Fuchs Petrolub Q1 2023 Results

Friday, 28th April 2023

Introduction

Lutz Ackermann

Head of Investor Relations, Fuchs Group

Welcome

Good afternoon, ladies and gentlemen. This is Lutz Ackermann speaking. On behalf of Fuchs Petrolub, I wish you a very warm welcome to today's conference call on the Q1 results. All the relevant documents have been uploaded this morning at 7.00, and you can find them on the IR section of our home page.

With me on the call today is Isabelle Adelt, CFO of Fuchs Petrolub. And Isabelle will walk you through the presentation in a second. As always, after the presentation, we will have the 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 Group

Highlights Q1 2023

Successful start into the year

Thank you, Lutz, and a warm welcome from my side as well. Happy to walk you through the numbers of what we believe was a very successful start into the year 2023. We saw major improvement of all relevant KPIs we look at.

Sales year-on-year compared to quarter one 2022 is up 16%. That's sales – majorly sales price-driven increase, and once more reveals the successful implementation of price increases due to the raw material price increases we saw over the last 18 months. And now we can harvest the fruit of that.

Good signal as well as that our EBIT is up significantly as well. So, the price increases not only cover the raw material price increase, but at least partially the general inflation as well. We anticipated at end of Q4 that we saw the inflection point of the EBIT margin drop due to the very special situation last year with a war in Europe, the subsequent price increases in raw materials, and this now showed true.

EBIT margin in Q1 is up 11%, so up 1.2 percentage points compared to Q4. So, we see a sequential improvement here.

And another good news is our free cash flow is up significantly compared to quarter one of last year. We look at €52 million worth of free cash flow, which is majorly due to the lower net working capital build-up compared to what we saw last year.

So having said this, we are happy to confirm our outlook we've given to the capital markets last week five weeks results. However, the economic environment we are looking at is still uncertain, so assumptions we put into the outlook hasn't changed significantly since then.

We're still looking at a war in Europe. We're looking at increasing tangents between the US and China. We are still in an environment of interest increases of high inflation rates, so this is why we are happy that we say we've started successful into the year and confirm the outlook was given to you a couple of weeks ago.

Sales development

Looking into a little bit more detail behind those numbers. The number speaks for itself, €936 million worth of sales, highest ever quarter, a record quarter to Fuchs in terms of sales volume.

Volumes in terms of how many tonnes do we sell to our customers are stabling out. So, this is still reflecting the wait-and-see mentality we see in the market currently. There's a lot of uncertainty out there. So, if you look at the IFO Consumer Climate Index, we are still way below 100, which you want to somehow interpret is positive consumer sentiment. So as of today, we're looking at a number of 93%. And this is something we can obviously feel when we talk to our customers, to our partners as well.

There's a lot of uncertainty in the market. And this is something, obviously, that will still continue throughout this part of the rest of the year.

EBIT Development

Looking at our EBIT development. This makes us equally proud and happy as the development of the sales, 11% up year-on-year compared to quarter one, and to reflect on that, I think quarter one last year was still a relatively normal quarter since January, February were not yet impacted by the war in Russia and Ukraine. That only happened end of February. And we had a very good quarter, first quarter of '22 in China as well. So, putting that into this practice, this is a result we are very satisfied with.

Q1 2023 Group sales

To look into the details a little more. The sales growth we are looking at is purely organic. So, there are no acquisitions that account exists 17%. We managed to do out of our own efforts out of the excellent work of our sales force managed to put the price increases through and the management of our customers of our partners that volumes are stable.

Currency impact, obviously, is something we are expecting as kind of a headwind for this year. If you remember, last year's numbers, we had a lot of tailwinds from currency. Since the euro became weaker against almost all other currencies, especially the currencies relevant for us to the RMB and the US dollar. But this only happened majorly in quarters two and three of this year. This is why you still see relatively small numbers here, but we expect that number to increase throughout the remainder of the year and somehow we've seen a counter effect of what we saw in terms of currency development in 2022.

Q1 2023 KPI Summary

Looking at our P&L, I think this is a performance we can be satisfied with. So gross profit is up by 10% as well, which means, obviously, we didn’t only increase our sales but our profit, and we have reached the inflection point. Showing same picture here, obviously, compared to quarter one last year, we still see margins slightly behind, but we saw the inflection point, a sequential improvement of margin development compared to the fourth quarter.

Functional costs is up as well. This is subject to the high inflation rates we saw in some shortages, especially in Europe when it came to energy supplies. So obviously, we do not only see the full-year impact of the price increases we've put into place last year, but the full-year impact of the cost as well.

Major driver behind this was by far the personnel cost increase. So not additional people we hired by the highest salaries to take us for the inflation rate and then higher freight, higher energy costs that went into this.

CapEx above prior year level might be a little misleading. We still stand by the €80 million total CapEx volume for this year. But what we see here is a more equal distribution throughout the year. So, this is already titled for in our free cash flow. So, a little bit more – well, a lower impact expected throughout the remainder of the year.

Networking capital developed nicely as well. We see a small increase compared to what we would have expected, which is driven by the high receivables. You can imagine high sales volumes like that come with a high amount of receivables, but the growth is under proportionate, which means that 25% working capital in terms of sales we saw at the end of last year decreased to 24% to the end of quarter one, and this is a trend we like, and a trend we want to continue throughout the remainder of the year.

This, in total, means we managed to increase our free cash flow from €13 million quarter one last year to €52 million, and this is a number we are extremely happy with.

Europe, Middle East, Africa

Heading deep dive into the regions. I think general message is that we saw good development in all of the regions. But I think special contribution this time came from EMEA. We saw high sales price growth – sorry, high sales growth numbers of 15%. Usually, EMEA is a relatively mature region for us. So, we expect to see higher growth rates in the other regions.

In the first quarter, EMEA performed particularly well. The major reason for this was that we saw great development in almost all countries. You can see that here, Germany, Great Britain, South Africa, but as well countries as Sweden or Poland. First, negative currency impact has been recorded already, but obviously, at a lower scale than what we would expect in most of the other regions. Major driver behind that, obviously, is that a lot of our EMEA business is in euros.

Our EBIT is at €50 million. So that means EMEA accounts for almost half of the Group. And equity results on prior year levels, so the contribution we see there, which is a very good result as well, given that most of our equity companies or some of them are countries with very high inflation rates with high penetration. So, this is something that was managed quite well by the local management teams as well to deliver the same result as last year. And that's a turbulent environment.

Asia-Pacific

Looking at the Asia-Pacific region. This is a result we are happy with as well. I'd like to put that into perspective for you a little. Sales is up compared to prior year, which is the result to volume recoveries, the volume growth in a lot of the operations[?] as well as the price increases with such into play showing their full-year effect.

But compared to last year, we still see a little shortfall in China. Q1 2022 in China was a very strong quarter, whereas quarter one for this year was still influenced by the ripple effect of the COVID lockdowns that were released in December. So, we saw very high infection rates in January, going well into February the ripple effect of the Chinese New Year. So, we see the economy in China overall recovering a little slower than we had hoped for at the beginning of the year.

Quarter one, we still had some impacts. Quarter two, we see that it slowly starts to pick up, but we believe that it will take well into the second half of the year until China will be back to a more normal level of economic activity again. And what we hear from our colleagues in China is that it really takes some time until the stimulus packages that were issued by the Chinese government really show their full effect.

Taking the China development out of the equation, all other countries we have from that region. So mainly Australia, India, Southeast Asia showed positive contributions. So, the small decline, we see an EBIT of €1 million, is caused by the shortfall in China compared to the quarter one 2022, which was a very strong quarter in China. All other regions – all other sub-regions contributed positively with especially nice developments in Australia and in India.

North and South America

Last but not least, our Americas region, very good improvement as well to sales grew by 28% compared to the prior year. Obviously, right now, still with a little tailwind from the dollar development. That is something we expect to turn around in the course of the year, but we saw a very nice development all over the region. So high volumes in North America, so US, in Mexico, but in South America as well.

But still the automotive market in the US, which will be the major growth driver obviously of this region is a little behind expectations. So initially beginning of the year, we expected the market to go back to 15.5 million sold cars in 2023. This will most likely not happen. So, we expect to grow but potentially not to the extent we have hoped for at the beginning of the year.

Net liquidity

Now looking at what does this do with our liquidity, how does this contribute to the cash flow. Already stated, we saw €52 million in the first quarter, which for us is a very strong quarter as the first quarter. So high earnings after tax and an under proportionate growth in networking capital, but the other changes we're seeing here is majorly caused by VAT impact, resulted in €32 million free cash flow before acquisitions. So, we are well on our way to deliver on the outlook we've given of around about €250 million for the entire year.

Share buybacks are continuing as expected. The small acquisition payment you see here is the last payment we did for Elite. This is a pure cash flow effect. It was already digested in our P&L last year with cash outputs only beginning of this year. So that means the first quarter enabled us to reduce the negative net liquidity and we expect to turn this back into positive throughout the remainder of the year.

Net operating working capital (NOWC)

Taking a quick look at how our working capital developed, because I know this has been a discussion a lot of us have had last year. We put a lot of effort into analysing and actively managing our working capital since I joined the company. And we are happy to see that the level decreased. We saw €25 million – 25%, sorry, working capital with of sales end of quarter four, and this now decreased to a level of 24% end of the first quarter.

You can see that inventory slightly declined despite the higher sales volumes we saw there. And with our receivables minus liabilities decreased under proportionately, given the strong sales growth we saw. So, I think this is positive news. And this is assets we will continue throughout the remainder of the year, since we believe that '25, we already stated that. It's not the level we are aiming for when it comes to working capital neither at 24%, but we now put into place the measures of monitoring and managing our working capital and expect that number, so working capital percent of sales to further decrease throughout the remainder of the year.

2023 outlook marking a step towards EBIT target 2025

Striving for all-time highs in sales, EBIT and FCF BEF acquisitions

Having presented those numbers, we are reiterating the outlook we gave to the market five weeks ago. So, we are still aiming for mid-single-digit growth in terms of sales, which is organic growth only from higher business volumes and price lag effects. But obviously, of course, the full-year impact of the price increases we've put into put into place has the highest impact in quarter one.

So, the impact we will see in the subsequent quarters will be smaller, obviously, pure mathematical effect than what we saw in the first quarter. EBIT at €390 million. The measures are still in place. The measures to track cost inflation to define counter measures in place. But of course, we're still looking at the bigger impact of the FX impact to come. And the assumptions we put into this number hasn't changed significantly. So, we are reiterating the guidance of €390 million around for that in terms of EBIT.

As we aim above prior year due to the higher earnings and free cash flow at €250 million, we believe we've put a nice steppingstone lower working capital build-up has shown to become true. So, we are confident that those numbers are still true as of today.

Different price developments for raw mat basket

To put a little perspective into what is our price development and how do our raw material prices of the products we purchase have developed. This is a little mixed picture. When we talk beginning of this year, we said for us, the biggest uncertainty is the development of our raw material prices of the raw material basket we buy. This statement is still as true today as it was a couple of months back.

So, what we saw is that our base oil in groups I and II further decreased slightly globally, even though we still saw some bounce back effect in EMEA. But I think as you can see nicely in this graph, we see that this – the development of the price is coming back to the same picture we saw beginning of 2022, which is that the base of group I and II prices are somehow closer in the regions than what we saw throughout last year.

Based on group III, this is still influenced by, we call it structural tightness here. But majorly, because we only have two big companies that can provide the quality we need and one is still under pressure, most of us have talked about this already. All other things we buy, which, from a value point of view, accounts for roughly 60% of our spend remains on a very high level.

From the indications we see so far, we do not expect a huge change in Q2. So, a slight decrease in this, I think, summarises of what we've seen at the start of the quarter. What does that mean for our pricing? It means there's not that much pressure yet, of course, to lower our sales prices as well. Even the price variation clauses we calculated now, they show some effect but not to the extent we expected at the beginning of the year.

So, what we can say the situation is more or less unchanged. Prices remain at a very high level from the input as well as from the output side, and we still need to wait and see how the long-term trend of this will develop, and when the point will come that we see an inflection here as well with prices sustainably going down.

Okay. So that brings me to the end of my presentation, and I hand back to Lutz.

Lutz Ackermann: Yes. Thanks, Isabelle, for the presentation. And now we can come to the Q&A session. So, operator, please take over for the moderation of the Q&A session.

Q&A

Operator: Ladies and gentlemen, we'll now begin the question-and-answer session. If you wish to ask a question, please press star one-one on your telephone. If you wish to cancel your request, please press star one-one again. We are now taking the first question. And the first question from Markus Mayer from Baader Bank. Please go ahead.

Markus Mayer (Baader Bank): Yeah. Good morning, Isabelle and Lutz. I have three questions, if I may. The first one is on the gross margin side. It looks like that the gross margin in EMEA improved already, but not yet in Asia and America. And my question is, has this to do with the higher base oil I and II exposure in EMEA, such the effect that the raw material basket in EMEA is already coming down, which is not yet the case then really in Asia and Americas, or is the pricing power stronger as you have a higher market share in EMEA than Americas and Asia? That would be my first question.

Second question is on the strong free cash flow generation you have showed in this first quarter. This was, as I said, partly due to a lower net working capital outflow. Has this also to do with an effect that you received recently the customer approval for a new Chinese plant, and therefore, you may have to serve this Chinese customer out of one hand[?]? And if so, is there further upside from this effect?

And then lastly, on your guidance, I'm a little puzzled to be honest. I fully understand that you want to be conservative and be more as we just spoke a few months ago when this [inaudible] but other cyclical companies see Q1 as the weakest quarter this year. And in the weakest quarter, you have now achieved a result which stands for more than one-fourth of your EBIT guidance. So how is the view on the phasing of the earnings development of this year you've baked into your €380 million EBIT guidance? Thank you.

Isabelle Adelt: Okay. Yeah. Hi, Markus from our side Isabelle. So let me take the questions, and Lutz, free to add in case I forget something.

So gross margin development. I think your estimation covered the main points already. What we saw in EMEA when you look at the curves of the raw material pricing, obviously, a much steeper increase when Russia invaded Ukraine of the raw material pricing. That was not only true for pesos, but more or less for everything we bought.

And we saw that little debt, but with a bounce back effect, obviously, in EMEA. And this is, I would say, the major reason why we saw a better gross margin development or even higher gross margin development in EMEA compared to the other regions, just because the development of prices in general was flatter. But I'd say it's hard generally to talk about pricing power being different in regions because it's more depending on the customer structure and the kind of business we are looking at and not that much on the regions. So, this isn't really due to the raw material price development in EMEA.

Free cash flow, do we see a big impact of the approvals we got for plant the localisation yet? Not that much because most of the approvals were only granted in February and March. And obviously, it takes some time to still further ramp up to transfer some of the knowledge. So, this is something to come.

But I think, to be fair, this will be a small impact, yes, because we're reducing the goods in transit. We are obviously reducing freight costs because we don't need to ship that over anymore, but the volumes are not that high that I really expect, I would say, an impact we can see on a global scale from those localisation impact.

And last but not least, guidance. I somehow anticipated that question to come and we discussed that quite lengthily as well. So, I'd like to put a few things into perspective. Historically, usually Q1 was quite a weak quarter compared to the other quarters. That's true. But if you now look at the development we are expecting this year, I mean, obviously, we will have those two effects of the full price – sorry, the full inflation impact as well as the full price increase impact. And of course, this will narrow down a little throughout the year, right? Since, of course, I mean, the full prices we've put into place now compared to quarter one, it's still a bigger gap to the raw material prices, just mathematically for the quarters to come.

And I think same holds true, and this will be somewhere hit I expect in quarters two and three for the FX impact. As you remember, looking at our EBIT, we had a positive impact of roughly €20 million last year. We expect that to turn around, so negative impact in the same full part for this year, and this will hit majorly in quarters two and three. So, this will be something we need to figure in as well.

I would say a major reason behind, right, if we – if not yet increase our guidance is that we did not really see a change in the uncertainty in the market, in the consumer sentiment when we talk to our customers. So, what you see in the market as still kind of a wait-and-see, and we are not doing huge CapEx projects, things like that discussions. And we don't really know when and if this will turn around in the different locations.

So, I think our sentiment of what has happened, our expectation hasn't really changed since we issued the guidance beginning of March. But of course, we are reviewing that again after every month I see. Do we see any trends that are pointing in either or direction? I think general uncertainty has not significantly changed.

Markus Mayer: Okay. And then also coming back to the guidance, the Q1 free cash flow development, was this in line with your expectation? Because I at least – maybe my gut feeling was completely wrong, but I had the feeling that you, at least in the full-year conference call indicated more than free cash flow generation from net working capital reduction in particular to come in Q2 to Q3 and Q4 and not already in Q1. So, was this free cash flow generation better than you've expected?

Isabelle Adelt: I would say it was in line with our expectations. I mean we even saw a slight increase in working capital, as you saw at roughly €40 million. This is pure volume effect from receivables. And of course, once numbers are flattening out and that we will not see this step up again. So that was more or less in line with the expectations.

Markus Mayer: Okay, thank you.

Operator: Thank you for your questions. We are now taking the next question. Please stand by. The next question from Riya Kotecha from Bank of America. Please go ahead. Your line is open.

Riya Kotecha (Bank of America): Hi, good morning. I have a few questions, please. First, can you talk about structural growth and the development of your strategy? There's a mention of pleasing business development in North America. Does this refer to new contract wins and share gains? And can you give more colour on end products, end markets that you are achieving this in?

Second, can you talk about China? How did you see China develop sequentially over the months of Jan to April? Have you seen a turning point in terms of sentiment on the ground? And is the weakness year-on-year coming from demand or supply constraints?

Third, with regards to guidance, what do you need to see bottom-up to become more confident on the EBIT guide? The 1Q figure was over €100 million, setting up a strong run rate for the year, and the second and third quarter are seasonally stronger to my understanding. So, is it just a question mark on China at this point? Thanks.

Isabelle Adelt: Hi, Riya. So, talking about the growth and where it's coming from, I would say very difficult questions because this is very different looking into the different reasons. I think we talked about our segmentation strategy sufficiently already. And what we see, I would say, is a mixed bag of structural market development.

We're winning a lot of new very interesting projects currently throughout the board. So, some really nice EV projects, for example, in China, some very nice project in North America for the wind energy, but this is really I would say very diverse. A lot of new in the food market with that.

So, I think what we see now is that the segmentation strategy we've put into place is showing effect in terms of we can leverage what we know in different regions. Is this the full effect already? I don't think so. Why is that? Because this is somehow still mixed with the, I would say, rather cautious consumer sentiment. So, what we see, as I would say, the base business is somehow robust and stable, but we don't see a lot of new investments in the market, the new contacts from our customers, which would increase our volumes. But what we do see and what makes us confident is really a new strategic and structural projects, where we develop some things together with our customers.

When we look into China, the development we saw was purely demand-driven. So, I think the supply chain is more or less intact in China. And this was really, I think, only driver behind this was I wouldn't say lockdown because we released the lockdown, but the ripple effect of releasing those lockdowns in December we saw impact of overly high infection rate of partially more than 80% of our employees, and this means that our customers, our supplies as well into February.

When we started the year, we expected that we will go back to normal in the market somewhere during Q2. When we talk to our colleagues in China right now, they say they are very confident it will come during this year, but it's somehow underestimated how long it will take for, point one, everybody to somehow be infected and recover, and point two, for the stimulus packages the government directly put into place to really show their effects, because what you can see now, and this is, I think, more a general sentiment, you see not of us in China, but on the population in China. People are becoming a little more cautious because this is something the Chinese population was not used to in terms of growth. It's not always coming automatically. It's always going upwards. But now you have a lot of very young people being unemployed. You have people thinking about, okay, when will we go back to the growth rates we saw before. And what we hear when we talk to our people, when we talk to government officials is they expect things coming back and sentiment becoming better somewhere during the second half of the year.

Looking at our guidance, I would say what would need to happen for us to somehow increase that guidance at one point in time, there’s just two things. On the one hand side, to really get a better feeling of when we'll see this turning time in terms of pricing from our raw materials as well as of course with our prices, what we do with the customers because what you saw on the write-backs the way up last year, will be the same pattern we will see on the way down.

So that's for us, obviously, will be something very important to see when do we see this turning point of sustainable decline in raw material prices. And then something we are watching very closely as well as the consumer sentiment is for us the certain impact since we have more in terms of consumable provider to see when does this turnaround and when does this uncertainty we see in the market somehow get a little better.

What we usually like to look at apart from only talking to our customers, talking to our countries is the IFO Consumer Climate Index. Usually, you say once this step up above 100, consumer sentiment is positive. And this right now is only at 93, which somehow of course makes us think, okay, when will the general spend will pick up again.

Riya Kotecha: Thank you. I have a follow-up on the raw materials. If I look on the – if I look at the chart on page 13 of the presentation deck, I can see in April '23, you had a tick down in the base oil III in the European market. Do you expect that to continue into the quarter? And then is that in any way sort of a lead indicator for the Asia group II price and the US group II price because the European group I and II base oils started to decline before these other groups as well?

Isabelle Adelt: Unfortunately not. So, what happened here is that I mean the market for base oil III is very tight. So, we basically only [inaudible] Chevron only have two suppliers, and they still have some issues with their production plans in Finland that hasn't ease up. But what happened in the market is that not only us, but all their customers were looking for alternatives to substitute the base oil III against something else. And this – of course, I mean, demand supply somehow led to prices coming down a little, but we do not expect this to be sustainable, unfortunately.

This was more the same narrow mark, lot of supply available. We start to substitute. So, when the supply became available, demand was not as high as before anymore.

Riya Kotecha: Okay, thanks so much. That's clear.

Operator: Thank you for your question. There are no further questions at the moment. But as a reminder, if you wish to ask a question, please press star one-one on your telephone. We have one question. Please stand by. And the question is from Lars Vom Cleff from Deutsche Bank. Please go ahead.

Lars Vom Cleff (Deutsche Bank): Yeah, thank you very much. Just a quick question. Good morning by the way. I'm still looking at your volumes and the volume development, and you already indicated that you see volumes stabling out or that you have seen volume stabling out. Are you also seeing them recover during the current quarter already? And maybe you could split your volume observations also by region? I think we are welcoming that you're publishing the organic growth, but the underlying volume growth or volume decrease would be very interesting for us as well, I guess?

Isabelle Adelt: Good morning, Lars. Thanks a lot. I'd say do we see a lot of growth in volumes? Not yet. I would rather say it's pretty stabling out. Why is that? Because the consumer sentiment is still kind of – well, we don't really know what happens, we don't really know where it goes. So, volumes are, I would say, stable throughout the Group, more or less, slightly different developments within the regions.

Obviously, China, we already talked about. If we see higher volumes, it's mainly due to new project wins, but what we didn't see yet is that economic activity is picking up a lot and that this basically volumes grow significantly. So, I would rather stabling out is what we saw over the first quarter.

Lars Vom Cleff: Okay. Perfect. Thanks.

Operator: Thank you for your question. We are now taking the next question. Please standby. The question from Martin Rödiger from Kepler Cheuvreux. Please go ahead.

Martin Rödiger (Kepler Cheuvreux): Yes, good afternoon. I have three questions, if I may. Just one clarification question. Isabelle, you mentioned that the effect from the price variation clauses, which you see right now, is not the same what you have expected at the beginning of the year. Can you provide a bit more colour? Is that further delay because the thresholds are not reached? Or what does that mean? i.e., the – that, for example, you can keep your selling prices relatively high also for these key customer groups.

Second question is, in particular on base oil group I in Europe, so the [inaudible] Rotterdam. And thanks for the chart that you showed this 50% drop since summer last year. But in recent we saw few months; you see some slight recovery. And we hear from one of your suppliers that they've met some – admitted that some Southeast European countries have the ability to buy cheap Russian oil and can produce therefore very low or cheap base oil price. So, do you see that is continuing, and therefore, the structurally group I base oil price will remain low? Or is there any signs that some other players will get out of the market and beyond the maintenance shutdowns, there will be some impairment shutdowns. And thus, there will be a low supply, which would mean then, of course, higher price for base oil group I in Europe? That was my second question.

And thirdly, at your Capital Markets Day, you have been quite vocal about easy fluids with this potentially $3 billion market value, and you said that 50% of that market is relevant for Fuchs. You indicated already that you had some benefits, but maybe you can more vocal on that or more colour on that. To which extent you have already benefited from that opportunity in this month because we see that EV production is quite strongly growing. So, you might see some meaningful sales already in the last couple of months. Maybe you can give more insights here.

Isabelle Adelt: Yeah, sure. Martin, let me elaborate on that. So, the price variation clauses, I mean, what we anticipated beginning of the year is, obviously – maybe let me try to put that together with your – with a question – second question you asked.

What we anticipate is that at one point in time, we would see raw material prices coming down. And how does those price variation clauses usually work? Well, from the big products, we define some kind of raw material basket. We look at from kind of indices and then take some kind of average for the quarter.

And when we started, we expected that average for the quarter to be much lower. And this is what you already said when you look, for example, have a base oil I development, which is one of the major ingredients of, for example, engine oils you're looking at. We expected that when we saw that drop in February to somehow stay at a lower level, but we saw a small bounce back effect.

Do I expect this to be something structurally? I will say a few words about this because in South or Eastern Europe, they buy cheap oil from Russia. I don't think so. For me, this is more an indication of the market coming back to a more normal level, where usually base oil I prices have been very similar in all three regions.

What I would not expect is that we would see any impact here, especially for us, putting that into perspective from, let's say, companies to buy cheap oil from Russia because we are very diligent in making sure we comply with the sanctions that have put out towards Russia. And all of our suppliers had to confirm to us that they comply with the sanctions as well. So, we would be very surprised to see an impact from this in our P&L because for each and every one of our suppliers, we've got the letters that they agreed to comply with all the sanctions.

So, I believe that this is something that could potentially have a small impact on the overall picture looking at the indices, but not for us.

And then for your last question regarding the capital market then, you were talking about the indication of €3 billion market, where half of that is relevant for us. So, what we see is a lot of progress with the projects we are in. So, this is something that is happening in the Chinese market a lot with all the major Chinese players for automotive production, but as well as the, I would say, charging infrastructure production. There's cooling fluids that go into the charging piles.

We've seen less product groups grow already – but I would say from the overall volume for us, it's not yet at a significant volume. I mean you see EV everywhere. Of course, volumes are picking up, but from a very low level. So when you put into perspective of what the demand for traditional combustion engines is on a global scale, this is something, obviously, we need to consider when we look at our market that we are a global company in more than 50 countries, I would say the demand we see overall for combustion and on production is still a lot higher than what we see for EV production.

Martin Rödiger: Thank you.

Operator: Thank you for your question. The next question is from Riya Kotecha from Bank of America. Please go ahead.

Riya Kotecha: You mentioned that you expect additive pricing to decrease into the second quarter. May I ask what gives you this impression? Is it conversations with suppliers? If I listen to what [Inaudible] say for example, they talk about holding prices here, given it is more specialty area for them.

And related to that, can you remind me of the breakdown of your raw material basket by value between the groups of base oils and additives? Thanks.

Isabelle Adelt: Yeah, sure. So, I would say additive pricing, do we expect that to decline? I would rather expect that to stable out of the two. So, we said we expect a smooth decline as that, and this is based on what we saw during the first quarter during April now and on discussions with our suppliers.

So far, I would say it remains on a – stably remains on a high level. We see for some special chemicals that prices come down very, very slightly. So, this is why we said back, a slight decrease but rather stabling out further in Q2.

When you look at our overall raw material price – our raw material basket, sorry, I would say you can say roughly 40% in terms of value is base oil and 60% is additive, specialties, chemicals. And out of those base oils, I would hugely say one-third group I, one-third group II and another third group III PAOs [inaudible]. But I would say majority of what we buy, so roughly 60% is not base oil.

Operator: Thank you for your questions. There are no further questions at the moment.

Lutz Ackermann: Okay, so this is the case. So, we have come to the end of our conference call and the Q&A session. Thank you very much for the participation, and we are looking forward to the next event that we have next week. On Wednesday, we have the AGM. So, there will be a live stream on our home page, if you want to participate in that event. Having said that, we would – we will say goodbye and wish you a good day, and yeah, see you soon.

Isabelle Adelt: Hoping to see a lot of you next week at our General Assembly. Have a nice weekend.

Operator: That concludes the conference for today. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]