LUBRICANTS.
TECHNOLOGY.
PEOPLE.
FUCHS

Fuchs Group Full Year Results 2023

Tuesday, 12th March 2024

Introduction

Lutz Ackermann

Head of Investor Relations, Fuchs Group

Welcome

Yeah. Good afternoon, ladies and gentlemen. On behalf of Fuchs SE, I wish you a very warm welcome to today's conference call on the fiscal year figures. With me on the call today is Stefan Fuchs, our CEO, and Isabelle Adelt, our CFO. And both will run you through the presentation in a second. All the relevant documents have been uploaded at 7.00 this morning, and you can find them on the IR Section of our homepage.

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

Overview

Stefan Fuchs

CEO, Fuchs Group

Dr Timo Reister announced as Deputy CEO

Thank you very much, Lutz. And a warm welcome from my side to all of you. I think this is a nice conference call for us, because we are really proud of record sales, record profits and really super cash flow last year, and Isabelle will go in all detail with you through the numbers. But first of all, I want to come back to a press release, which we made at the end of last year. And since 1st January 2024, we have a Deputy CEO again. We had one before many years.

But with Timo Reister, we appointed really a great colleague to become my designated successor. Obviously, this decision will be made by the Supervisory Board at any appropriate time. Timo is with the Fuchs Group since 15 years. The first five years he spent in the US. Then he was two years in China, and now he is in his ninth year as a Board Member. And I'm really happy for himself, but more happy I am for the company, because this is for our long-term succession planning. And I'm sure, you will all appreciate it out of many reasons.

First of all, we have a plan going forward, because the one thing always is when someone wants to retire, the other thing is if something happens or the Supervisory Board is not happy with me any longer, I think it's really good to have all of that lined out.

And when I look in between Timo and I, for me personally I would not make such an announcement on my behalf, if I would be here for another ten years. So if people ask me how long will this take? I always say I'm now 56. And all things being equal, I would really like to retire at the age of 60, because then I will have been the CEO since 25 years, and I think, that would be a good time. However, I also say the company comes first, because we also need to plan for Timo succession in his today's role.

I think very important for you is to appreciate that the family is – obviously, it has got no right, but it also does not ask to be a Board Member, as a family member or to be to run the company. So I think Timo will be, since many decades, now the first non-Fuchs family member to potentially run the company. I think that's very important.

The family itself is very happy with the engagement in Fuchs' long term, so I think there's no change to come. And the family has obviously a seat in the Supervisory Board. And I think they really managed us in a very nice manner through this whole process. And therefore, I just wanted to give you this update and also wanted to give you some background, and we can discuss it later on.

Now I hand over to Isabelle, who will go with you, I think, through a really nice set of figures.

Financial Review

Isabelle Adelt

CFO, Fuchs Group

Highlights FY 2023

Fuchs successfully concludes 2023 on record levels

Thank you, Stefan, and very warm welcome to all of our analysts, investors, from my side as well. And couldn't be happier. As Stefan already said, one year into the job as CFO of the company and concluding the year with all KPIs on record level.

I think this is an excellent result and something we can be very proud of considering how difficult the market environment, especially for the chemical industry, has been last year.

Our sales are up on prior year by 4%. EBIT grew even nicer than this by 13%. We will go through the details in a minute. And something we did not expect to bounce back that quickly, a record free cash flow at €465 million, obviously with significant impact from net working capital and the slightly lower pricing we saw in the raw materials.

Sales Development

But one step at a time. The sales development we saw and the increase was majorly price-driven, albeit, free of the effects of the decline in Russia. We saw slight improvement in volume. I will talk to you how it developed over the course of the year in a few minutes. But we have some adverse effect from foreign exchange rates translational impact on the top line, as well as on the bottom line on the EBIT. I think all of you remember that in 2022, we had a positive FX impact on our EBIT of €20 million.

Last year, we were faced with a little bit of headwind from currency from the translational impact, especially from the US dollar and the Chinese RMB of exactly the same amount, but a different direction, so €20 million too.

We're happy to report that our margin – EBIT margin started to recover as well. We ended the year at 11.7%, which is more than 1 percentage point above prior year and we expect that nice trend to continue. This is why we are very happy to propose to our General Shareholder Assembly to increase the dividend again at €0.04 per share. And we're happy to present an outlook that in most difficult environments we are in is above prior year.

So as Lutz always nicely says, from record to record, we believe, although '23 has been a record year for us to continue this nice trend and to make 2024 another record year.

If we look at how the quarters turned out. I think a very nice trend we saw here in terms of development as well. Let me shed a little bit of light on that for you.

So the first reaction would be, well, revenues decline and I would say yes, but – so, of course, we had a little bit of negative currency impact in here as well. And if you remember the weakness of the euro the year before, majority of that impact has been in Q3 and Q4, especially from the weaker US dollar, but as well from weaker Australian dollar and RMB.

And then, of course, we saw what we really liked raw materials coming down slightly. But that, of course, means that the price variation closes with our bigger customers kicked in and we needed to give part of that back. But as you can see in the results we will look at later, we didn't need to give everything back. So we were really able to leverage this. And the headwind we had in the two years before is now turning into a tailwind for us that we can hold on to the profits and we can really profit from the small decline we already saw in raw material costs.

EBIT Development

So looking at the EBIT development together with this, I think very good results for the entire year, obviously, ending above our own expectations and above – slightly above consensus and a record year in the history of Fuchs. And what I especially like is the last two quarters of the year. Why is that? Well, we really saw that the market environment was turning into our favour again.

You remember, when we talked about volumes, we said, yeah, with everything happening out there with the COVID restrictions, the disrupted supply chains, the war in Europe, the war in Middle East, volumes were rather flattish over the last year.

FY 2023 Group Sales

Now, we saw tuning them back to growth in the second half of the year. And we see that trend continuing to what we can see into 2024. And this goes in line, obviously, with high margins, somehow pushed by the higher volumes as well as the profit we have from the pricing that is coming down slightly.

To give you a little bit of a feeling what the FX impacts were, so you can see 4% top line increase. But this already included €173 million of negative currency impact, which is quite a big thing, and this is across all regions. So obviously, Americas with the US dollar, obviously, China with the RMB and Australia with the Australian dollar. But you might think, okay, EMEA is euro, I would say not only.

If you look at how the markets in EMEA developed at the countries that contributed, there are a lot of countries that do not have a euro, like UK, like Sweden, like Poland who developed very nicely. Same impact you would see when you look at the EBIT, very nice organic growth. We saw the percentage on a few slides ago. This percentage would have been higher even if it wasn't for the €20 million negative impact we've had on the EBIT from translational currency impact.

FY 2023 KPI Summary

So to summarise how our P&L looked like. Couldn't be happier with that development when you look at the percentage increases we had compared to prior year. Sales up 4%, gross profit up by almost 9%, which means we were able to increase our gross margin by 1.4 percentage points, which is a really good thing.

And despite the high inflation we saw, despite the high salary increases we have seen, we were able to convert a lot of this additional gross profit into additional EBIT, which resulted in EBIT margin of 11.7%, so up more than 1 percentage point in terms of margin compared to prior year.

Next, investments, not really surprising. We always say we want to spend roughly €80 million every year. This is what we saw in 2022 and in '23. Of course, there are always some swings and roundabouts in terms of when do we actually order, when do we actually pay. But this is what we stand by and we are not planning to change this for 2024.

I think what I liked to finish that slide best is obviously the net working capital release. With a lot of you we already talked about this. So we spent quite some effort on this to really look into our inventories, to look into do we really need that safety stock, can we learn from each other? But, yeah, I think rather unexpected thing especially in Q4 was that we've got this nice tailwind from lower prices compared to prior year and we're able to recover part of the additional cash we needed in the years before.

If you recall, it was roughly €350 million for '21 and '22 combined. We needed to finance the higher working capital level and we now see that part of that was released last year. This is why we were able to show this really nice cash flow of €465 million.

Europe, Middle East, Africa

To now give you a little bit of a feeling how the individual regions contributed to this and how it developed. I think biggest contributor – and you can see the math here, €43 million of the additional EBIT came from the EMEA region. I think this is something we can be extremely proud of, especially if we look at how the other chemical companies and some of our competitors really suffered in this region.

And something I would really like to stress is, that this was not Germany only. I think our German colleagues, our German legal entity, they did an amazing job, but we saw really nice growth in all of the regions. And this is majorly due to the effect that our European colleagues did an amazing job in pushing through the higher raw material costs in terms of price increases in 2022, and we could hold on to those prices throughout most of last year. And this is why we see such nice contributions from not only Germany, but UK did a really nice job, grew tremendously. Same in Poland, in Sweden.

Southern Europe, we don't see this on the slide, but they've made a really huge step into the right direction, especially in Spain and Italy as well. So I think extremely good contribution from almost all countries and from almost all industries in the EMEA region.

Asia-Pacific

Looking into Asia Pacific, I think there's light and shadow and we need to put this into perspective. If you look at the result, first reaction would be a little bit below prior year. I would say, yes, but.

So, of course, you know that the first half of the year was kind of challenging in China with everybody still struggling with bouncing back from COVID. A lot of people infected at the beginning of the year after all of the restrictions were released. And then China slowly but steadily finding their way back to what we now call the new normal. So really getting used to suddenly having unemployment rates, going into a deflationary environment, having to deal with export business being weaker.

But what we can see is that our colleagues in China did an amazing job and we saw good recovery in the second half of the year since we won a lot of new business with domestic customers and started to develop that customer base even more focused than we did before. So that we saw China being back to volume growth and profit growth in the second half of the year, and we expect the trend to continue.

All other countries in that region performed convincingly well. We mentioned – explicitly mentioned India, Korea and Japan. Australia did a really nice job as well. But of course, the entire region is somehow overshadowed a little bit with the development in China since this is by far the major profit contributor. And we are positive that we can take this nice tailwind we saw in China with a great job our team there was doing well into 2024.

North and South America

And then last but not least, development in North and South America. We saw slight step up here. But we have to say this is the region that was hit most of all regions by negative currency impacts in – especially by the translation impacts we have when converting the results into euros.

In the US, definitely, since we have the dollar parity in 2022. So if we now compare to the year before, for them it's really hard with a dollar that was partially like at 1, 1.10. But you have other countries like Argentina in there, which are luckily not that big for us. But due to the political circumstances there, the high inflation rate, we had a lot of adverse currency impacts there as well.

Looking at the business itself, it's developed really nicely. So two things I would like to mention explicitly is the development of Nye, a small company we acquired a couple of years ago, who developed really nicely and showed how our acquisition strategy should really focus more on companies like this, like this acquisitions where we say one plus one is 3.5. As they did really nice deleveraging the Fuchs network and making sure we can sell those products everywhere. So they made a real step up last year.

As well as our colleagues in Mexico, they showed extremely nice growth rates and will potentially be in this year amongst the five biggest single countries in the Fuchs Group, which was a development over the last couple of years. So they really made a huge step up, won some really nice projects, some really nice tenders. And we can really see we are well positioned for Mexico, really supporting the US, a lot more in future given the high tariffs and the negotiations we had last year.

Net liquidity

Now my favourite slide as the CFO of the Group, our free cash flow. As such, €465 million, unprecedented in the history of the Fuchs Group. And we are proud to say that in only one year, we were able to convert our net debt position back into a net cash position of more than €100 million despite the fact that we paid €145 million in terms of dividend and spent another €122 million on our share buyback.

So this was really a huge contribution from all of our countries in earnings and managing the net working capital. And these other changes you see here, positive impact of €50 million. Its majorly higher provisions which are catered for in our P&L already, due to the fact you have higher earnings, you need to pay more tax and you need or you want to pay a higher variable pay to your employees. This is catered for in the P&L, but obviously will be paid out only this year.

Net operating working capital (NOWC)

Nice contribution from working capital. It's majorly driven by lower inventory levels, part of that price driven, part of that really lower inventories. And we were able to reduce our working capital as a percentage of revenue to under 22% at year-end. We had a little bit of tailwind from lower pricing, but still this exceeded the expectations we had. We thought that we would end up around 22-22.5%, and this was an even better result than we would have hoped for. This is why we were able to show this really good free cash flow for last year.

Different price developments for raw mat. basket

To shed a little bit of light onto the raw material price development. Yeah, I think what we've seen last year is levels returning back to a more normal level. Although, the huge price drop we expected overall on average did not really happen. So prices went down a little bit. You can see with a lot of product groups, we are now on the level we were in January 2022.

But remember, this was a slightly inflated level already. Some product groups went down a little further and this is why we saw the nice tailwind in terms of inventories and in terms of margin at the end of the year.

What do we expect now looking into price development for the year to come? This is really hard to say, because as you can see here, some prices went down, some prices went up again. And especially when it comes to additive packages, other raw materials, we see that lead times start to increase due to the circumstances in the Red Sea. So this is yet to be seen how this will impact the availability and the pricing of materials.

Dividend proposal

Reliable dividend proposal

But all in all, I think a very successful year. We had our Supervisory Board Meeting and decided to propose to our Annual General Assembly to increase the dividend yet again for the 22nd consecutive year with a dividend increase in terms of dividend per share as well as total dividend. And this is something we are very proud of. We made a promise to the capital market, and we are keeping that promise.

2024 outlook marking a step towards EBIT target 2025

Outlook, you saw on the first slide already. We expect a slight step up in sales, again volume-driven, as we assume stable prices throughout the year. And this is a trend that will continue from what we see from Q3 and Q4 last year, and the markets have turned a little bit more favourable.

Our EBIT, we expect the next step up towards our mid-term target. Again, same assumption we see in the first line, stable prices towards our customers and towards raw materials as well. And this will then result, obviously, in higher FVA compared to this year too.

With regards to free cash flow, our guidance is now more normalised towards the cash conversion rate we guide for 0.8. Why is that? As already said before, we assume stable prices. So no real tailwind anymore from lower raw material prices. Of course, if that happens, we will see a nice effect like we've had this year again. So this is the assumption that went in there, because we see different signals from the raw material markets, so decided to go with a stable pricing assumption.

Financial Targets

To reiterate, 2023 made us quite confident that we are well on track regarding our mid-term and long-term targets. The EBIT of €500 million till 2025 will of course not be a walk in the park. This is something we will have to work for very hard. But we still believe if the markets turn out in a favourable way and if we do not – if nothing unexpected happens, and we do not get further headwind, this is not out of reach. We will need to work for this. But this is something that we can make that happen.

Of course, sales growth really depends on the pricing. This is what we will see, but we are very confident we are back to volume growth, and this is the thing that matters most. We need to see how the pricing turns out, what this will then in the end do with our overall sales number.

We did a first nice step up towards our long-term EBIT margin in 2023, and we expect that another step will happen in 2024. Average cash conversion, I mean, we really like what we saw in 2023. But we have to be fair to ourselves. We somehow need to look at an average rate over the last three years, which somehow brings us back to this number with the additional investment we took into working capital. But we still believe that 0.8 on average is the right number. An increase of dividend, this will for sure happen this year too.

And having said this, I will hand back to Stefan, who will give you a little bit more insight into how the Fuchs Group is doing.

Conclusion

Stefan Fuchs

CEO, Fuchs Group

News from the Fuchs world

Thank you very much, Isabelle. I just want to reiterate to you one more time what we believe the unique selling point of the Fuchs Group is. And I think we have a standalone business model in our industry.

And there are three factors for me very decisive. One of all, we are the only company having the full product range on a global basis. With 10,000 different products, I think we can offer really anything you need in duplication from A to Z, and we are able to handle the complexity. So I think that's pretty good and then there is no other one. We have got specialists in certain segments competing with us, but not one with the product range.

Customer focus and holistic approach pay off

The second important point is that we have a worldwide infrastructure with 33 manufacturing sites and 55 operating companies. And with regard to the operating companies, we have added Chile, Romania, Vietnam. And I think there's more to come in the future. We want to be close to our customers.

And that brings me to the third point, which is important, that we continue to live in a decentralised organisation form, where we give certain freedom to our subsidiaries and be a very loyal and motivated teams, very close to our customers. So I think if you take those three together, it's really time to bring more of our horsepower on the Street. And in the FUCHS2025 strategy filing, we discussed segmentation and we see that here on the picture we are in various different application fields. And it's important to sit down on the customer chair and really think about.

In the past, we handled certain specialties on a global basis for our large key accounts. But now we handle their entire needs out of one hand, one face to the customer. And I think that we do more and more. And if you, for example, look at the cement plant. We always had the open gear lubrication worldwide. Now we also lubricate their trucks, their excavators, their conveyor belts and many more things. And I think what is under the umbrella of cross-selling, we always talk about, but we never execute it. And I think that's a part of this segmentation idea.

The other part for me, which is really important that, one of our claims is to be unconditional and reliable for our customers. And especially in the difficult times with availability problems, we did whatever it took for our customers in order to keep them going. And if you have a product with 20 ingredients and you miss one, you can either do something on your own, but we always call the customer up and said we have an – a replacement raw material, please give us an expedited time restricted approval. And that causes a lot of effort. But I think our customers were very happy with that.

And if you look at our pricing, and as an example, if the price increase, you need 30% in total, we went six times to 5% each. And – but we went very early on in a fair discussion. And some of our competitors came in late at 30% in one step and the customers really don't like that. So all in all, we say moving your world for our customers is our purpose. And the more new customers we get, they are all really surprised when they visit us, because they have an oil company – a little oil company in their mind. They come and they see our capabilities and they really like it. And therefore, we do a global advertisement campaign on 12 global airports followed by social media campaign. And for us, that's one important step to get better known.

Awards & honours

And the other part is, that we really define a couple of global partners and global key accounts we follow through on a global basis. And if you go on the next page, one of them, for example, is DMG Mori, one of the largest tool manufacturers, machine manufacturers in the world. And we work with them now since ten years. We got the second time in a row, the Supplier Award. And we work with them from Brazil to Canada, in Vietnam, China, South Africa, the whole of Europe.

And obviously, we lubricate all their manufacturing plants. But they also sell products as a spare part, which we manufacture for them, lubricants and cleaners and that kind. And if their customers have a problem with their metalworking fluids, their salespeople call us and we help them out. So I think that's really a cool partnership which is for us to win and which is for DMG Mori.

In the middle part, I think we really like that one because it's a Japanese account, Hitachi Astemo. We supply them shock absorber fluids. We got an award from them. Very cool. John Deere also. With John Deere, we supply them the industrial lubricants, metalworking, cleaners, hydraulic oils in the manufacturing plant. We do first fill products for them in – also for the first fill of tractors and harvesters. And we supply them what we call the genuine brand for what they sell under the John Deere logo in their spare part business, lubricants to their customers. And we have got specialties like, for example, a worldwide business of the Cotton Picker Grease including cleaner. So those are three examples, I think where really the strategy pays off.

Strategic Partnership FUCHS x VALEO

On the next page, also interesting, we have a new partnership with Valeo in China. It's also one of our global key accounts. And with them, we develop solutions, especially with regard to the new mobility for the thermal fluids, for energy storage. And I think that shows you what within our FUCHS2025 strategy is doable and we see significant cost potential in our large markets.

So far from our side, and now we look forward to your questions. And I hand back to Lutz.

Lutz Ackermann: Yeah. Thanks, Stefan. Thanks, Isabelle. Yeah. Please, operator, take over for the moderation of the Q&A session.

Q&A

Operator: Thank you. 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. Please stand by for our first question. Our first question comes from the line of Konstantin Wiechert from Baader Helvea. Please go ahead. Your line is open.

Konstantin Wiechert (Baader Helvea): Yeah. Hi. Thank you so much for your presentation, and obviously, congratulations to the great results you had. If I may start, I think two questions for Isabelle. As you have already delivered on the net working capital reduction this year and the fact that I believe in your guidance that also includes a slight increase in net working capital ratio in '24 again. Is this 21.6 to 22 the new ratio which we should include in our expectation? Or is this still rather conservative from you and you see further room for improvement? Especially, maybe here where you also mentioned the bonus payments in '24, but maybe you can quantify what impact you expect here?

And then maybe my second question, also as you now expect rather stable raw material cost in '24, then if you also look at the base oil price and profitability of additive suppliers currently, I believe it would be fair to assume that we might have reached the bottom here. So could you maybe elaborate again what you see as the drivers towards your mid-term margin target of 15%? How much of this is from potentially operating leverage from mix effect and so forth? Yeah, that would be highly appreciated. Thank you.

Isabelle Adelt: Thanks for your question, Konstantin. So regarding net working capital levels, as said, this somehow exceeded our expectations, but of course with a little bit tailwind from a little lower raw material pricing in Q4. So what we saw in Q4, the effect was majorly driven by pricing. But I would rather say that 22% we talked about in our last meeting is a rather conservative approach.

I think you know me well enough now. We keep on pushing our legal entities. So I expect there's still a little more to come. But of course, really depends on how the pricing will turn out in the end.

The bonus payment comment I made with the free cash flow has no impact on working capital. This is really because all of our managing directors, they act very entrepreneurial. So this means they are incentivised on the FVA of their respective area of responsibility in the countries. And given how much our FVA increased, you saw that before by 23%. This means the incentive is increasing at roughly the same amount. This is an effect. We will not see such a big effect, obviously, potentially this year.

But this is, of course, an effect we want our managing directors to act as entrepreneurs and to grow when the company grows. And this is what we will see given we are planning to make our targets, but we will see again in the next year to come, albeit on a rather low level.

In the P&L, all of this is catered for. Obviously, we have the provisions in there. The payout is only in the year after once the financial results are approved by the Supervisory Board.

Regarding pricing levels, we see a lot of different trends in the different regions for the different kind of base oils and the additive packages individual chemicals. This is why we ended up to issue a guidance with the assumption of a rather flattish development of pricing.

And when we talk about the mid-term EBIT guidance of 15%, we always say this is an average margin target. So nothing, we only want to achieve the moment we have tailwind from raw material pricing or from currency, this would be too easy. And yes, where we have huge tailwind, it could easily exceed the 15% but could be slightly below the moment we have headwind.

But I'd say towards this EBIT margin sustainably of 15%, there are two big building blocks. So point one is really harvest on all of the investments we made over the last couple of years, which is not only the factories, which are now fully digested, but especially the additional people we added to deliver on what Stefan just talked about in terms of segmentation, in terms of R&D hubs we now have in all of the regions to be closer to the customer, to react faster and to leverage all of those cross-selling potentials.

So point one, to just sell more, and then to be able to produce, since we have all of the factories in there already at a lower incremental margin than what we currently have. And then second building block, obviously, this is why the 15% target is not for 2025 is our operational excellence programme. And a big building block of that is the S/4HANA implementation, which will, according to current estimations, take into 2028. And this will then give us some operating leverage and lower percentage of OPEX cost that will contribute to those 15% as well. Hope that answers your questions.

Konstantin Wiechert: Thank you so much. Perfect.

Operator: Thank you. We will now move onto our next question. Please stand by. Our 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): Hi. Good afternoon. Thank you for taking my questions. I have four questions, please. My first one is on the 2024 guidance and the building blocks for 2025. If you have delivered €100 million in EBIT in 4Q '23, beating expectations despite the weaker seasonality, then it strikes me that the earnings power, especially at constant net pricing, is much more than what the guidance suggests. At the same time, you maintain the €500 million target by 2025, which indicates an acceleration of profit growth from '24. So I'm interested in knowing what the building blocks are to '24 and '25 in terms of EBIT?

My second question is on the capital allocation. Having delivered a solid free cash flow, how do you plan to redeploy this cash? Would you consider raising or updating the dividend policy?

My third question is on the R&D projects. I noticed from the report that there has been an increase in the intensity of R&D reflected in the number of projects going up to about 680 versus 600 last year. Can you give us some more detail on where this incremental R&D focus is going by region, by end market?

And my last question is on China. I think Isabelle mentioned that you've won a lot of new business with domestic customers. Can you give us some detail on what's driving this new development? I'm assuming this might be in the EV space, given this is your largest automotive market. So any updates on the lubricant development in an electric vehicle that the company has realised? Thank you.

Stefan Fuchs: Okay. So the guidance question is the easiest question. So we'll leave that to Isabelle. And I start with the China question that was the last one. So China continues to have great potential for us. We have said at the beginning of 2022, was a little bit slower. At the end of 2023, it was really much better. Also this year, it looks good.

The one problem we've seen in China is the deflation, which we all know is more difficult than inflation. So that's something we need to watch there. Positive is in China that more and more of the petrochemical downstream business is establishing, so we can buy more base oils there, more chemicals and more additives. That's good. And what we always said, we want to develop in China for China, but we also want to take approval for Chinese equipment, which then our Chinese customers export to other parts of the world and which needs lubrication service in other countries and we can bank on our Chinese approvals, for example, we see that in the wind power business.

Therefore, in China, we continue to push. And as you remember, we also said in FUCHS2025, we want to bring the US and China to the same technological level as we are in Germany. The goal was in 2025, that's overambitious. But if I compare the US and China, China are the frontrunners. They really do an outstanding job. They're very agile. And I think there's some good stuff in the pipeline. It is in the EV cars, as you suggest, but it's also in the wind business. It's in the electric storage, so to say, in the thermal fluids. It's really in many different aspects. And so it continues to be a very important country for us.

With regard to R&D projects, we have now more projects in the US than in China. We also added Nye with a lot of projects. So I think it's a good news that we have got more ongoing projects. And they are really in all kind of areas. For example, when you go to DMG Mori, our metalworking fluids, we work intensively with customers like Airbus for the aeronautic industry, with customers like ASML for the whole semicon industry, where you need also industrial products.

So I think we have some cool things in the pipeline. So far from my side. And I think capital allocation and guidance?

Isabelle Adelt: Sure. So happy to take the other two questions, Riya. So regarding the guidance, as we said, we reiterated our mid-term target of €500 million in 2025, although, knowing this will obviously not be a walk in the park. So what are the building blocks we have there? We always say we guide for mid-single-digit sales growth. So this, of course, includes a component of volume growth as well.

We've seen pickup in volume growth, which accelerates in the second half of the year and now see a positive trend. This is why we believe we can do the next step towards this €500 million target in this year. How big it will be? I think a major uncertainty we have is what will the pricing do with all of the uncertainties we have on the raw material markets and in the Suez Canal, which somehow disrupts the supply chain a little bit for us and for our customers.

So this I think we will need to see in the months to come what kind of an impact this will have and how this will turn out. But I think with this accelerated volume growth, we plan to do the next step up this year and then another big step next year. Of course, what we need to reach the €500 million target is a favourable economic environment with a little bit of tailwind. From what we currently see, 2025 looks quite promising and expectations are that economies will pick up. So we are still quite confident that we can do this.

In terms of capital allocation, you're right, we did an excellent year this year. This was already foreseen, not the absolute amount, but that we would have a cash conversion well above one for this year, partially due to the release in working capital, which has been a little bit inflated. This is why we decided to prolong the share buyback programme, which is now in the prolonged phase already with a total of four million shares per share class.

This will potentially end somewhere in summer, late summer this year. We are working on some acquisitions, so stay tuned. There will be hopefully an announcement in the next weeks to come. But you're right. We always say that this 10-year accumulated capital allocation we always show in our investors/analysts meeting is a good indication for future. So I think you can take this ratio of two-thirds dividend payout, share buyback combined, one-third M&A is a good indication into the future.

Riya Kotecha: That's clear. Thank you very much.

Operator: Thank you. We'll now move onto our next question. Please stand by. Our next question comes from the line of Michael Schaefer from ODDO BHF. Please go ahead. Your line is open.

Michael Schaefer (ODDO BHF): Yeah. Thanks for taking my two questions. First one is to Stefan. First of all, congrats to the very good succession planning very early and good to hear that you are still around for quite some time with us. Nevertheless, it was in June '22 when you laid out your 2025 ambition, so with the €500 million target which you just reiterated this morning.

So I'd like to hear from you. Looking on the underlying planning, so what are the key challenges still to go through to reach this target? So what region and what subsegment has delivered already, and where are the challenges the most? And so this would be my first question.

Maybe related to that one, we have seen some slower growth projections now in the BEV market, and I know that this was a key component as well. So does this true to some extent impact your mid-term planning here as well?

And then the second question or maybe the third is to Isabelle. On EMEA, we have seen a minus 8% organic sales decline in the fourth quarter on the flip side of 20%, 23% EBIT recovery. So can you just walk us through the key building blocks here? What triggered this minus 8%? Was this all Russia? Or what's behind it?

Stefan Fuchs: Thanks for your questions. I think the first one is really a very important question. I have to announce that I must leave in 15 minutes sharp, sorry for that. But I'm more than happy with the succession planning.

We have our FUCHS2025 plan moving forward, which goes another 22 months, and it was the first-time bottom-up strategy. Obviously, we always had a strategy, but it was for us a cool strategy process where we did a lot of groundwork during the COVID time. We have now started internally working on what we call a FUCHS100 project, which is the successor of FUCHS2025.

The Fuchs Group will be 2031, 100 years old, and we take a six-year cycle from '26 to '31. And we also agreed that Timo will lead the operation for this cycle, because Timo will have more active years in the new cycle than I will have remaining years. So I think that's very good, and we had the first couple of discussions. That will be more an evolution than a revolution because we have a lot of homework still open.

And that brings me to your question where you said where are the potential growth markets. And we continue to believe that we have a huge potential in the USA, specifically as a company, because we are still underrepresented. And we have done recently some good decisions, I think to move to unfold that with our segment business in the plumb world. In the US, we have more specialties, metalworking and mining and not so much automotive aftermarket and OEM.

In China, it's exactly the way around, and we have defined many pockets. But we have next week our GMM, and obviously, we celebrate Germany, China and the US. But I'm very happy that we have countries like the UK, Poland, Mexico, Australia stepping up. And finally, also our Nordic countries. It took us some while after the acquisition. Sweden jumped up to the plate last year. I think that's a good one. So we see significantly more potential than we see challenges.

With regard to the BEV, I feel sorry for some of the automotive sub-suppliers, who focus a 100% on BEV because they will have a significant problem. We always said BEV is a very important thing, and it will continue to develop, but it cannot only be battery electric. It must be fuel cell. It must be either a clean fuel or clean diesel or whatnot. And I think finally, people become more realistic.

And we have a very good BEV potential, especially in electric drive fluids, in specialty greases, but we also look for the one or the other potential part, to name one is thermal fluids, but there are also some other cool niches. So for us, we see that as a growth part of our business.

And therefore, we continue to look very much forward to our future. But if you really look for example automotive aftermarket, it's also a cool growth area. And we would not push it if you would think the market will dry out in a couple of years. So we are optimistic for the future. And we have, I think a good pipeline. Obviously, the world is not easy. You look at the terrible war in Ukraine, I mean, the terror attack in Israel. Now what is happening in Gaza. You see the Suez Canal, and you see many other things happening.

But after five years of things happening, maybe that's the new normal for the foreseeable future. And I think we need to find our way in that world, and so far, we have done well.

Isabelle Adelt: And let me take your question towards the EMEA decline in sales. As always to your questions, Michael, that's the one easy answer, but it's a multitude of different influencing factors. So Russia is part of the fact, but not I would say really the significant single influencing factor. One hit we had was from exchange rates. So especially from the UK, from Poland, from Sweden, which accounted for roughly 20% of the decline.

Then what we have, what you can see the countereffect in the consolidation line when you look at this. We did quite some localisations, what we call localisations in the year. So when you look at those sales numbers, this is always the view on the region, which includes intercompany sales to all other regions.

So when you look at EMEA, everything within EMEA is eliminated. But what goes into Americas and APAC is not. And given that we increased our grease capacity and localised quite some projects, EMEA is losing intercompany revenue but not total revenues, so third party revenue.

And then, fourth factor I would like to mention is that we saw quite some factories closing a little earlier for the Christmas break, especially in the EMEA region. Whilst the year before, we saw some of them stocking up, so this is going in both directions a little bit, especially a lot – in Germany, a lot of the really big companies, they ordered some stuff in the Q4 2022 to hit their rebate target, let's call it like this. And this just didn't happen in Q4 2023.

So I would say in total nothing to worry about, but just a mixture of a lot of different impacts.

Michael Schaefer: Can I have a quick follow-up on this one? Did pass-through clauses play a special role in EMEA in the fourth quarter compared maybe to other regions?

Isabelle Adelt: Compared to other regions, definitely. Since we have those price variation clauses majorly with a big OEMs, so we always say that on a global level, it's 25% of our sales, right? And especially in Germany, it's a little bit more. You're right.

Michael Schaefer: Okay. Thank you.

Operator: Thank you. We’ll now move onto our next question. Please stand by. Our next question comes from the line of Martin Roediger from Kepler Cheuvreux. Please go ahead. Your line is open.

Martin Roediger (Kepler Cheuvreux): Hello. Good afternoon. Yes, just a few questions. One is a clarification question. Ms Adelt, you mentioned regarding the question about your target for 2025 that you expect some accelerating volume growth. Can you clarify, does that imply that your volume growth assumption for 2025 will be even higher than your volume growth assumption for the year 2024? That was number one.

Number two, I would like to dig in a bit more specific on China, because I would like to understand what's the volume, the demand in China in Q4 on the same high level as in Q3? And in this context, because you obviously were not really able to get the pricing you want to get in China to get back to the previous profitability level, is that solely because of the general deflationary environment, or is there also some intensifying competition in China?

And the final very small question is on the – at equity earnings, in your P&L, normally you have each quarter €3 million profit from at equity income. But this time, there were – this level was zero. Why is that the case? Thank you.

Stefan Fuchs: Okay. Martin Roediger, I mean, first of all, to China. I think more or less you can say we have seen the same development over the last eight months in China when you – from a volume perspective. So quarter four was also on a good way. In China, there's a mix of several things.

Number one, you're right with the deflation. So it's more difficult to get a general price increase, let's say, for energy, for freight and for personnel increases. Number two, we still import raw materials. And if the Chinese currency devalues, you have an issue to increase your prices, which is not so easy. But we see, as I said before, more and more petrochemical industry coming into China.

So all in all, on China, nothing has changed. We remain positive. And for me, the good news is, especially with more of our new suppliers coming into the company and establishing plants there. Because for me, potentially, China and India will also be a raw material base for the company – in the future also of raw materials. And my dream is also to buy some stuff outside of China on the raw material base.

So therefore, I think in China, there is no really difference between quarter three and quarter four or to the first quarter. I think we did more or less the same pattern.

Isabelle Adelt: And getting back to your other two questions, Martin. So volume growth, you're correct. So what we saw in the second half of last year was volumes being back to growth, what we really like. But of course, this is always an equation of the general economic development, the economic sentiment as well. And you can still feel that – and some industries people are hesitant. But when you talk to institutes, to people about 2025, what is expected is really a good recovery of the economy in most part of the world in 2025.

And this is why we expect a nice volume recovery there as well because this is always, of course, part of how the economy is developing. And as stated before, of course, we have done our homework. We are working hard to make this €500 million target, but we need a little bit of tailwind from general economic sentiment as well. If something happens or we're going into recession again, this will be a difficult target to make, obviously.

You had equity question, a very simple one. So there's nothing substantially wrong with our at equity investments. The decline you see is really just an, I would say, an accounting effect we have due – especially due to Turkey, where you have to apply the IAS 29 for high inflation accounting, which eats up a good part of the results, given they have very high inflation. But there's nothing substantially wrong for the business and all of the countries is still going well.

Stefan Fuchs: I have to – I must leave part to the German train strike one more time. All the best to you, and goodbye. Thank you. We will stay here.

Isabelle Adelt: Yeah. We will stay for the rest of the questions.

Martin Roediger: Thank you.

Operator: Thank you. We'll now move onto our next question. Please stand by. Our next question comes from the line of Isha Sharma from Stifel. Please go ahead. Your line is open.

Isha Sharma (Stifel): Hi. Good afternoon. Thank you for taking my questions. I just have two left, please. So the first one would be on the EBIT bridge to '24. I know you've already elaborated a bit, but if you could please help us with the moving parts. You mentioned that you expect some volume increases, but I see that your top line guidance already includes some price declines. If I have understood that correctly? So if you could help us with the price/volume split and as well as the cost items, because you mentioned that you do expect some cost inflation again after already 10% increase in 2024 – 2023, that would be helpful to understand the moving parts and how should we think about the margin. That would be the first one.

And the second one would be on the end markets. Could you help us understand how the end market is developing already YTD? So do you see different moving parts for both the industrial and the automotive? And if there is differences between regions? Some colour on that would be great.

Isabelle Adelt: Yeah, sure. Thanks for your questions, Isha. So regarding the EBIT bridge, the top line guidance is based on stable pricing, which means all of the growth we see here is volume-based. Given that we see so many different things and moving parts all over the place, we thought that this was the safest assumption to make.

All things being equal, this of course means for the EBIT we do not have a lot of tailwind from lower pricing as well. In case prices start to decline, we will, of course, see a nicer step up. Whilst prices increase, we will have a similar situation like we had in '21 with this little bit of lag effect.

So what we will see is additional volume coming in at higher incremental margins, because the fixed costs are fully absorbed already with all the people being there, the salespeople being there and the new factories being there. And we expect a little milder cost increase in 2024 than what we've seen in '23, especially labour cost increases start to get back to more normal levels compared especially to 2022.

And this is why we are confident that we can do the next step up in terms of EBIT majorly, driven by profitable volume growth, I would call it.

When looking at the different end markets regarding industries, this is a little bit difficult to answer, given that the different industries performed differently in the regions. So I'd rather look at the region. What we saw right now is – so start into the year was particularly strong in the APAC region, especially China. So what we've always seen in China was the strongest month being the one or two months directly before Chinese New Year.

The last two years, we have not seen that because of all the COVID lockdown. But this year, China was back to old strength when it comes to this, say, Chinese New Year rally. So we now need to see how business picks up given they just came out of the Chinese New Year closing end of February.

EMEA started as strongly as they finished 2023. So there are good signs again. And I think here we really see the strength of the regional setup and the strong local entrepreneurs that we do not have to count on Germany only but all of the other countries. So UK, Sweden, Poland, Italy, Spain, they performed convincingly well too.

The US is still a little slower. And I believe this is a result of people, point one, not – especially in January, they did not recover from the strikes as fast as we would have expected. But we see that coming back. And you can still feel when you talk to, to especially the industry representatives, they are still a little hesitant to take decisions now with the elections coming up in November. So this will be interesting to see how the year turns out in the US.

Isha Sharma: Right. Understood. May I just on pricing? Because through the year, you've obviously seen sequential decline in pricing. And that's why I was wondering when you say stable pricing, you mean Q4 pricing, right?

Isabelle Adelt: Yes.

Martin Roediger: Thank you.

Operator: Thank you. We’ll now move onto our next question. Please stand by. Our next question comes from the line of Lars Vom Cleff from Deutsche Bank AG. Please go ahead. Your line is open.

Lars Vom Cleff (Deutsche Bank AG): Thank you very much. Two follow-up questions, if I may, both circling around your guidance. The first one is looking at the revenue guidance and assuming that both FX and selling prices remain stable, your guidance or your revenue guidance would imply a volume growth of less than 2%.

I mean, yes, this is in line with your medium-term guidance where you speak about a mid-single digit percentage revenue growth, one-third driven by volume, two-thirds driven by prices. But with the recovery in China, I would expect a stronger volume recovery. Or are you seeing customer inventory levels still at elevated levels so that this should dampen demand? That would be my first question.

Isabelle Adelt: Yeah. So, what we would definitely see is a further recovery in China, but we see weaknesses in other parts of the world. So this is always, of course, a little bit of a mixed picture. It’s already talked through before. We need to see how the US is developing. Plus, we somehow need to see when you look at the mix picture compared to last year, we're looking, as Isha said, at a stable pricing level of Q4. So there are of course some effects when you compare that to the quarters before that for last year. So the underlying assumption is, I can tell you, a little higher volume growth than only 2%.

For the pricing, we – due to better – lack of better knowledge, we assume that to be stable.

Lars Vom Cleff: Okay, perfect. And then taking your guidance as of this morning, this would imply rather about 20 basis point margin improvement, so from 11.7% for '23 up to 11.9% for 2024. I mean, we know that a mid-single-digit amount burdened your profitability last year coming from the restructuring or closure of the Bremen plant. You are expecting a positive margin impact of that step from this year onward. So I would – 20 basis points, I mean, the whole discussion looks rather conservative to me even – or additionally, yeah, looking for some volume growth.

Isabelle Adelt: Yeah. I would say it's a rather balanced picture. So what we expect is definitely to do the next step up in terms of margins. I mean, the Bremen closure, will we see effects? Yes. But definitely not in a ballpark, where we will see an impact on overall margin levels for the Group. But of course, I mean we have some things going on regarding projects we are doing to hit our operational excellence levels. We will do the S4 project, which will go full throttle this year. So this is something we will not only improve due to the higher profitability and the additional volume, but to really reach the – mid-term reach those 15% targets we need to invest a little bit as well.

So majorly, of course, the S4 project, but some other operational excellence programmes that are going on as well and we'll pay back later.

Lars Vom-Cleff: Okay. Perfect. Thank you very much.

Operator: Thank you. We'll now move onto our next question. Please stand by. Our next question comes from the line of Oliver Schwarz from Warburg Research. Please go ahead. Your line is open.

Oliver Schwarz (Warburg Research): Yeah. Hello, ladies and gentlemen. Thank you for taking my questions. I know it's getting boring, but may I come please back to the guidance 2025 or the mid-term target 2025 of $500 million EBIT once again? Taking the financial year 2024 guidance as a starting point and taking those values, as you communicated that this morning, that would require you to increase EBIT from €430 million to €500 million, which is an increase by 16%, give or take. How much volume growth would you require if we allow for steady pricing and no FX effects, given that, as you already mentioned, there are some leverage effects due to better plant utilisation and so on and so forth. But how much volume growth would you require from financial year 2024 to 2025 to come up to this number? That would be my first question.

Isabelle Adelt: So, I mean, there's not an easy answer to that, obviously. But I would say, I mean, you said 16%. Is it out of this world? No, given we've done 14% this year and there was a €20 million negative FX impact in there. So, of course, looking into 2025, what we expect is much more favourable market environment.

When you currently talk to the analysts to research institute, they expect it to turn around and 2025 to be a very good year. We always guide for a mid-single-digit revenue growth, two-thirds of which being volume and one-thirds of that being pricing.

So for this year, we were deliberately conservative on the pricing level. We did not plan for any pricing increases in our guidance since we do not really know how raw material costs will turn out, but we expect that to stabilise in 2025 and we will be back to very good growth levels. And if predictions come true, what we currently see, single-digit, yes. But I would rather say high-single digit with somehow the same ratio I just explained for 2025.

Oliver Schwarz: Yeah. Would that include any, let's say, M&A transaction that you're probably planning this year or in 2025 or would that be excluded?

Isabelle Adelt: This would be excluded. We always said the $500 million is before M&A.

Oliver Schwarz: Yeah, right. Okay. Thank you for that. Mr Fuchs said that, as you want to bring up, for example, USA and China to the level of Europe, there's still some way to go. So not all of those boxes have been ticked yet. I mean, yeah, I can understand China, obviously, being a much different market from – the more saturated and more mature market. And the US may have, let's say, given you a different starting point. But you've been present in the US for decades now, and that was not so long ago, your most profitable business in the Fuchs Group. And yet there seems to be things lagging there. Why is that? And what are you going to do to finally come up, let's say, at the level of the European enterprise?

Isabelle Adelt: So I mean, you're rightfully said, EMEA is our most mature market. And we have highest market shares by far in the EMEA region. This is why in our strategy, FUCHS2025, we said we want over proportionate growth in the Americas and in APAC. But of course, I mean, this does not come for free. And if you look at the historical setup we have in those regions. And for simplicity reasons, let's stay with China and with the US for a moment.

So when you look at the EMEA region, the industry split we see in EMEA is very similar to what we have in the overall Group. So let's say, roughly half of which being automotive, half of which being industry. We'll be a little more biased to the industry side.

Historically, US has been more than 80% industry business only, while China has been, let's say, 80% plus OEM business only. And this is where we said, okay, if we want to grow in those regions, we need to use the power of our portfolio. We need to implement that segmentation approach. We need to have this R&D hub. We need the grease plants in those regions. So this has been long years in the making.

And we now see that first really nice wins are coming in. But of course, this does not come easy. Otherwise, everybody would do it. But we said to really make sure we can get those market shares and we can really go into different industries and grow the markets, we need to do something structurally different than we have before. This is why we do have the segmentation approach to focus on the different industries so we can share knowledge, we can really share accounts, share the application know-how, and then make sure that we go towards similar share of markets and a more diverse exposure of industries in the Americas and APAC as well.

Oliver Schwarz: Excellent. My last question regarding the EV business. Obviously, you've been tackling that with the respective specialty greases and other lubricants, but also with thermal fluids. Are there any additional product groups, especially if you want to consider not only EV being a battery-powered electric vehicle, but also probably by other beings, whether it's hydrogen or other types of propulsion? Are there other product groups that you probably look at to enter at the moment?

Isabelle Adelt: So to enter, I would say, completely different product groups from what we do today, I would say definitely not. We will not, or we do not want to dilute our business model. But especially, I would say the mobility transition and deliberately not talking about BEVs only, is something what we started to talk about not lubricants only but about functional fluids and lubricants. So a lot of things we do today are important when it comes to new mobility as well. And this is independent from the drive train. So no matter if it's battery, electric, hydrogen, what have you or fuel cell.

But you have a lot of things that are from a chemical composition similar to what we do today. And we can do that with the same factories, with the same resources, but just a little different focus than what we have today. So when you talk about, especially batteries, of course, a lot is about metal forming, corrosion prevention, thermal management. This is products we've had for a lot of years already, but not in the automotive sector. This was more on the industry side.

And when you look at especially autonomous driving, we are talking about a lot of, let's say, special thermal management greases and fluids to not only cool down when you talk about sensors, but to make sure to always keep them at a constant level. So this is something we are putting a lot of work into currently. So no completely new product.

So let's say in the specialty chemical sector, something that is very close to what we currently do. But I would rather say the evolution of our current product lines by refocusing, reshuffling how we look at this market a little bit.

Oliver Schwarz: Very helpful. Thank you for that. That concludes my questions. Thank you.

Isabelle Adelt: Thanks.

Operator: Thank you. There are no further questions at this time. So I'll hand the call back to Lutz for closing remarks.

Lutz Ackermann: Yeah, thank you so much. So with this, we have come to the end of today's conference call. Thank you for your participation and the vivid discussion. Next time we will speak will be already in 1.5 months when we will have the Q1 reporting on 30th April. Have a good day. Until then, bye-bye.

[END OF TRANSCRIPT]