Financial Results 9M 2023

Friday, 27th October 2023

Operator: Dear ladies and gentlemen, welcome to the Third Quarter 2023 Analyst Conference Call of Fuchs SE. This conference will be recorded. As a reminder, all participants will be listen-only mode. After the presentation, there will be an opportunity for the analyst of Fuchs to ask questions. May I now hand over to Lutz Ackerman, Head of Investor Relations at Fuchs SE, who will start the meeting today. Please go ahead.

Introduction

Lutz Ackermann

Head of Investor Relations, Fuchs Group

Introduction

Yeah. Good afternoon, ladies and gentlemen. This is Lutz Ackerman, speaking. On behalf of Fuchs SE, I wish you a very warm welcome to today's conference call on the Q3 results. With me on the call today is Isabelle Adelt, our CFO, and as always, Isabelle will run you through the presentation which is then followed by a Q&A session. All the documents have been uploaded this morning, 7.00 AM, and you can find them on the IR section of our homepage.

Having said that, I would like to hand over to Isabelle. Isabelle, please go ahead.

Financial Results

Isabelle Adelt

Chief Financial Officer, Fuchs Group

Highlights 9M 2023

9M results driven by strong third quarter

Thank you, Lutz, and warm welcome from my side as well to what is not only a sunny day in Mannheim, but looking at our results, what we would characterise as a record quarter in Fuchs' history. So we are now, after only nine months, standing at €2.7 billion worth of sales, still up 6% year-on-year, strong price-driven growth, obviously. Then what I like most, an EBIT of €313 million, 12% up, so much stronger than sales, which means we are back to profitable growth. And we were able to present the Q3 asset margin standalone at 12.9%. So sequential improvement for the third quarter this year, to fourth step up. And this is something we are very proud of because this really, for us, marks an inflection point on our journey to our midterm EBIT margin target. And then last but not least, obviously my favourite number is the free cash flow. This by far exceeded our expectation. We put in place strict working capital management programs, I will talk through that a little later. But that we were standing at €330 million, even surpassing our great EBIT. This is even for us, something we maybe would have dreamt of, but that exceeded our expectation, as you can see in the guidance of free cash flow guidance we raised again. But I will come to this at the end of the call.

Sales Development

Now looking at the development quarter by quarter. Sales so far, 6% up like-for-like, so free of FX effect. This number would be even slightly higher. If we remember last year, especially Q3, this was the time when we had dollar parity, one dollar for one euro, and the RMB was particularly strong. What we see now is, obviously, a little bit of headwind that goes into the numbers in comparison to last year, and we, for sure, have a small impact from the price variation clauses we have with some of our customers. So far, the sales development is in line with our expectations, and we are closing what we believe, looking at the trend in history, is yet another successful quarter in terms of top-line development.

Looking at the volumes, we see them recover as well. We still had a slight shortfall after the first half of the year. But now taking out the Russia effects out of the equation, we are on prior year's volumes, which given the current circumstances for us, is a very good development given the terrible war we now see in the Middle East, the war in Ukraine that is still happening, China recovering slower. So we are very happy about consuming the volumes we saw last year at end of the third quarter.

EBIT Development

Looking at our EBIT, this development, to me, is even more striking. So 6% up in sales, but 12% up in EBIT. We see our margin recovering, which is a very good sign and especially Q3 now marks a record quarter in history of Fuchs. We've never seen a quarter with an EBIT like this, despite the fact that we had some kind of headwind from currency. So we already talked through that we had some effect on the top line. The same effect is obviously in the bottom line as well, given the US dollar and the RMB compared to the euro are much weaker now than they were a year ago. So, I think this is something we are very proud of, and we are happy that we could close the third quarter according to our expectations.

9M 2023 Group Sales

Looking at where the growth comes from, and this is very similar for top and bottom line. Obviously, all of what we achieved this year is organic growth. So we do not have an impact from any acquisitions we did last year, but we say, we somehow need to correct that number. And as you can see, organic growth would be at 11% if it wasn't for the negative currency impact of -5% we now see. This is what we somehow already expected beginning of this year, since we had a huge tailwind last year when the euro was relatively weaker. But we hope that this is then after this year, stabilising a little bit more, so we can get back to more normal currency effects as come next year.

9M 2023 KPI Summary

Looking at our P&L, where does the higher result and especially the better margin come from? Well, from the fact that we were able to increase our sales prices that successfully during last year. Looking at us compared to our competition, we can only say that our sales team have done amazing jobs, really pushing through the raw material costs and negotiating those price increases with our customers. So we were really happy we could benefit from that effect throughout the entire year. What we see now is that our gross profit grew by 8% with a very good margin, 0.5% up year-on-year. So we are now getting closer to our target margin again, which is a very good development. At the same time, despite the high inflation, our functional cost only grew by 6%, which obviously means we reached the inflection point, an EBIT margin now at 11.6% for the full year. But Q3 standalone was 12.9%, and this is a trend we really like to see.

Investments, as before, we still stand by our word that we say €80 million per year. So roughly the volume of our depreciation since we do not want to eat in our substance but reinvest into the business. As you can see, we are well on track to €55 million after third quarter. One to come. So this should be in the ballpark of [inaudible].

Europe, Middle East, Africa

Now I'd like to take the opportunity to talk you through our regional developments a little bit. So this year, by far, the outstanding region is the EMEA region, and this is not due to the fact that we have Germany in there as our mother country, but almost all countries with double-digit growth rate [inaudible] to mention the development in Great Britain, but in Poland, in Sweden and France and Italy as well. So I think the entire team, they have done great jobs in terms of managing pricing but developing the market in what are difficult times, especially for the European economy. And this is why we still stand by the guidance we gave beginning of the year.

Now, a lot of things in the course of the year have turned against us. We see China not bouncing us back as fast as we would have wished for. We now see a strike of the automotive unions, but we are very confident that with this great development we see in EMEA, and which we expect to continue until end of the year, we are well set towards reaching the target we gave ourselves beginning of this year with, as already said, significant contributions from almost all entities. Having said this, of course, we have much lower FX impact in the Euro region than we have in all other regions, obviously, since a lot of our business is in Euro, but we have strongly-performing countries like Great Britain, like Poland, who suffer a little bit from the stronger euro as well. So we see that -2% we see here, but not as big as the numbers with a headwind we will see on the next slides.

Asia-Pacific

Looking at the Asia-Pacific region, I think we're very proud to report that our sales increased, and we had a positive business development and price increases in almost the entire region, which covers Australia and Southeast Asia particularly, with very good development in India, but as well in countries like Vietnam, where we now build our new factory. But of course, the big country in this region is China, and what we see to date is a lower EBIT contribution of China since the recovery is not taking place as fast as we would have expected it or would have wished for beginning of the year.

We still see a little bit weaker export economy in China. We see growth rate coming back to what we believe will be around 4% this year, but not back to historic heights we've seen in the past. And of course, in China, the weaker renminbi is an issue in terms of buying raw material. So this is something we see our China team doing a fantastic job in terms of really making sure we get new contracts in, that we can substitute the missing export volume with local volume. But of course, this includes a lot of effort and includes a very competitive situation in the market. So I think in terms of volume, we are good, but yet to be shown from China, they can be back to historic growth.

North and South America

Then, last but not least, North America. Very strong growth rate and very positive development in terms of sales and earnings as well. This does not come from the US only, but from almost the entire region. The country I would like to mention is Mexico, which is now really becoming behind the big three players we have. So Germany, China and US – a good contender around place four and five. They're always fighting that place with Australia. They have done a fantastic development, a lot of new, great customer wings. And the same in Brazil, they are developing very nicely. We just bought a new factory, and we are in the process of ramping that up as well. So I think for us, very strong development in the region, despite the fact that they had a lot of headwind from FX, the fact they were still able to show really convincing growth.

What we, however, do not know yet is how big the impact throughout the fourth quarter will be from the strikes of the automotive unions that are currently happening in North America. So far, this has cost the economy in America $8 billion already. And we are quite positive since we saw the first agreements that could be reached with Ford yesterday. So we hope that all of the other automobileists will follow quite soon, but this is yet to be seen. So the union said they can afford another eight weeks of strikes. We hope it will not come down to that scenario, but this is yet to be seen, how long the strikes will last and how long all of those production units will be closed in the year.

Net Liquidity

But from not so good news to my favourite slide of the day, free cash flow before acquisition, we already talked through that. Great earnings, great networking, capital development, and then obviously, some tailwind from the fact that we have higher provisions for things such as tax, such as provisions for our incentives for our people due to the great results. So we ended up at €330 million, which means around about €160 million for Q3 only. And that implies that from last year, December, where we had a negative net liquidity, we were able to turn that around to now a positive net liquidity again, despite the fact that we spent over €200 million worth of dividends and the share buyback, which for me, is an excellent achievement for the first nine months of the year.

One major contributor to this was for sure the net working capital. As you can see, we put a lot of effort decentrally into managing our inventories, managing receivables and liabilities. And I think this now really, we can now harvest the fruit from that. So we see inventories coming down significantly compared to Q3. Last year. We lost more than three percentage points in working capital. So this is positive news. Even if I said last, we came from more than 26%, and we're now at 23.1%s. Not exactly what our target level is, but a reduction of three percentage points or more than three percentage points, something we are extremely proud of. We will continue the efforts we put into place and make sure that we reach our target corridor in between 21% and 22%.

Having said this, we are very confident to reiterate our guidance for sales and EBIT. So far, we do not see any signs, especially looking at EBIT, that we can reach or even exceed this number by end of this year. So far, everything is running according to our expectations, and we are very happy that for the second time this year, we can up our free cash flow guidance. Given we are at €330 million already, would be a little weird to stick to the €300 million, but we believe we can get another good contribution till end of this year.

So, having said this, I think really excellent development, especially given the market we are in and the little shaky situations with a lot of other chemical companies issuing profit warnings.

Net Operating Working Capital (NOWC)

Last but not least, I would like to talk a little bit through pricing, since this is obviously, for us, always one of the major influencing factors and one of the major drivers behind our pricing, but our margin as well. So what we see right now is quite diverse development. So on the one hand side, we have across the globe the base on one and two purchases, where we saw somehow the low base during Q2 or Q3. But what we see is that they are on the rise again. And this is a trend we are observing in all regions. And expectation is that they will continue to go up, base [inaudible] a lot about the structural tightness of the market we have seen last year. This is now fully resolved. We see prices coming back to normal, and we expect that downward trend to continue at least throughout the next weeks or months. For additive packages and raw materials, this is, of course, a little bit harder to grasp since there are so many different materials we are looking at. But what we see, some of them have come down, however, only slightly. So what we expect is that they somehow start to stabilise now, and could potentially even increase slightly in 2024.

And with that, I would like to close the presentation part of the call and open the floor for your questions.

Q&A

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one-one on your telephone keypad and wait for your name to be announced. To withdraw your question, please press star one-one again. Please stand by while we compile the Q&A roster. This will take a few moments. Now we're going to take our first question, and it comes from Martin Rodiger from Kepler Cheuvreux. Your line is open. Please ask a question.

Martin Rodiger (Kepler Cheuvreux): Yes. Good afternoon. Isabelle, Lutz, Claudia from a rainy Frankfurt area. I have three questions, please. The first question. I understand that the organic growth of 4% in Q3 is a combination of 2% pricing and 2% volumes being up. This improving volume figure is a surprise for me because given the poor macro data and the negative volumes we saw in Q1 and Q2. Which countries are the major driver for that rebound in volumes in Q3?

The second question is regarding your income statement. I see that the selling expenses in Q3 were sequentially down quarter-on-quarter. Normally, these kinds of costs are sequentially stable if not rising. Any reason for that? Is that related to the currency, i.e., dollar or renminbi, or due to lower container rates or anything else, and is that current level sustainable?

And the third question is about the cash flow. I see on page 11 of your quarterly report that there is a position in the cash flow statement called 'changes in other assets and other liabilities' and that has pushed up the free cash flow in Q3 alone by €56 million. You can get this figure when you deduct the nine months figure from the – or the six months figure from the nine months figure. And this figure is not part of the working capital. So what is that? Thank you.

Isabelle Adelt: Yeah, thanks for your question, Martin. And I think next time you need to come to visit. We have sunny weather over here. The contribution to volume, I think we've done a good job in a lot of regions, but I would need to mention a single country. It would be China compared to prior year for sure because we are really back to growth and the team has done an amazing job in terms of getting in new volumes, getting in new local customers. So they showed a strong rebound not only over Q2, but compared to last year as well. The two others I'd like to mention is the rest of the APAC region, so especially the Southeast Asia region and India, as well as the US saw an uptick in volumes in Q3.

Regarding cost of sales generally, this is a little hard to answer of course, just looking at one number and giving we are a decentralized company. So there are a lot of influencing factors. One is currency, as you already mentioned. One is obviously that we look into what do we do ourselves or do we pay a commission to others. This in some countries is up and some is down. And what we see overall is luckily that freight cost starts to come down again. This was for sure another influencing factor we see in here as well. Although, unluckily, freight for sea freight and air freight has come down more than for railroad and road, what we utilize. But still year-over-year a decline in here too, which, I think, is good sign. And especially, I think availability of transport has improved significantly compared to last year. So this is not only true for raw material cost, but as well for transport.

Free cash flow, so the other part you're talking about is the thing I already mentioned on the slide. So, obviously, we have much higher earnings than most countries. So we have higher provisions for our tax payments in there, but we as well have higher provisions for our incentive payments for our people that will only be effective for cash, effective next year. But of course, this year, they are deductible to the free cash flow.

Martin Rodiger: Okay, thank you.

Operator: Thank you. Now we're going to take our next question. And the next question comes from line of Sam Perry from UBS. Your line is open. Please ask your question.

Samuel Perry (UBS): Hi there. Thanks for taking my questions. First one, just on the guidance for EBIT, the €390 million seems quite conservative given the current trends that you're talking about. Is there anything to suggest from the order book that there wouldn't be upside to that number? That would be the first question.

And then secondly, you spoke about being very happy with the performance in Europe, but I think that was a nine-month basis comment. What sort of exit rates are you seeing in Q3 into the fourth quarter?

And then if I can squeeze one more on capital allocation, given the free cash flow that you've generated this year or what you've guided to generate, you'll be back in net cash by the year-end. Your buyback also finishes, I think, in January. How would you prioritise that over other uses of capital going into next year? Thanks very much.

Isabelle Adelt: Hi Sam, thanks for your question. Regarding the guidance, you're correct that we are being conservative. Why is that? Not because of order book trends we see, but more because of the macroeconomic development. So for me, most uncertainties we do have is two factors. One is the strikes in the US we currently see, and we do not really know when it will end. So it could be next week, if we are lucky, but could be it will take another eight weeks because this is what the unions have funding for. And this obviously will have an effect on our US business, since we do not have a big automotive exposure directly, but a lot of metal working fluids that indirectly go into the automotive industry. And second big uncertainty we obviously have is the new terrible war in Middle East. Luckily, we do not have a direct exposure there, so no Fuchs entity in Israel or Palestine. But we obviously know that a lot of other countries are involved, and it's yet to be seen what this war will do to our input costs in terms of pricing, especially for oils and other raw materials. So those are the two big uncertainties we currently see. But having said this, yes, the guidance is conservative and, of course, we will do all we can to exceed that guidance and deliver another great quarter in Q4.

Having said this, Europe, we do not see any slowdowns in order intake yet, so we are quite confident we can continue this good performance. We do have a very good pricing level in Europe, and I think good thing is due to the decentralized setup, we have a lot of very strong contributors. So, of course, we are growing in Germany, which is our single biggest market, but we're growing in a lot of other countries, like UK, like Sweden, like Poland, like France as well. And we really expect this trend to continue until end of this year. So no slowdown, at least what we can see from our order book so far.

Regarding capital allocation, I think very good question. We are still in the process of discussing that internally as well, whether we want to continue or not. Of course, our preferred use of funds would be M&A, but we are still investigating if there's something in the pipeline that would be interesting for us. But otherwise, I think will be time to inform about that in our next call once the share buyback program has really ended. Or of course, we will then inform in due time, in case we decide to prolong that. But that decision is not yet taken.

Samuel Perry: [Inaudible]

Operator: [Inaudible] questions. Thank you. Now we're going to take our next question. Just give us a moment. And the next question comes from line of Konstantin Wiechert from Baader Wiechert. Your line is open, please ask a question.

Konstantin Wiechert (Baader Bank): Yeah. Hi, Isabelle. Hi, Lutz. Yeah, congratulations to the strong quarter from my side as well. Maybe when we stick to the free cash flow and I would be interested if you could give us a bit of an overview about the moving parts of your free cash flow in the next year. How should we look on the raw materials? Here you mentioned already that these might also in terms of additives, but also in terms of the base oil, might go up again. So therefore, should we see also then rather a build-up of raw materials in the next year again, or what will be the drivers to bring you then towards the target of the 21% to 22% of sales level in the next year? And then also maybe if you could shed some more light on no, sorry, I think that was already answered when I read it right now. So that's all for now. Thanks.

Isabelle Adelt: Okay, yeah, sure. Hi Konstantin. So, I think for next year, of course, it's still a little hard to really predict the actual impact of raw material pricing. So what we expect is that at least for parts, it will start to go up slightly again, but not at really high rates, what we saw in 21 and 22. So what we will do for sure is continue the working capital management measures we put into place. But of course, some things just take time. So, I think we haven't really seen the full effect so far yet. As you can see, we are down year-over-year by 3.5 percentage points, I think it is, which is a very good effort already. So just by continuing this kind of management, we are very confident that somewhere during next year we can get back to our target level. Of course, we are correct the moment where we see prices going up, it might be a small swing, but usually when raw material prices increase, our selling prices to our customers increase as well. So this is only a small temporary dip we might see then because our sales would obviously go up as well, in case the prices go up. But I would say, generally speaking, we always stand by our guidance of a cash conversion rate of 80%. But I think especially in times where we put into place active working capital management, this year free cash flow will be somewhere in the ballpark of our EBIT, which of course is a fantastic achievement. But this is, obviously, partially the build up we saw in the last two years going back into the business. I expect this trend to continue somewhat during next year, although not as strong as what we see this year.

Konstantin Wiechert: Okay, perfect. Thank you.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one-one on your telephone keypad. And now we're going to take our next question. And the next question comes from line of Michael Schafer from Oddo BHF. Your line is open, please ask your question.

Michael Schafer (Oddo BHF): Yeah, thanks for taking my three questions. First one would be on cost. If I'm not totally wrong, basically, Q3 was the first time since two years that we have seen cost dropping year-over-year €40 million. So, I guess raw material basket is a key driver here. So whether you can confirm basically that the overall raw mats bill declined year-over-year and how this trend is – whether this trend is then continuing into the fourth quarter? And sticking to raw mats, you are looking into '24, and I'm a bit surprised that you are projecting basically additives going up again. So any reason for that? What you hear in the market, why basically prices should increase from elevated level already? So this is the first question.

Second one, coming back to EMEA, I think this was the only region which reported declining organic sales year-over-year in the third quarter, while you painted a rather, let's say, optimistic picture on continuing trends, positive trends into the fourth quarter. So, I wonder whether what was the reason for the year-over-year decline there?

And then more kind of housekeeping, your other consolidation line. I think you generated €16 million, one-six, in the first three quarters accumulated. So this basically used to be a very volatile line. So, have you changed anything in reporting and what we should expect being the run-rate for this year and maybe also looking into the next years just as a clarification? Thank you.

Isabelle Adelt: Okay, I was just – sorry, yeah, thanks for your question, Michael. So I think raw material cost, influence on cost was exactly as you described. So we already saw, compared to prior year levels, obviously, raw materials coming down in Q2, although no real P&L effect yet, since given our DIO is something around 90 days, it always takes a little bit time until it really hits the P&L. And this was the effect we now saw in Q3. Think we will see a similar trend in Q4, and then think for next year directly, leading into your second question, this will be an interesting one to watch.

So what we see right now is that, especially for special chemicals and additive packages, the market is relatively difficult. I would call it like this for our suppliers. So, of course, they somehow are looking into how competitive is the situation, can we make our margin. So we are not expecting a rally like we saw in '21, '22 again. But it could be obviously that we see smooth steps of increase again. Since, obviously, if prices start to go up again, this is the same thing we would do with our customers. But I think it's not expected that we see skyrocketing prices, but rather, hopefully something back to a more normal working environment again, where we see slight step up in costs, slight step up in prices and everything starts to stabilise a little bit more.

I think the levels we see right now, to comment on this, they are still slightly elevated looking at the before COVID numbers for sure. But there, I think, interesting question maybe to discuss more lengthily is, will we ever be back to pre-COVID levels, or do we need to get used to a new normal? But compared to levels where we were somewhere during 2021, I would say prices look relatively normal right now. I think now for us, really, the question is: when do we enter the phase of a more normal pricing pattern? And this should be somewhere during next year, I believe.

And then answering your question regarding EMEA, so I think one thing to consider, you said organic decline, that's correct. But we need to be transparent. There was a very good contribution of Russia in there last year and Russia has declined significantly, obviously, since we stick to all the sanctions, and they are on their own now. So this is basically the biggest portion in here. And just doing math on top of my head, adding this back, I think this really explains a huge portion of the shortfall you look into. We have some smaller currency effects, if you recall that particularly strong countries for us were Great Britain, Sweden and Poland. We have some translation risk in there as well, which was something like minus 2%, so somewhere in that ballpark. But I think a major reason I would give for that is the Russia business.

Michael Schafer: Other and consolidation?

Lutz Ackermann: We didn't get the last. I think you were on mute.

Michael Schafer: Sorry. So, yeah, the last question was on the 'other and consolidation' line, to what extent – so, your accumulated was €16 million, which looks like a decent contribution so far. So, I wonder what kind of structural element is baked in there and how we should take this as a run-rate going forward. So, is there €5 million every single quarter, and should we look into €20 million annually? So what's behind there, this kind of consolidation effect? Thank you.

Isabelle Adelt: So behind this consolidation effect, I mean, when you look at the numbers, we are looking at a region – a regional setup, but of course there are relationships in between the regions. So this now then needs to be taken out. But to be fair, to give you a run-rate on that is particularly difficult because we never really know how big this effect will be and what the companies will buy from each other. So this could vary a lot from quarter to quarter depending on who's buying what from whom. But this is really pure, it's a company consolidation profit elimination.

Michael Schafer: Okay, thank you very much.

Operator: Thank you. Now we're going to take our next question, just give us a moment. And the next question comes from the line of Riya Kotecha from Bank of America. Your line is open, please ask the question.

Riya Kotecha (Bank of America Merrill Lynch): Hi, morning, I've got three questions, please. My first one is on the year ahead. So very simplistically, if I analyse this quarter's performance, it takes you to beyond €450 million EBIT for '24, which is halfway to the €500 million by '25 target. Can you walk us through some of the moving parts of profit growth into next year, and can you give us a sense of the budgeting process for the year ahead? How do you go about this informing your internal estimates? Is it by speaking to divisional heads or more on a top-down basis? And if it's the former, any colour on how on the ground sentiment about the growth opportunity next year is panning out?

My second question is on raw materials. So the crude oil price has risen sharply over the past quarter, which has begun to influence the one in two grade spot prices. Have you seen these in your raw material purchases, and to what extent would folks be comfortable passing on further price increases next year to offset any incremental inflation?

My third question is on capital allocation, and just a follow-up from the one before. The free cash guide obviously is positive and has been raised and actually even seems conservative. If we have a further working capital unwinding to the fourth quarter, how actively is management looking at M&A? Any updates on the pipeline and whether we can expect this? Thank you.

Isabelle Adelt: Yeah. Hi, Riya. Excellent questions. So, take the first one on the budgeting process. So we're currently really in the middle of getting our budget numbers for next year ready. This is hugely, I mean, we issue some guidance from corporate on some assumptions. Usually, this is a bottom-up exercise, as was the exercise that led to our guidance for 2025. So I think very same approach, and we will see how the nice trends we see this year rolls into next year. Although, I think what we expect to see given all of the macroeconomic trends is kind of a slowdown, but we would need to see what that means in detail. We put in place a lot of really nice measures in terms of making sure we can increase volumes, we can manage our costs. But of course, the moment we are in a situation where we have a recession in Europe, very slow economy in Germany, now strikes in the US. I think that doesn't really raise the confidence of the consumers. So we will need to see how confident our countries are, our country managers and then see what comes out for next year. So we are still confident we are on a good growth path going forward, but it's really too early to give you an indication of where we will be for our next year's guidance.

Regarding raw materials, of course, there are really swings and roundabout in all directions. What we decided for this year is that we will leave our customers at peace for the time being since some of them suffered like six or seven rounds of price increases last year. So this year we are really fine. We saw prices for raw mats coming down quite nicely in some categories. For next year. It's too early to see how things will really develop and how big price increases would be, but we are for sure more than ready to go into price discussions again with our customers if we have to, and if we really see that the assumptions we currently put in there become true, and our raw mats go up. In case they continue to go down, which is an option as well, of course, we could think about just keeping the higher prices to cater for general inflation. But this I think, we will continue the same successful approach we've had in the past, just observe the markets, observe our input costs and react accordingly.

And last question regarding capital allocation, I think, of course, we would be happy to do much more M&A. We're currently in discussion with some targets, but much too early to disclose yet. We hope we will be ready to announce something quarter one, quarter two next year, but let's see how that goes. Otherwise, I think internally discussions on capital allocation are still open, and we haven't yet taken a final decision on what to do in case the M&A opportunities do not materialise.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one-one on your telephone keypad. There are no further questions. I would now like to hand the conference over to Lutz Ackerman for any closing remarks.

Lutz Ackermann: Yes, thank you very much for your participation today in this conference call. So we have come to the end of our – today's conference call. The next one will be taking place in March next year. So when we publish the full-year numbers on 12th of March. Until then, we wish you a very good rest of the day.

And in the meantime, if there are any questions, don't hesitate to contact us. You know where to find us. Have a good day and speak soon. Bye.

Operator: That does conclude our conference for today. Thank you for participating. You may now all disconnect. Have a nice day.

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