Transcript Fuchs IR call - 28.07.2023

Friday, 28th July 2023

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

Introduction

Lutz Ackermann

Head of Investor Relations, Fuchs SE

Lutz Ackermann: Yeah. Good afternoon ladies and gentlemen. This is Lutz Ackermann speaking. On behalf of Fuchs SE, I wish you a very warm welcome to today's conference call on the half years figure. As always, you can find all the documents at our IR section of our homepage, which we have uploaded at 7.00 AM this morning. And with me on the call today is Isabelle, our CFO, and Isabelle will run you through the presentation in a second. Afterwards, there will be a Q&A session where you have the opportunity to ask questions. Having said that, I would like to hand over to Isabelle. Isabelle, please go ahead.

Financial Results

Isabelle Adelt

CFO, Fuchs SE

Introductory remarks

Thank you, Lutz. And a warm welcome from my side as well to what is the first-ever analyst conference of Fuchs SE. So as you can see, we successfully lost the Petrolub July 3rd and are now Fuchs SE only. I'd like to guide you through the numbers of what we believe was a very successful first half of the year.

KPIs

So as you can see, all of our KPIs we always look at are up significantly. Sales as well as EBIT are up by 11%, which means we're already back to profitable growth. So looking at this 1.8 million in terms of sales, this is the best ever half year we've done in the history of Fuchs ever as our first half year up, 11% majorly obviously price driven. So the work our sales team did was amazing. Really pays off now. So the strong prices we put into place in 2022 now show their full effect. This is by sales up EBIT is up significantly as well. Now it's an EBIT margin of already 11 points again growing equally fast, which means the pricing increases we put into place do not only cater for the higher raw material costs but for the general flight inflation we will see later as well.

Cash Flow

I think we are most proud to announce that the free cash flow in the first half of the year was even beyond our expectations. So we came out at 164 million before acquisition, which is due to the strict working capital management we put into place end of last year. So what we saw in contrast to the years before is that we didn't have quite yet any working capital built up towards the half year. Usually, this looks very different and this is why our cash conversion is way beyond one in the first half of the year.

Due to those good numbers, I think in contrast to a lot of other chemical companies, especially in the German-speaking area, we are proud to confirm our outlook for this year. The sales of 3.6 billion, EBIT 390 million, FVA above prior year, and due to the good results we saw from our working capital management and the strong cash flow, we would like to increase our guidance for the free cash flow from formerly 250 to now 300 million for the entire year. I'll guide you through the numbers in a little bit more detail and then reiterate our guidance at the end of my presentation.

Sales Development

What we saw in the second quarter was sales of 386 million way beyond what we achieved in prior year with 832 million. In total for the half year, we were up by 11%. Looks like quarter two was a little slower compared to quarter one, but this is not really driven by the volumes, but merely by prices of the price variation clauses starting to come down. As you will see later prices, especially raw material prices now started to come down based in some of the regions already and this is obviously the effect we will see from this would say 25% of our sales roughly covered by price variation clauses.

EBIT Development

Looking at the EBIT development, we are [inaudible] that we were more or less able to repeat a very successful quarter one. So I think what we need to take into account that there's one special effect in quarter two due to the closure due to efficiency reasons and the move of some production at our location in Bremen, all of this is catered for in Q2 already, which is a mid-single digit amount. So compared to this, quarter two would look very similar to what we saw in quarter one. So yet another quarter above a hundred million. I think this is why we are very, very convinced that we will be able to meet our guidance and expect a second half of the year at a similar rate what we saw in the first half of the year.

Growth

Looking at where the growth came from, I think it was a very good achievement. All of the growth we saw in terms of top line and then obviously EBIT as well came from organic growth. So no acquisitions to take into account here, but all of this managed by ourselves but what we start to see now is obviously, and it's already announced earlier this year, the first impact from the stronger euro. You might remember last year in quarter two, but then especially quarter three, we had a very weak euro but partially, we even had parity to the US dollar, a very strong RMB, and this we expect to reverse during this year and those are the first impacts for the 52 million w we lost in the first half of the year already.

KPI Summary

So having said this, in summary, I think sales EBIT growing at the same rate, improvement in the margins again, our gross profit up by 10%. So we compensated for higher raw material prices in the general cost inflation, most of that as well because what you can see in other functional costs, they're obviously up compared to prior year as well due to the higher personal costs. So most of that really salary increases of existing employees. We're still very cautious in terms of adding additional headcount, what you can see in our headcount numbers but of course, we need to make sure to absorb the extraordinary increase inflation rates we saw last year. We now have the full-year impact of higher freight and energy cost as well, although we already see that a slight relief might come here and continue hopefully in the second half of the year.

CAPEX

For our CAPEX, we still stand for our former guidance of 80 million, so on the level of our depreciation every year but general pattern we see is that we have slightly slowest spending in the first half of the year, but we still expect to come up at 80 million at the end of the year, although we spent a little more in the first half of the year than we did last year and then I think definitely the biggest change compared to last year is the increase in that working capital. If you remember same time last year when we talked, we had to build up almost 150 million more in working capital due to the increases in raw material pricing we saw, especially after Russia invaded Ukraine.

This year, we were able to keep our networking capital more or less on the same level we had at the end of the year and that's despite the fact that our sales grew by 11%. So you can imagine that our receivables are now due to the higher prices we have in the market, significantly higher than what we had at year-end. So we did a very good job in managing our inventories, managing our payables to make sure that this stays at a constant level and this is why we are proud to show you a free cash flow before acquisitions of 164 for the first half of the year.

Growth from Different Regions

Having said this, I think it's worthwhile to look a little bit into the different regions to give you a flavor of what is happening and where our growth is coming from. EMEA has shown a very strong performance, a surprisingly strong performance in the first half of the year. Almost all countries we are in, we saw double-digit growth rates in our sales. So this does not come from Germany only, but from countries such as Great Britain, Sweden, Poland, France as well. So across the board we really see a very favorable development in terms of sales as well as obviously, the effects of the price increases we put into place last year. A very strong increase in EBIT for our own entities, but for our ad equity companies as well.

We have some small currency effects. This is majorly due to the fact that we have countries like Great Britain and Poland in here, but I think the bigger effect we will see later on from the two other regions but I think in total major contributor to our growth was the EMEA region again, and we can see what a great job our salespeople did last year with really making sure that the price increases are passed through to our customers.

Asia-Pacific

Looking at the Asia-Pacific region, this is more of a mixed picture. So we see increase in sales compared to last year, although not as high as we would've expected it in the beginning – at the beginning of the year, but I think this is a very strong signal that the rest of the group is able to compensate for the moderate economic recovery, how we would like to phrase it. What we see in China and even in the APAC region itself, all other countries we have maybe Australia, India, the Southeast Asia region or East Asia with Korea and Japan performed convincingly well and had very good results compared to last year but what we, of course, have to take into account looking at the Asia-Pacific region is the effect China has on that region being by far the largest country there for the Fuchs group and what we see is a good contribution, yet not as strong as we would have expected at beginning of the year.

Why is that? Well, I mean if you look at how the economy in China is developing growth rates are not yet – we're not there where we used to see them before COVID. So economy is still relatively slow. There's a lot of uncertainty in the market. The demand from the industry is not as strong as it used to be before COVID and we only see a slow recovery, especially due to the fact that a lot of export business in China is not there yet and it's only picking up slowly, which means especially for our business we already have, so the base business, the volumes are not coming back as fast as we would've anticipated.

Although our team in China was very successful in gaining new accounts, getting us access to new customers in the market. So we were able to compensate for most of the volume growth that did not come from the existing accounts yet. So I think this is very good news because once the economy starts to pick up again, we have the old base business with Chinese as well as Western customers and we already have the new business in our books with the customers we now onboarded to make sure that we can at least meet our expectations, we expect that that recovery to continue at a similar speed throughout the second half of the year.

Americas

And last but not least, looking at our Americas business, we saw a really nice growth rate compared to last year. So very good growth in sales, slight effect from currency already, but then growth in EBIT compared to last year as well. So I think what is extremely important to mention is we saw good growth rates in the US despite the fact that they are at the brink of a recession right now, but our team still has very good access to the customers, volumes are still at a good level, and we see all the intake forming back for what is the third quarter as well. We saw really nice developments in Brazil and countries such as Mexico as well. So I think in general, a very good success story for the region and well above what we saw in prior year.

Net Liquidity

Coming back to our net liquidity again, I think again with mentioning free cash flow above earnings after tax, so cash conversion well above 1.1 for the first half of the year, especially due to the fact that we did not have any build-up in that working capital. To put that into perspective, what does that mean? It means that we outearned the dividend payment we did for last year in the first half year alone. We would've expected the net liquidity to be at much lower level as of June because of the dividend, the share buyback but we already earned all of this in the first half of the year, which I think is a very good success story and we expect that trend to continue throughout the second half of the year.

Net Working Capital

Major contributor to this development was the net working capital, which you can see on the next slide. So you see a nice trend in inventories. They are gradually going down compared to quarter four 2022. We are now at 24% working capital in terms of sales and we'll further look into to lower that ratio but as you can see compared to quarter one, inventories are down again and even receivables net off liabilities are down despite the fact that the revenues are up significantly and so I think this is a very good success story and we will put all our assets towards year end to make sure that this number is lower than again.

Outlook

So to reiterate the guidance, we are very confident that we do not have to lower our guidance compared to a lot of other chemical companies, but we are confident that we can at least repeat the first half of the year and the second half. Although the current environment, as I said in the US but in Asia as well, it's obviously it's a little difficult to navigate. We saw demand, a lot of other companies issue profit warnings. This is why we decided to stay on the cautious side to make sure to cater for all of those risks. Although of course, guidance around 390 does not mean that we will not do all that is in our power to exceed this number and that a number in the ballpark of 400 could be achievable.

Forecast and Free Cash Flow

For the forecast and for the free cash flow, we are already very certain because this is within our own power that we can exceed the 250. This is why we decided to take up the guidance we put for the free cash flow to 300 million because we believe that we can continue on the successful part of getting back part of what we invested into our working capital over the last two years.

Price Development

Last but not least, as always, I would like to give you a slight view on how the pricing developed, which somehow ties to the comments I made earlier in terms of the development for our price variation clause. So we saw the group one and group two, which behaves very similar to the three graphs you see here coming down a little bit again in quarter two, although the, let's say medium blue line you see in EMEA, we already saw a slide bounce back. So what we see now is more, I would say, of the normal picture we had before that where usually the prices for group one and group two, they're relatively close together across the region.

So what we saw, what was a little unexpected in the second quarter of the year was point one, the uptake or the slight uptake in Germany or Europe in general again, and the relatively still relatively high pricing level we see in China for almost all of the raw materials. What we are happy to observe is that finally, the prices for group three oils are coming down a little bit. As you might remember, we had what we called a structural tightness in the market, namely the output of Nesteen not being where it used to be after Chevron took over. So we now see that this is improving and we have two players in the market right now who can deliver not at full volume, but albeit we do not have to rely on SK only anymore, but Chevron is back in the game and this is where prices start to come down slightly.

The rest of the pricing additive packages and raw materials, other raw materials still above long-term average and only coming down slightly and so just to remind you, those costs cater for roughly 60% of the materials we buy to manufacture our product and this I think is our expectations towards Q3 and beyond that the pressure on the prices, the raw material prices is anticipated to remain and we will see a slight decrease throughout the end of the year but no, let's say full of prices, we still might have expected beginning of the year due to the fact that prices were very inflated when we started into 2023. On average, our raw material basket grew just to remind you from mid-2021 to end of 2022, roughly 70% and we now see that we are slowly getting back to the level where we were beginning of 2022, which was inflated already.

Conclusion

Having said this, thanks for listening to the call and I would now like to open the floor for any questions from your side.

Operator: Thank you. As a reminder to ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. We will take our first question and the question comes from the line of Markus Mayer from Baader Helvea. Please go ahead. Your line is open.

Markus Mayer (Baader Helvea): Yeah, good morning. I have one question actually, and again on the guidance. What I understood that you want to be cautious and that played out very well, but what I do not understand, you have achieved over half of the guidance already. Q3 seasonally is the strongest quarter and you have explained that cross margin should improve further. So why only a reiteration of the guidance? Do you see any kind of demand a slowdown or expect a significantly worsening that this kind of implicitly earnings decline sequentially from the first to the second half is explained?

Isabelle Adelt: Hi, Marcus. So thanks for your question. So I think as I already said, we decided to stay on the conservative side. Why is that? Well, I think generally we expect the second half of the year as historically to be at least as strong as the first half of the year but of course, what we saw, not only in China but in a lot of regions that the current environment is a little difficult to navigate and to reach. So we do not really see, I would say a real downturn in demand. This would be wrong to say. Our volumes are very stable, but what we see is that our customers are getting a little more cautious in terms of managing their cash obviously as well.

So the demand is not as steady as we used to see it, but it's more they look at the inventory levels, they start to order and they order when they need it and this – and especially when you look at how the chemical industry is now behaving with profit earnings of almost all of the big companies and this is usually a very early indicator of how the economy in total is developing. We decided to stay on the very conservative side to make really sure we can deliver on our guidance but as said that of course does not mean that we'll not do all that is in our power to exceed that guidance.

Markus Mayer: Okay, understood, but maybe I can steal another question on this topic.

Isabelle Adelt: Sure.

Markus Mayer: One of the questions or one of the problems of the chemical industry was also the inventory levels at customers. Do you have any idea of where the inventory levels that your customers are and potentially most at risk would be then customers in the automotive space is here the stocking has started quite late and also in the chemical goods space where most of the chemical goods companies had pretty strong order backlogs and now they fear that they're coming down. So how is it going on regarding the inventory level at the customers?

Isabelle Adelt: I'd say overall, and I think we have a pretty good view on that because one of the services we offer for our customers is their liquidity management, their inventory management as well. So this is why for a lot of customers we see that. We do not really see a significant change in behavior in terms of how much they've put on stock. What we rather see is them being more cautious in terms of when do we re-order. So it's not like, okay, please monitor the level yourself and once it's below a specific threshold you can deliver but they now really say, okay, we want to place the order to really make sure they can manage but what we see is that the inventory levels have been pretty stable and this is I think due to the fact that we're linked into the processes and help them manage the processes as well.

So this I think would for us not be that applicable. I think merely due to the fact that usually, our product for the overall production cost of our customers are not very significant, but they're mission critical. So I think what we deliver to them is one of the last things they would look into when saying we'll somehow lower our security staff that we have.

Markus Mayer: Okay, thank you.

Operator: Thank you. We'll take our next question. Your next question comes from the line of Isha Sharma from Stifel Europe. Please go ahead. Your line is open.

Isha Sharma (Stifel Europe): Good afternoon. I have three questions, please. The first one is, as you try to win business in China, are you experiencing price competition? Is that the reason why we saw sequential decline in EBIT margin in Q2 and is this the run rate that we should assume going forward given that volumes are difficult to find?

The second question is on the gross margin, we saw an improvement sequentially by around 130 bips in Q2 versus Q1, but this did not drop down to the EBIT margin. Can we expect this to change in the second half through cost management that you've also mentioned in the presentation?

And then the third one would be on just the price momentum. So we see that the price momentum is moderating. Was I right in hearing that you said 70% of the prices are bound by clauses and how should we think about the development in the second half and more importantly in 2024, please? Thank you.

Isabelle Adelt: Yeah. Hi, Isha, thanks for your question. So towards the competition in China, I think what we see in China obviously right now is still somehow China finding their past was the new normal and this I think is especially challenging for the western companies and so – which I referenced to as our customers. So what we are trying to do, and this is where we harvest from the investments we did over the last year, that we now have a fully-fledged R&D team, a business development team, a grease plant in China, is that we can – we are now really focusing on winning business with Chinese customers. Of course, I mean when it comes to margin, there's always a mix effect in there that you have to cater for as well, depending which industry you look at, what kind of products you look at.

So I wouldn't generally say that the competition is more heavy or that we win an industry – that we somehow win orders that are not as lucrative but maybe different industries, different kinds of customers and this is why we have some kind of mixed effect in there but I think the margin effect, of course, there's very high cost inflation in China as well because of the supply chains that have been disrupted so long because of the higher labor costs you have there.

Although they start to come down now with a high unemployment rate China is now facing for the first time, but I think that this is the biggest reason why it is yet to come that the full effect is dropping through but I think the margin effect is really more to the fact that we have a very different mix. We have customers from different industries now there that we win business with really Chinese customers, especially with Chinese OEMs. We are really proud of that but of course, to put your foot in the door, you need to invest a lot, you need to talk to them a lot. So what we expect once our base business is bouncing back that the margins will be back at one point in time to pre-COVID level.

Talking about the entire group in terms of gross margin versus EBIT margin development, we already see the first effect of the price, slight price declines always hesitate to call it real declines, very moderate what we see there in the gross margin, although bigger effect yet to come because obviously as we've reduced our inventory levels, a lot of inventory with a higher price was still used in the second quarter. So we expect to see the full effect in quarter three.

Why does not all of this drop down to the EBIT margin? Well, because when you remember last year, Q2 was really the quarter that's half up most from all the price increases we saw due to the invasion of Russia and Ukraine with energy prices skyrocketing with trade suddenly skyrocketing. So this is why you see the biggest effect because most of that came through after that in second quarter, but I believe that most of this is absorbed by now. So this is why it should tickle down to the EBIT margin more in the month to come.

And then price effect, so we have, especially with the big customers, we have so-called price variation clauses. So at the end of every quarter we review their prices to make sure we do not need to spend a lot of months negotiating but this is not 70% but roughly 25% of our revenues. The 70% was the raw material price increase for our basket from mid-2021 to end 2022.

Isha Sharma: Understood, very helpful. Thanks a lot.

Isabelle Adelt: Thanks, Isha.

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

Martin Rödiger (Kepler Cheuvreux): Yes, hello. Good afternoon and thanks for taking my three questions. Sorry to come back on your EBIT margin was 11% in Q2, basically stable versus Q1. Why is there no sequential margin improvement despite some sequentially shrinking raw material costs? Why you have actually raised selling prices still at the beginning of this year? Does fixed cost inflation, you mentioned the salaries increase, have such a huge sequential impact that Q1 costs have completely eaten up the rising spread? That is my first question.

Secondly, and then getting a bit more in detail regarding the part of your portfolio, which is based on price variation clause also, one quarter of [inaudible]. In Q1 conference call, you said that the effect from price variation clauses has not been what you had expected. I recall that that was the hope of the writing spread for this customer group. Did this perception change now in Q2 that you had more benefit from that?

And thirdly, regarding the other business, which is not based on price variation clauses, do you receive pressure from customers to lower your selling prices and pass on shrinking input cost to them because they also read newspapers and they know what base of prices and additive prices are doing? Thank you.

Isabelle Adelt: Yeah, thanks Martin for your question. I think towards the 11% EBIT margin for Q2, this is very similar to what I said earlier. So I think this is a mix of two things. Point one, really the fixed cost impact being massive in quarter two compared especially to last year, but then as quarter one as well with the full year impact of all the labor cost increases we saw, the freight in the energy prices, yet I think there's still a big impact and what we cannot neglect is of course once raw material prices start to come down.

I mean I think you still have to take into account the chart we showed it normalized the beginning of 2022 and it only comes down slightly. So this, it does not mean that we suddenly have an impact of 20, 30 percentage points still in a single digit but this still has to tickle through, right? You already saw the full effect in the cash flow obviously because this is what we pay, but then we still have to wait for our entire inventory to turn around. This is why we did not see the full impact but this will continue to tickle through in quarter three.

For the price variation clauses, it is true that we said okay, we did not really see an impact or not that much of an impact because prices were so stable in quarter one, but although we recalculate that number at the end of every quarter, so we saw two banks coming down, but although still at a very, very moderate level as that normalized beginning of 2022. So this is not yet as significant as we would've expected it to be when we looked at this beginning of the year because we somehow thought that at one point in time prices will come down to more let's say pre-2021 level, but we are not there yet and we do not see big shift in this park.

And this answering your last question, is there a lot of pressure from customers? Not yet, and I think we still have a very a good leeway to explain that prices are still on a very inflated level right now, especially when you look at our mix that we say base oil one, which is close to crude oil, maybe only 10-15% of what we buy and the rest of the portfolio, especially additive packages, the single chemicals, they're only coming down very, very slowly. This is what we observe.

Martin Rödiger: Okay, thank you.

Operator: Thank you. We will take our next question. Your next question comes from the line of Sebastian Bray from Berenberg. Please go ahead. Your line is open.

Sebastian Bray (Berenberg): Hello, good afternoon, and thank you for taking my questions. I would have two, please. The first is on OPEX inflation. I think it's been mentioned in the past that part of this was due to relatively elevated rates for things like road transport via truck of lubricants and so on, but I think those may have started to ease a little and the number was still relatively high for H1 at 9%. What is a good through-the-cycle figure to start thinking of from 2024 onwards for the OPEX line of Fuchs?

And my second question is on volume growth. I suspect that volumes were probably a bit weaker than was anticipated at the start of Q2. What type of year-on-year volume development do you have baked into your €390 million guidance and which end industries have been weaker than others? It seems as if automotive demand held up reasonably well in Q2, which leads me scratching my head as to where the industries were weaker. Thank you.

Isabelle Adelt: Sure. Hi, Sebastian, thanks for your question. So talking about OPEX inflation, we see, especially looking at transport prices coming down slightly, although this is still say in the low single-digit percentages right now and this I think is really the interesting question, will this change? Because I think most countries we are operating in, they're very mature industries, so labor for them is higher, the price for gas, petrol is higher. So this is, I believe why we don't see prices coming down significantly but we of course hope for finding a good new level, and obviously I think those transport costs they're baked into our prices as well, but yeah, we hope to see even a lower level in 2024, but obviously, this will depend on how the entire economy is somehow tuning out and how tight the markets are.

I think that leads very well to the next question in terms of volume. So I think volume development, except for China has been where we expected it to be. So it's, I would say in the economies that are at relatively low growth rates right now, rather stable volume but in some countries, for example, in the US we see growing volume and I would see this is more or less across the board.

As you said, automotive industry, so we are a little bit surprised to be fair that the German OEMs, they're holding up as well. We would've expected them to struggle more, but their demand is still very much intact. We see the same for almost all of the conventional industries such as steel, such as concrete, although those numbers start to come down a little bit, and what we especially see in China that the demand for EV products are picking up quickly. I think this is due to the fact that we really run after the accounts of the likes like BYD, like Geely. So I hope there's some more success stories about that I can share in our Q3 call, but I think overall of course I think still beginning of the year we would've wished for the economy to recover faster in almost all parts of the world than what we see now.

I think you might have read, basically for Germany it was just reiterated that nicely, the economy is stable this year, so zero growth. In the US, they're somehow starting to think, okay, it will not be a recession, but rather zero growth as well, and then China not coming back at the 6% or 7% we're used to, or rather two or three plus percent for this year. So I think having said this and taking China out of the equation for a moment, we are quite happy with the volumes we see and somehow believe that volumes in total will be slightly above prior year throughout the entire year.

Sebastian Bray: That's helpful, thank you. If I might squeeze in the last one. Of the €11 million CAPEX spending Q2 being quite low, is that simply phasing? There's nothing to add there.

Isabelle Adelt: Yeah, simply phasing. So we still think that the total number for the year will be around 80 million.

Sebastian Bray: That's great. Thank you for taking my questions.

Operator: Thank you. Once again, if you wish to ask a question, please press star one and one on your telephone. We will take our next question and the question comes from the line of Michael Schäfer from Oddo BHF. Please go ahead. Your line is open.

Michael Schäfer (**Oddo BHF):** Yeah, thanks for taking my question. Just one left here. On EMEA, have I heard you correctly basically that the 49 million EBIT including at equity you reported in the second quarter included some single-digit burden from a site closure, and if that's the case, you will comfortably above the €50 million and also if you look into the profitability recovered basically to double-digit. So I would – what's the kind of outlook into the second half in this particular region, which looks for me being the strongest let's say turnaround factor here right now? So is there – are there any specifics? Are you now benefiting from much better pricing and faster, basically raw material drop, or is this pass-through clause primarily geared to the EMEA market? So what's basically driving the significant recovery heading in the second quarter and also maybe potentially in the second half? Thank you.

Isabelle Adelt: Yeah. Hi, Michael. I think perfectly summarized. So you got the effect of the closure completely right. Not everything is finished yet, but all of the effect is catered for in the numbers already. So we put in provisions for selling the site, laying people off, what have you. All of this is catered for already at that single-digit million. So this is a one-time effect and we will believe not this year, but then looking forward we will have a positive impact in terms of margin obviously because all of the products we formally manufactured in payment can be transferred to other locations in Germany without any additional CAPEX or any buildup of OPEX except for, yeah, obviously the material we need to use and this is I think for us really a strategic project that we say we need to somehow work on our operating leverage in terms of becoming more efficient going forward.

Having said this, I think the dynamics in EMEA for us it plays out really well. So I think the focus last year on passing prices through, especially looking at how fast prices grew in EMEA after Russia invaded Ukraine, I think was really much more focused on not only catering for raw material cost increase but for everything around energy, around freight as well and this is what is paying off right now. So we expect to see much more less than the second half of the year.

Michael Schäfer: Okay, thank you very much.

Operator: Thank you. We will take our next question and the question comes from the line of Lars Vom-Cleff from Deutsche Bank. Please go ahead. Your line is open. Lars Vom-Cleff, your line is open. Please ask your question. As there seems to be no answer, I shall move on to the next question. Please stand by. Your 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 morning. Thanks for taking my questions. I have three questions, please. The first one is just coming back to the guidance and the fact that the first half just the full year EBIT should be more than the full-year guidance and now I appreciate the conservatism, but aside from that, can you maybe walk me through the moving parts that you see and are there any particular areas that you need to be more confident in and see particular data points before being able to raise that guidance or be more confident?

Second, can you talk about the end markets in terms of order intake specifically for autos, which has been a relative bright spot? Are you seeing any early signs that that cycle is turning?

My third question is a bit more sort of longest term. It's been one year since the Capital Markets Day and the new strategy and since then it seems like a lot of growth has come from price compared to volume in part influenced by market conditions. So can you give us an update about how that's progressing in terms of gaining share and filling in the white spots and what would be really helpful is that if you've got any examples of new wins that you can flag out, and yeah, those are my questions? Thanks.

Isabelle Adelt: Yeah. Hi, Riya. Thanks for your question. So to reiterate on the guidance, I think as I already stated, we are very much on the conservative side there. I think what is very hard for us to like really safely navigate in the difficult environment we are in, we have positive news for some industries, not so positive news for others. We see all the other big companies, especially chemical companies issuing profit warnings. This is why we said we are still very confident we can repeat the first half of the year, but yet it's still to be shown if the economic environment for us is still showing the same stable trends we saw in the first half of the year.

Especially when we talk to our peers in the chemical industry, they somehow see signs of weakening demand in the second half. We cannot observe this yet. This is what we can state for Fuchs. We still see orders coming in at a very stable level. We do not see our customers reducing stock. So I think for us, this all seems still very stable but of course when you watch the news, when you look at other companies, there's still a lot of uncertainty in the market and this is why we will somehow see how the rest of the year will turn out. I'm personally very confident that we can repeat the first half of the year again and the second half of it here.

Looking at the end market, I think the auto market all across the world is holding up extremely well. So when you look at the demand of the German manufacturers, I think they're slowly getting back to more normal level of output and they had huge backlogs. This is what you can see reducing and lead times for new cars are coming down but this is why their demand is still very much intact because they still have all the new orders coming in. We see the US auto market picking up compared to last year, although not as fast as it was expected, but still output is above 2022 still and we see the Chinese market obviously coming back strongly when it comes to automotive, especially with the Chinese players playing a significant role in this and I think the auto market generally is intact.

When you look at the industry, this really strongly depends on what kind of industry you're looking at. So I think building in general, so looking at steel and cement is still a little bit weaker, although, and this does not really tie together, mining is much stronger. So material output and really getting it out of the earth is still really good business, and especially looking at the more specialty divisions we have, demand is still very much intact when you look at medical, semiconductor, aerospace, all of those sectors, they're growing very, very nicely. So I think if I had to name an industry that is not performing that well with everything around I would say real estate and building when it comes to let's say construction slowing down a little due to people being a little more cautious.

Talking price versus volume and how that is developing, I think you're right due to the unstable situation, it's more price-driven growth we are seeing this year than a volume driven growth but I think it's a very mixed picture when you look at why are we able to keep our volume flat. Now, as you've seen in a lot of markets, I think economy is relatively weak or is relatively stable, which in theory would at one point in time mean our volumes are coming down but we are able to win some very nice new businesses and this is partially due to segmentation.

Unfortunately, I'm not yet able to name the names of the customers we are talking about, but I can give you a few examples and I then hope to be able to share some case studies in our Q3 call at least and the Q4 call. So we're currently in our very final stages of signing a strategic agreement, a collaboration agreement with one of the big Chinese OEMs for electronic cards. So I think this will be a very huge success once that is concluded since this really shows that our strategy in terms of making China the new hub for electric cars building our own R&D center there will pay off. I'm quite confident we can already share this in Q3.

And another nice example is due to the segmentation approach, bringing the teams together and working on a global scale, for the first time ever we were able to win huge volume with one of the Japanese tier one suppliers who's now currently in the process of being approved with all the big Japanese OEMs. So this for us will be a very huge success story once this is concluded since historically we've always been a little – it's one of our little white spots, the Chinese OEMs. So to get our foot in the door with one of the big tier one suppliers in the Japanese market and we are talking about a global contract with them, I think this is a very nice new thing.

And then one other thing we are currently looking into, unfortunately, no names yet as well, is a big customer, OEM customer, but in the off-road area in the US. They're very satisfied with us what we supply for their first sale business, for their OEM business. So they ask us if we can provide them with a lot of service and a lot of products for their industry business as well. So we're currently looking into this if this could be something we can then provide to them on a global scale as well because they don't only want the product, but some kind of service in terms of managing the lubricants. So these would be three success stories I can already share and hope I can give some more information on what we are talking about concretely in Q3.

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

Operator: Thank you. Once again, if you wish to ask a question, please press star one and one on your telephone. We will take our next question and the question comes from the line of Lars Vom-Cleff from Deutsche Bank. Please go ahead. Your line is open.

Lars Vom-Cleff (Deutsche Bank): Good afternoon. Many thanks for taking my question. There's only a small one left and I apologize in advance if it has already been answered because I dropped off the line for a couple of minutes. I would be interested in what you see in Germany, some of the companies I currently speak to and that are reporting are complaining about the economic development in Germany and that within the EMEA region, Germany currently is the weakest market they have. Are you experiencing the same?

Isabelle Adelt: Not that much, honestly speaking, and alas, we already wondered that we don't know you being that quiet. I think the German market for us is still very much intact. So looking at the domestic market, I think we are somewhere – would need to look up the numbers, but somewhere on prior year levels in terms of volume and much better sales but I think this is due to the fact that point one, I think our portfolio in terms of OEM and industry is very well balanced in the German market. So we somehow have our foot in the door with almost all of the big companies and our product being consumable. I think this is still a very good position to be in.

If anything, I think we somehow profited from the automotive industry somehow getting rid of the backlog so they even audit a little bit more than what we previously saw but I think, I mean to talk about the rest of Europe, we see a strength in all other EMEA countries we haven't seen in a very long time and this is across the board looking at countries even like Sweden, like Poland, like France, like Spain. So I think maybe in relation to that, you might consider [inaudible] is a little weaker, but this is only due to the fact that the other countries are so strong right now.

Lars Vom-Cleff: Understood. Perfect. Many thanks, Isabel.

Operator: Thank you. There seems to be no further questions, so we'll come back for closing remarks.

Lutz Ackermann: Yeah, thank you very much for the participation in the conference call and we are looking very much for the next time, which is the end of October when we report the Q3 numbers. If there are any questions left, please don't hesitate to contact me, and yeah, have a good day, and speak soon. Bye-bye.

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

[END OF TRANSCRIPT]