisation in EMEA did a very, very good job to pass the prices, especially raw material prices, which skyrocketed most compared to other regions, on to the customers. Plus, we did another round of price increases, especially in Germany, as of 1st January, to cater for the higher energy and personnel[?] costs we have in our production.

Asia-Pacific

Looking into the Asia-Pacific region, I think it is really worth mentioning, we had a growth in sales despite the effect we saw in China. China is one of the three heavyweights in our company, so we always talk about the big three, which is Germany, US and China. China suffered from the lockdown. Nevertheless, the region, in terms of sales, managed to grow, which I think is a very, very nice thing to say, because we see, for us, rather small countries, like India, South-East Asia and Australia picking up nicely. Obviously, China being one of our major contributors to EBIT as well, we were not able to compensate the entire shortfall we saw there in the Asia Pacific region, but, as already stated, the other regions were able to compensate that.

North and South America

Most of that came from, last but not least, our Americas regions, with the highest pick-up in sales. So, here as well, we saw really nice pricing by our sales organisations. And I think what is worth mentioning here, we always talk about the Americas as being one of our biggest regions, amongst Germany and China. But this is not our core US business alone, but very nice contribution by Mexico, which, for the first time, surpassed €100 million worth in revenue. The Nye Lubricant, which is our acquisition from a couple of years back, they developed really nicely. Canada is coming along very nicely. So, I think the development we put into this market in the past years and the efforts are now paying off, and we see that we have a lot of different growth engines in this region. So, we managed to grow the EBIT almost as strong as [inaudible].

Net Liquidity

What does that mean in terms of cash? So, of course, we already talked about the net working capital impact, rising costs and raw materials lead to higher inventories and lead to higher receivables. I will put a little bit more detail to that in a minute. But I think those €200 million really hurt our free cash flow. We still came out at a little more than €60 million, which, from my point of view, is a good result, taking into account the €200 million net working capital increase. If it hadn't been for this, we would be looking at a cash conversion of almost 100%. So this is a message to really let it sink in.

And we still see that with the net liquidity we have on hand, we would have been able to pay out dividends, so only the share buy-back programme we are doing, [inaudible] below the line in terms of net liquidity. We had short-term financing last year. We already started to pay this back now in January and we are very confident that in the course of the year, we will be able to pay all of this back.

Net operating working capital (NOWC)

To give you a little bit more light into what happened to working capital, obviously, very huge impact from the pricing increases. We put in very thorough working capital management at the end of the year. This was one of my first tasks when I started in November. And I think the countries sit really nicely in managing inventories, managing receivables to set free some cash. And I think good news about that is looking at inventories, this is pure price driven. So, we went down slightly compared to prior year inventory volumes and the entire increase we see here is price driven.

Receivables, the same holds here. So, we do not see any change in payment behaviour, we do not see any change in that we do not get our money from the customers, so this is good news because this means, once prices go down again, this will start to unwind.

Dividend Proposal

Having said this, I mean, of course, cash flow is not where we expected it to be for this year, but we think this was really an extraordinary year with the net working capital increase, with the share buy-backs. So we are proposing to increase the dividend by 4% per preference share and per ordinary share, a dividend increase for 21 consecutive years in a row. I think this is really good news from my point of view. And this means we are increasing the dividend per share as well as the total amount we are paying to our shareholders.

2023 Outlook marking a step towards EBIT target 2025

How are we looking at the year to come? I think this is what most of you have been waiting for. We believe we can increase our sales. [Inaudible] percentage organic growth is what we promised, and this is what we're looking at. This will be price as well as volume driven. Of course, we are always aiming at increasing our volumes, so I think this is an easy one. Pricing, obviously, we started the year with high prices we gradually increased over the course of the last year, and we are looking at what potentially could be a full year effect. To be very honest with you, this is the number where we see the most uncertainty, because nobody really knows what will happen to the raw material pricing.

For the first time in the history of FUCHS, we are in a position where we saw raw material prices coming up and staying at a very high level, so, for us, it is very hard to predict how they will develop. I will give a little bit more detail to that in a minute, once we've talked about the other numbers, because the basket we are looking at is a very mixed bag. So, for us, we need to see how that behaves and what that does to the sales.

However, we are very confident with the EBIT number we are giving you. We put in place strict cost management measures, cost monitoring. We will, of course, see full year effects of some of the increases we saw in costs last year, like personnel, like freight as well. Energy prices are a mixed bag, which is why we didn't include them. And in some countries they are coming down, in some they are not. But I think for us, it is very important we will potentially not be looking at lag effects again. This is where the EBIT margin we strongly believe will start to pick up again towards our target we gave ourselves for the end of, let's say, the 2020 years, and we believe that we will see a nice growth.

FVA, we need to see how that develops. Obviously, with the still high working capital to non-working[?] capital employed, with rising interest rates. So, we believe that this will pick up as well, but potentially not that much above prior years we would wish to.

Good news [inaudible] towards the capital market is that we expect free cash flow to be back to the normal level, or even slightly higher than our target, to generate cash conversion of 18%[?]. What is the assumption behind this? Since we don't really know what the prices will do, we said we will not need additional working capital, or hardly any additional working capital to cater for the additional savings[?] we are planning to generate. And this is why this number is even slightly above 18%.

Different price developments for raw material basket

To give you a little bit more insight, last but not least, into what I mean when we talked about raw material prices. Here you can see the comparison of group I and group III oils, which is the most frequent base fluids we are using to produce our products. But be careful, still only catering for, in total of the base fluids, 40% of the raw materials we buy in terms of value.

This structure[?] couldn't look more different. This group you see at the top, which somehow goes up steeply and then goes down, is the group I in Europe, which is closest to the crude oil. So, you can see very high volatility and that started with the war in Ukraine. When you look how it developed in the other regions, similar but at a much lower level, and you see that the prices are not below the level we saw a year ago yet. When you then look at the group III, we can still see numbers are stabilising or even picking up. And this is why, for us, it is very hard to predict right now how this trend will continue.

Now I will hand back to Stefan who will give you a little bit more insight about what we are doing in terms of e-mobility[?].

E-Mobility Update

Stefan Fuchs

Chief Executive Officer, FUCHS Petrolub SE

FUCHS2025 strategy

Thank you, Isabelle. As you know, we spend quite an amount of time within our FUCHS2025 strategy to look at the three megatrends: mobility change, digitalisation and sustainability. And I think here, with regard to the mobility change, I want to have a highlight today on e-mobility and within the e-mobility part, on the battery itself. And therefore, if you look, we have, I think, a full product offering with regard to all lubricants and performance fluids within the battery in the whole lifecycle. And we can provide that all over the world.

So, what is the lifecycle of the battery? For us, it is the manufacturing of the battery. It is actually the assembly of the battery, which is quite complex, and then the usage of the battery with the loading and unloading. And there is the same picture again with some more details. You see here in the manufacturing of the battery, first of all, you have a metal shell where we provide stamping lubricants, the metal working fluids, forming[?] oils and there we have existing business today. You also need corrosion[?], protection and [inaudible].

And then, when you go to the assembly of the battery, you have so-called – what we call heat conductive phase, or they call it gap fillers in the industry. And you assemble the electrolytes and the whole of the battery pack into the outer shell. You need thermal fluids for the cooling. You have got within the battery a pack, you have got the electrolytes, where we have a joint venture, as you know last year with E-Lyte where we have now a scaling up of the manufacturing.

You need a [inaudible], we provide coating for the screws which are utilised there and again, corrosion protection. When you then utilise the e-car on the road, you need thermal fluids for the e-loading stations. You again, need also for the secondary, the connector [inaudible], corrosion protection and [inaudible]. So, I think that clearly shows our way of doing business is to have a full system and application approach for our customer and not only like one specific product and we just supply a new drum and the old one is emptied. But I think for us it is important that we have a holistic view on the process and help them from the beginning to the end.

I think so, this is the end of my battery part, but then to just show one more time, the full e-car, you see the other products used. It is mainly the electric drive mode, which we mentioned before, which you need in the so-called [inaudible] of the e-engine. It is also the bearing case[?] for electric motors, which is very interesting, and the compressor also for the heat pump and many other more dedicated products.

As you know, all the 30 different pieces for the suspension, for the brake, for the air bag, the sunroof, the seat adjustment, and all of those things, they will stay, as in the regular combustion engine car as well, as do the shock absorbers, but those other parts are like new applications. And normally, what we see, you have a fewer number of competitors because that is really a high tech[?] world, which is actually quite good for us.

I think that leads us to the end of the presentation. And now we look forward to have minimum of another good half an hour or longer for your questions and discussions.

Q&A

Operator: Thank you. As a reminder, to ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. We will take our first question.

Our first question comes from the line of Markus Mayer from Baader Bank, please go ahead, your line is open.

Markus Mayer (Baader Bank): Yeah, good afternoon, Stefan, Isabelle and Lutz. I have two questions. First one, of course, is on the – how you have experienced the start of the year, and in particular, have you seen already opening effects in China? Has this been visible or have they [inaudible] by your customers so far?

And my second question would be again on net fund[?] capital. It looks like that it is still quite elevated with 25% net debt[?] capital to sales and in the past, it was more around 21% to 23%. Should we expect you to reduce net fund capital further over the long run? And as far as I have understood, basically, in the free cash flow guidance, there is basically zero net return on capital effect included. This is just a clarification question. Thank you.

Stefan Fuchs: Thanks a lot for your questions. How we are seeing the start of the year is the last year ended a little bit, like in a similar way. So, I see – we see a strong business in the Americas continues this year. Also, within Europe, especially Germany, if you remember, 2022 was more of a slow start in Germany and then, towards the end, it was stronger. So, we see that part.

With China, I think we really need to wait until the first quarter is over because last year, they had the China New Year in February, this year it was in January, so you need to see it combined. But January was still impacted on the zero COVID, not only our people, but also [inaudible] other people were influenced. But all in all, I think the start of the year was – proved[?] our outlook we have given for the entire year.

Isabelle Adelt: Markus, with your working capital question. You are absolutely right that levels are still elevated, and we are planning to further reduce them. To give you an exact number on what our target is in terms of working capital percentage of sales is quite difficult because the world has changed compared to what we saw in the previous years. But 25% is too high; so, the right level will be 21% or 22% or 23%, we will need to see. But we have a consistent approach to challenge our countries to look into how fast this is moving, what do we really need. How much raw material [inaudible] we have on hand, so this is managed quite diligently, and we expect that to come further down.

You are absolutely right, in terms of free cash flow, we only anticipated limited additional working capital. So I would divide this into two, my answer. We say at current pricing levels, we expect working capital to come down as a percent of revenue. So, this means for those additional €150 million we are planning to do in terms of sales, we do not need massive investment into working capital. What happens with the pricing and working capital effect relating to pricing, on this question, we simply don't know. This is why we didn't build it into our guidance.

Markus Meyer: Okay. And maybe if I can steal another question, Isabelle. When you started, you said that you have also looked at the different kind of business units of FUCHS, and that you see also optimisation potential, also in terms of forecasting, but also in terms of being more efficient on a holding level. Can you give us more colour on this? How quick do you expect then the effects to come? Is there something you expect the number of FUCHS this year as more something for the next years out? That would be also helpful.

Isabelle Adelt: I think, in terms of, to take your first question, forecasting quality, I think generally the FUCHS Group is quite skilled at doing that, because we have strong local entrepreneurs that really know their markets, they know their business. They know what is happening out there. So, I think honestly, to improve this, this will be, point one, a stretch and point two, not my first priority. When it comes to cost management and performance management, I would say, as a whole, it's definitely something on the agenda. So, I believe we are really now putting in benchmarks and comparing how our countries are doing specific things, we can for sure put in place some quick wins. But for the big contributions, the likes at [inaudible] implementation, this will for sure take a little longer and will not show in the numbers this year.

Operator: Thank you. We will take our next question. Your next question comes from the line of Martin Rödiger from Kepler Cheuvreux, please go ahead, your line is open.

Martin Rödiger (Kepler Cheuvreux): Thank you, good afternoon. I have three questions please. As far as I understand, you were not able to fully pass on increased costs to your customers in the last year, so you continue with price hikes this year. What is the amount of price hikes you currently implement as we speak? Do we talk about a low-single digit, a mid-single digit or a high-single digit price hike?

The second question is on your Russian activities. You have a plant in Kaluga, do you expect any write downs on that plant because your key customer, Volkswagen, is currently selling its plant in Kaluga?

And the third question, that is in particular for Isabelle, in the past, FUCHS Petrolub's ratio of raw materials was 60% in additives and 40% in base oil when it comes to the raw material bill, not on the volumes. Did this ratio change in recent years? Because, Isabelle, you mentioned in your speech that the charts you provided on page 14 about the raw materials basket, that these raw materials represent 40% of your raw materials. So, as the base oil group II, base oil group IV and base oil group V are missing, is it fair to assume that the ratio has changed? Thank you.

Stefan Fuchs: Thank you Martin, I am always glad you ask Isabelle specifically so she will answer the last two questions, I will answer the first question. So, the first question was, with fully pass on of the raw materials cost. Yes, we achieved, I think, to pass them on fully, despite running behind impact. And, as I have told you already last year, for me, in my 25 years, that's the first time that the raw materials went up significantly but now, for many, many months they never came down.

So, if you remember 2008/2009, but also 2020, they skyrocketed and sharply decreased again. This time the decrease never came. We pushed them all through and we were early on, and we made numerous rounds of price increases. We also paid for increased energy and freight expenses. But we also know, we have an additional €350 million in working capital on the same volumes, and I think as [inaudible], by my mental[?], there are no free lunches. We also need to cater for that, especially when we look at the FUCHS value-added.

We are doing some last rounds of price increases right now, and therefore, the longest discussion we have in this regard to the outlook of our sales top line, because it is so difficult. On the one hand, it should go up because we have the full year impact on the higher prices now. On the other hand, maybe there comes a time, I don't know when, end of second quarter, third quarter, maybe never, that prices might go down. So, there will also be a certain giving back. Also, the exchange rates are a little bit different, so it is really hard for us to put down a top line estimate, and therefore, we said we keep this one. At the moment, we have no significant pressure from customers to do something in the big manner.

And I think, also very important, when you look at page number 19 of the presentation from Isabelle, the base oil group I, going up and down, this was the European picture. So, in Asia it was not the same. It was not as steep. In the US it was a little bit less as well. And, if you look at our entire raw materials basket, we see no big change at the moment. And, hopefully, it continues to be very high. The additives and the chemical providers, or suppliers, have the same problem that we have got with the capital employed, with the fixed costs. So, we don't see any huge relief coming up soon.

The good thing about FUCHS is we have a very strict valuation method. We say no movement for raw materials or finished products in the six months is 50% write-off, no move in 12 months is 100% write-off, so we have a clean book. And the only good thing is with regard to working capital that the supplier situation has eased, so we don't need to over stock certain raw materials anymore. So, so far from my side, with regard to increases, [inaudible].

Isabelle Adelt: And I will take your additional two questions, Martin. So, on Russia, I think very simple answer, we are currently not expecting that we need to write down the value of the factory. Why is that? Well, I mean, of course, we implemented everything we had to comply with the sanctions. So, we ring-fenced the organisation. There are no inter-company deliveries into Russia anymore. We have a thorough check of who we deliver to in Russia. They are completely on their own, cut off from the rest of the FUCHS group. But we said we are still – we still have to take care of our roughly 30 employees we have over there. The volumes are down slightly. However, they are still doing profitable business, they are delivering to their local customers. And, luckily, we have a very broad industry coverage in Russia as well. So, so far, we do not see that the business is not profitable anymore and that we are looking at an impairment.

The second question was the split between raw materials, sure. So, I think the 40/60 is still a good indication. I mean, obviously, somehow, it is a little volatile month over month. Sometimes we buy more bases, sometimes we buy more additives, chemicals, but I would say this is still valid for, let's say, looking at the entire group and the entire year.

Operator: Thank you. We will take our next question. Please stand by. Your next question comes from the line of Michael Schäfer from Oddo BHF, please go ahead, your line is open.

Michael Schäfer (Oddo BHF): Yeah, thanks for taking my questions. On the first one, just looking back into the fourth quarter, maybe you can help us understand basically, this very strong finish in Europe, whether you see this as a kind of – any particular major drivers, so some of the restocking of automotive, which may be not sustainable. And related to the fourth quarter review as well, in the US, the impact from the freeze, is there anything you can quantify? So, this would be my first question on the Q4.

Then, certainly, back to the outlook, so I understand basically your cautious view when it comes to pricing, but it looks like you took a quarter's view on raw mats and evolution throughout 2023 when it comes to your top line, without i.e. taking a bit more, kind of a moderation of prices into the second half. To what extent have you baked in any kind of cost relief, helping the P&L basically, in the second half? So, this would be my second question.

And then maybe, in particular on China, so can you help us understand maybe the kind of China sales drop you have experienced in 2022 when it comes to volumes and prices, and hence the kind of base from where we expect them to jump into 2023? So, this would be my three questions, thank you.

Stefan Fuchs: So, thanks a lot, Michael, for your questions. We saw a pick-up of the impetus within Europe, especially Germany, and we don't have a huge stocking potential, because our products are there only for a few days and then they are needed so they can't stock our products for many weeks and have a stock up. So, what we also see from the car industry, there was a certain backlog on some of the car demand, so we don't see that, at the moment, as a temporary part only.

The freeze in the US caught us a little bit, but it's not such a significant thing that we see an additional half month, let's say, within January or February. But we saw good US business towards the end of the year, also at the beginning of this year. Don't forget, we also have an outstanding operation going on in Mexico where we did $100 million in sales, so that is also a bit part of our Americas. Plus, Nye continues to flourish really well.

With China, we saw a higher single-digit volume decrease last year, which was probably the sharpest decrease towards the end of the year, and the very beginning of this year. We assume that towards the end of the first quarter, they will pick up again in China. So, I think that's the estimate we can give as of today.

And on the pricing part and the raw material evolution and the outlook, Isabelle will...

Isabelle Adelt: Yeah, sure. Yeah, Michael, from my side as well, to put the outlook into perspective, we certainly don't know what will happen with the raw material pricing. This would be looking into a glass ball, this is why we didn't build it into our outlook. Yeah? So, what we said, we assume the pricing level we have right now and then looked into the factors that we can influence, which is growing the business organically with the segmentation of the market, so organic growth, which is cost management. And, obviously, the accent[?] of the lag effect we saw in the last year and which, in terms of free cash flow, is that we figured in a decrease in – sorry, only a slight increase in working capital due to better working capital management. But what we did not figure in is the reduction in working capital due to, say, lower prices, and hence lower inventories.

Michael Schäfer: Can I just sneak in a follow-up on your raw mat basket. On this 60% chemicals part, how do you see this evolving basically?

Stefan Fuchs: Well, let's just say, as we explained you our pricing, so at the moment, they are still in their last stages of trying to either maintain or have slightly increases. So, therefore, we see our entire raw material basket not moving at the moment. And then, it is also [inaudible] to where that goes.

Operator: Thank you. We will take our next question. Your next question comes from the line of Oliver Schwarz from Warburg Research, please go ahead, your line is open.

Oliver Schwarz (Warburg Research): Thank you. Firstly, I would like to ask on CAPEX, you stated that you liked to invest in 2023 roughly the same number as in 2022, which is €80 million. Given that we had some inflation, to say the least, in the meantime, and you are trying to make inroads at least into the battery, into the electro-mobility market, in actual terms that seems to be value-wise a lower number than compared to 2022. So, is it that you are, let's say, toning down on selected projects, or are there just not sufficient – a sufficient number of projects to invest in? Why is that number below depreciation also in 2023? That would be my first question.

My second question would be on the 2025 target for FUCHS, which is, in EBIT terms, €500 million. Using the €390 million in EBIT as a starting point, that would indicate growth rates, EBIT growth rates, both in 2024 and in 2025, of roughly 13.5%. Can you quickly elaborate how you are trying to climb that hill, please?

And, lastly, we heard about your MTs[?] in Russia. I would like to know whether there is, for you as the FUCHS Group, or the FUCHS HE, any, let's say, way or means to extract cash from your Russian enterprises? Thank you.

Stefan Fuchs: Thanks a lot, Oliver. I'll start with the CAPEX one. But, first of all, I think when you look at depreciation, you need to distinguish between depreciation of fixed assets, purchase price allocation and the materials part. And Isabelle can give you the exact breakdown. So, we are not below the depreciation number of the fixed assets when you compare apples with apples.

On the other hand, FUCHS was pretty mean with the CAPEX let's say from 2000 until 2015, then we opened the valve. And once you open the valve, you have plenty of projects. So, we don't miss any projects, so don't underestimate that part. What we have done is, clearly, we've set the €80 million goal to have a cap on for the time being because we said this was a massive campaign. And at the moment, we don't see any additional facilities. We build Nanxiang[?] in China, or we build in Sweden a new plant, we don't see that. We have a plant, okay, it is in Vietnam, but Vietnam is a very small market for us, so there is sort of [inaudible] is also not so big as in the other countries.

The biggest project for this year is the speciality case plant in China. That's an interesting one. And the €80 million then, itself, always allowing for some mid-sized project.

Oliver Schwarz: Yes, but with inflation?

Stefan Fuchs: But at the end of the day, we wanted to keep that goal, but we don't do stupid things. So, let's say, if we see some big opportunity, you know, you can always give something in addition but that's the budget we have for the moment.

And with regard to e-mobility, let's say the thermal units and the EDF we do in our regular planning[?] equipment[?] we have today, and the electrolytes was something that was part of our press release for E-Lyte, so that's all factored in. So, really, nothing else to be said on the CAPEX.

Obviously, our [inaudible] colleagues from the region, they always want a little bit more, but I think it's good that Isabelle and I are a little bit strict at the moment, because we also made a promise to you, and I think that's very sound moving forward.

Isabelle Adelt: Sure. And then let me take, Oliver, the other two questions. So, I will start with the cash from Russia question, because that is the easier one. Do we see that we can extract cash from Russia? Yes, but at a very limited rate. So, we've got the approval to pay our dividend, but this is only possible in instalments over the next two years. So, I think what we see is that moderately it is possible and we're doing what we can. But when you look into the [inaudible] of our holding, you will see that for the inter-company loan, Russia obviously got to build the plant and we wrote that down, because we do not believe within the next three to four years, we will be able to get that cash out of Russia. Although, what we already said before, since then, the business is profitable, they are self-sufficient. They are also generating cash, so the only issues are the restrictions we see in terms of getting capital out of the country. So, we are working with the banks who are on site to see, to get as much out as we can, but the cash we still have in the country, openly speaking, is not that much, we are not overly worried about that.

The way towards the €500 million, this is still our target. It is an ambitious target, we know this, but we strive to achieve this. So, what is the way towards going there? I mean, we say on the one hand side, we grow our sales. Major contributor to this will be the segmentation we put into place two or three years back, but we look into what are the segments we want to play in. And we don't only do automotive. This is what people often forget. We do industry, we do specialty business, we have mining. So, we really looked into what kind of competencies do we have into the group. What kind of workforce do we have in the group when we look into markets. And we are now structurally sharing that knowledge and rolling out different competencies, different products throughout the group. And we believe that this will enable us to grow, and grow profitably.

And then, on the other hand side, obviously, continuing the strict cost management we are doing to look into how many people do we really need to hire? What kind of processes and systems can we improve? This will obviously not come through all of this year, but in the years to come. But this is something we are continuously working towards as well.

Operator: Thank you. We will take our next question. Please stand by. Your next question comes from the line of Andrew Stott from UBS, please go ahead, your line is open.

Andrew Stott (UBS): Yeah, good afternoon, everybody, thank you for taking my questions. I just had two actually. One was around the volume performance in 2022 and maybe what that means for 2023 and beyond. So, minus 4% against what was obviously a very good year, prior year, doesn't look like a bad performance at all, considering you've put prices up 19%. What is your feel for market share within that performance? I mean, it's a question more about your philosophy of pricing. So, are you pricing with the expectation that some of your customers will walk away? Or are you trying to protect that volumetric share? So, that's the first question.

The second question, I might have missed it, I think, Isabelle, you mentioned something around the fixed cost guidance for 2023. So, I'm going back to the slide where you mentioned the 2022 performance. Because that clearly did eat away a bit at your margins in

2022. So, yes, any sort of broad guidance that you can share on fixed costs, on SG&A would be very helpful. Thank you.

Stefan Fuchs: Yeah, thanks a lot for your questions. First of all, with regard to pricing, I have quite an aggressive stance because I understand there is always a discussion of how far can you push the envelope. But at the end of the day, if you tell to a sales person, increase the price but don't lose the customer, he is not going to increase the price probably. So, we really pushed hard, but the good thing is we were out of the gate early on in the year and we did small amounts of price increases. Rather, like 6 x 5% than one times 30%. And the good thing – and we are not arrogant to our customers, we were very transparent, but in a firm manner.

The good thing is last year the customers couldn't go anywhere because of the availability part. We could actually jump in from the one or the other times when some of our suppliers did not have such a foresight in the planning of their raw materials. So, all in all, we did not lose any significant volumes last year due to our pricing.

When you look at the overall volume development, and we have done the study for ourselves, and you take the put-through volume, and then you take out China and then you take out the [inaudible] Belarus, Ukraine, and Russia, because you can't export out of Europe into some of those markets, actually all the other companies increased their volumes, which satisfied me, because there was a drop in China. We wanted to be a large [inaudible] contributor and you are down by a high single-digit [inaudible] amount that other countries make good for that, makes me look at it much more positive when you do that analysis.

Isabelle Adelt: And to take your question on SG&A. So, I believe we will not see the same rates of take-up we saw last year. However, I think, same as we saw on a positive note, in terms of pricing, that we will not have the lag effects anymore but the full year impact of better prices. The same obviously holds for functional[?] costs as well. So, that will leave – somewhere between a third and a half of what we saw last year, we will add on top to make sure to cater for the full year effect of personnel expenses, freight and energy. Those are the big three to me.

So, but what we are doing, we are very carefully looking at where do we add fixed costs, yeah? So, what we do right now is that we do not hire a lot of new people, but we wait how we are starting to the year, and a lot of things we are planning to do, we wait for our quarter four forecast to come in, we wait for our first quarter to come in and to really see how that turns out, how the market is developing. There is still a lot of uncertainty, so we are very cautious in terms of adding to our fixed cost base, so I do not believe that we will see it tick up like we saw last year again.

Operator: Thank you. We will take our next question. Your next question comes from the line of Riya Kotecha from Bank of America. Please go ahead, your line is open.

Riya Kotecha (Bank of America): Good afternoon. I have three questions please. First, on the 2023 EBIT guidance as part[?] of 2025 target. The guide for this year suggests an incremental €25 million in absolute EBIT year-on-year, which means that, in order to reach the €500 million target, simplistically, that incremental contribution in 2024 and 2025 will have to accelerate to more than €50 million annually. And I want to understand what the reasoning is behind the step-up from 2024, rather than have a more evenly phased profit contribution from 2023 onwards.

My second question is with regards to the Nye acquisition in North America. That seems to be contributing positively above and beyond just a run rate effect. Can you give more colour on how you realise synergies here? And have the results of this acquisition been in line with your expectations or exceeded them? At this point, can you provide more colour on if M&A will be a bit more of a focus in 2023? And if we should expect this soon?

And my last question is on EVs. Given the specific applications described in the lifecycle of an EV, have you been able to better quantify what might be the FUCHS lubricant content in an EV, compared to a combustion engine?

Stefan Fuchs: Okay, thank you for your questions. Maybe I'll start with the last question. We still are not very much in favour to say what is the content of a car in the combustion engine and in the EV, because our market share in the EV market will be higher than in the engine oil market for light vehicles, because it is a much more narrow market with less competitors.

Anybody who calls to the [inaudible] can get an engine oil specification, they buy the package from [inaudible], they mix it with two base oils, and they have an approved product. This is different with the EDFs and the thermo[?] [inaudible]. Therefore, I can answer you the question, I think on the EV car, all [inaudible] involved, if you have 100% market share, it might be – it might be, it's not sure, below a combustion engine car, but our market share will be higher and I think that will compensate for that.

The other part, with regard to Nye. Nye significantly outperformed our expectations and that was still a very nice acquisition. It was the first time in my life that I was shown a hockey stick during the negotiations and we played an earn-out on that, that they succeeded the hockey stick and we renegotiated the earn-out successfully. But they do really outstanding and within the US but also now using our worldwide infrastructure, outside of the US, to sell their products in markets like Europe or in Asia, which they have done through distributors before.

So, Nye is cool. And when you say whether there's more focus on M&A, we have never changed our focus on M&A. It is always the same answer, we have a clear list of companies we would like to acquire. The list changes over time, due to the three megatrends and to the external impacts. And we continuously talk to many people, and we will hope to conclude something this year, but I can't give you any promise, it always depends on the specific situation, vis-à-vis the family selling something, or [inaudible] a larger company, they spin off something. But M&A, we don't need it for our 2025 plans, but we would love to continue to do M&A as we have done in the past.

Isabelle Adelt: And to go back to your EBIT question, Riya, you are absolutely right. This is an ambitious target but thanks to our products we are selling, we like challenges, we like ambition. So, what do we believe will be different in the years to come? I mean, listen, in the last two years, we somehow had the issue, raw material prices were skyrocketing and our salesforce wasn't really focussed on discussing pricing freezes with our customers, discussing with substitution of materials, which sounds easy, but really is not when you approach an

OEM and say, 'Listen, we can produce the product but we somehow need to exchange some of the ingredients.'

So, they didn't really have a lot of time to focus on volume growth and to focus on developing the segments. So, we believe that, starting from this year, this will be different again, and our salesforce can put on a different hat and really focus on growing the segments and growing the volumes again. So, once we see that, we believe that the EBIT will pick up much quicker and then we will have it evenly distributed more or less within the 2024/2025.

And the next thing, obviously, we are taking a much closer look on cost management now, with, for example, on what I've already said, we're hiring less people, already more carefully looking at where do we need additional people. We are managing our costs, managing our resources, putting in place new standards. So, I think those two [inaudible] the success in taking the next step towards the €500 million.

Operator: Thank you. We will take our next question. Please stand by. Your next question comes from the line of Isha Sharma from Stifel, please go ahead, your line is open.

Isha Sharma (Stifel): Good afternoon. I just have two please. Could you help us with your specific expectation in terms of volume by businesses and regions, please? Where do you see the most potential here?

And the second one is, if you could please quantify the impact from the frost wave in North America? I am just trying to understand the exit rates for Q1 estimate. And in this regard, are you expecting your earnings to be more second half weighted in 2023?

Stefan Fuchs: I think with regard to the outlook, we look forward, I think, to a solid first quarter, so it's not that we have all the hopes for the third and the fourth quarter. So, that's the one part.

With regard to specifically – so, coming back to the frost in the US, it will not come that we have like four months[?] in the first quarter in the US, so it will have some impact, but I think if you have a backlog, it takes some time to get rid of the backlog because all of our customers have their backlogs as well.

With regard to specific volume expectations, I think, as we have said before, we really estimate that, starting in the second quarter, we see a rebound in China and, otherwise, we have [inaudible] for volume increases in Europe as well as in the Americas. And, as Isabelle already outlined, on our second approach[?], we have budgeted in 2022 business development, which we moved one year to the right to 2023, because last year, our sales team were fully engaged with pricing and the raw material availability issues. And this year, we have none of those, so I think they really have time to go out and get their plans executed, and we see some good results already happening now.

So, therefore, that is, I think our outlook for this year, which I find more positive because we have significantly less cost challenges as we had last year.

Isabelle Adelt: And maybe, Isha, to act on the frost damage, so to be very clear, we do not see improvement in damage[?], like when you have those pictures in mind of those refineries in Texas, this was really a temporary impact. At the moment, it is very cold outside. For us, that is a limitation to move the products around, to move them out of the warehouses, because they will freeze. But it's not that our plant or our production availability was somehow smaller now and we need to rebuild. But this was really pure temporary, end of December, beginning of January impact. So, once the temperatures rose again, we could go back to full capacity.

Isha Sharma: Sure. My question was only regarding the underlying EBIT for Q4, which then I could extrapolate. It was not that I expect the frosts to continue. I was just hoping to see what your underlying EBIT was in the fourth quarter.

Stefan Fuchs: Okay. Are there any more questions from your side? Otherwise, we have come to the end of today's conference call. So, maybe this last chance to ask a question if you do have one.

Operator: Thank you. Once again, if you do wish to ask a question, please press star one and one. We have a last question. And the last question comes from the line of Lars Vom-Cleff from Deutsche Bank. Please ask go ahead, your line is open.

Lars Vom-Cleff (Deutsche Bank): Yes, good afternoon. I promise to be quick, keeping an eye on the time. Looking – I also have questions about your guidance. I mean, is it fair to assume that this is rather a minimum EBIT guidance you've published, especially that you have not provided us with a range this time but rather a single amount? Because if I do a quick back-of-the-envelope calculation and divide your €390 million by the €3.6 billion sales target, it would imply a margin recovery of round about 10 basis points, which looks very conservative to me, given the qualitative statement you also made during your – or with regards to your outlook.

Stefan Fuchs: I think that's a clear question for Isabelle.

Isabelle Adelt: Thanks, Stefan. No, I wouldn't – Lars, I wouldn't say this is a minimum guidance but [inaudible] we somehow do – I mean, I personally like to do guidance a bit differently. This is where it comes from that we don't have ranges anymore but rather a spot rate because it's what I like better. That's the only reason behind. €390 million is due to our best knowledge of how the market and how the raw material pricing will behave this year. But, so far, this is really glass full. We really don't know what will happen. So, it can be where the prices do not really recover, we don't see the same lag effect in the different direction. It can be that they go down by 20% so we will see like a strong uptake in terms of EBIT. So, those can go into both directions. We saw that last year as well. That suddenly, it was very difficult for us to give a guidance.

I mean, Stefan did a really nice quote earlier towards the press in March, 'I've somehow stopped hoping for the prices to go down, because somehow it never happens.' We still didn't see this. So, this for us is such a big uncertainty. And, as you know, I mean, pricing for us is really the core around the raw material prices, how we do our prices, how our EBIT develops. And, for us, it is really difficult to tell right now.

Lars Vom-Cleff: Understood, thanks. I saw a *Bloomberg* headline accompanying your balance sheet press conference which says you want to keep your 2023 margins stable at around 11%. Is that a figure you mentioned, and you explicitly tried to reach? Or where does that come from?

Isabelle Adelt: No, I think they have a calculator, but, no, we didn't mention 11%. This is just, I think, the same exercise you did, from the €390 million divided by the €3.6 billion.

Lars Vom-Cleff: Excellent, understood. And then maybe the last one, there was another headline saying you want to reach your EBIT target of 15% or above 15% by the end of the 2020 years. I guess, this is the latest date until which you intend to have reached this margin and you wouldn't rule out to be able to reach it earlier, right?

Isabelle Adelt: I mean, we would love to reach it earlier obviously, but I mean, we are talking, and to me it is very important, about a sustainable EBIT margin of 15%. I mean, obviously, once prices go down, we will see this margin now and then, but for us, it is really important to think about what we do need to change structurally? How do we want to put up our sales [inaudible] in terms of the segmentation? What kind of systems and processes do we need? And this takes more than a year or two to implement, honestly speaking. And this is why we said 2025 is not realistic, but it will be more towards the end of the 2020s.

Lars Vom-Cleffe: Understood, many thanks.

Operator: There seem to be no further questions, so I will hand back for closing remarks.

Stefan Fuchs: Yes, thank you for your participation today. So, we are at the end of this conference call and we would like to thank you very much for the participation and we are looking forward to the next conference call which will take place the day of the Q1 reporting, which will be not too far away, on the 28th April. And have a good time and until then, bye-bye. Thanks a lot.

Isabelle Adelt: Thank you, bye-bye.

Stefan Fuchs: Bye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]