FUCHS SE - Second Quarter Results 2024

Tuesday, 30th July 2024

Introduction

Lutz Ackermann

Head of Investor Relations, FUCHS Group

Welcome

Good afternoon, ladies and gentlemen. On behalf of FUCHS SE, I wish you a very warm welcome to today's conference call on the half-year figures.

With me on the call today is Isabelle Adelt, our CFO. And as always, Isabelle will run you through the presentation in a second and then we will have the Q&A session afterwards. All the documents you can find on the IR section of our homepage since 7:00 this morning.

And having said this, I would like to hand over to Isabelle. Isabelle, please go ahead.

Overview

Isabelle Adelt

CFO, FUCHS Group

Highlights H1 2024

FUCHS with good first half 2024

Thank you, Lutz, and a warm welcome from my side as well. We are delighted to guide you through, what we believe, are good numbers for the first half year of the FUCHS Group.

So looking at the highlights of what we present today. We have some very good KPIs which are perfectly in line with what we predicted in the beginning of the year, despite some adverse developments you can read in the newspapers or see on TV, and obviously, what is currently happening all over the world.

But we are delighted that we can confirm the outlook for this year. So some highlights of what we saw in the last three months and the first six months of the year.

Sales are slightly down, but this is only driven by price adjustments due to lower raw material prices, but as you can see, of course, more moderate than what our input cost is. This is why despite lower sales, we were able to up our EBIT by €18 million or 6 – or 9% year-over-year compared to where we were at the same time last year. This, of course, helps us as well to contribute to our mid-term EBIT margin target. We are now 12.4% compared to 11% at the same time last year.

This is a very good development because looking at the top line, we can see we are back to volume growth. Sales prices are down more moderately than our input cost, and we have some adverse currency effects due to the relatively stronger euros – euro especially compared to US dollar, Chinese RMB, but a couple of other currencies as well. But at the same time, we were able to really hold on to the good margins and manage our costs very diligently. So we are satisfied with how the results turned out.

All of this led to an earnings per share, which is significantly higher year-over-year. And we're happy to report that we are very close to completing the share buyback.

So just to remind you, we announced that we want to buy back 4 million of each share class, which we've done as of last week for the preference shares. And we are about to conclude the ordinary shares in the next couple of days.

Free cash flow is lower than last year, but according to our expectations. A major contributor to the difference we see is the net working capital build up. So what we see now is that we are back to a more normal pattern in terms of development. If you remember last year, we concluded 2022 with a net working capital over sales of 25%. So we put a lot of effort into reducing safety stocks and really getting everything to a normal level.

This year, we see the normal pattern we've had in pre-COVID years too of a build-up in the first half of the year, and then a subsequent ramp down in the second half of the year.

One highlight to mention before we go into the numbers in a little more detail is the closing of the LUBCON acquisition. We already announced that in our last call, that we signed the deal. And now we're happy to report that as of 26th July, we closed the deal and we can now full throttle include what we believe is a very nice addition to the portfolio to the rest of the Group, as well as include the LUBCON numbers obviously into our Group numbers as of 1st August.

Sales Development

So now looking into the numbers in a little bit more detail. Sales, as said, we are down year-over-year, but flat over last year. So what does that mean? In total, we already said prices are down a little bit, majorly driven by our price variation clauses. Plus, we have a negative impact from foreign currency, which would, in the conclusion, mean price would be negative impact overall.

We are flat because we had more volume in Q2 this year than we had in Q2 last year. And this is what we already discussed and what we promised you in Q1. We had a slight deviation end of Q1 due to the Easter break being early, but we caught up even a little bit more than that during Q2.

EBIT Development

In terms of EBIT development, compared to last quarter two of 2023, we are up 14%. And I think this is a very good achievement with quite different contributions. But I think for me, what is the highlight of this number and why is it so high, there's contributions from all regions.

Last year, I think it was more the pattern. We always said EMEA is developing very strongly and the rest of the world is rather flattered. And this has turned this year. So EMEA, yet again, had a very strong contribution. But the same is true for China, for Australia, for India, for the US, for Mexico, and a lot of other countries. And this is, once again, stressing the strength of the Group and confirms that the decentralised setup we are having is the right one for us as a Group.

H1 2024 Group Sales

To shed a little bit of light into where actually the decline in sales comes from, on the next slide, you see that, as announced, we do not have any external impacts yet. This will come starting Q3 with the acquisition and the integration of the LUBCON Group. But if you look at where the deviation comes from, the organic part of minus 1% is a combination of high volume, yet slightly lower sales prices.

And on the other hand side, a little bit of headwind from currency, because compared to the beginning of the year, the euro is significantly stronger compared to a lot of other currencies. And this is what is obviously reflected in the numbers as well.

H1 2024 KPI Summary

So looking at the P&L in summary. For me, this is a very sound picture. Sales slightly down, obviously, but a big step up, especially in gross margins. So compared to last year at the same time, almost 3 percentage points. And this is due to a variety of reasons. One is really good price realisation. One is a lot of focus we put onto procurement – into procurement, procurement conditions. And one is operational excellence, so becoming more efficient, more effective in how we utilise our factories. And all of that combined led to a better gross margin, significantly better gross margin end of the first half of the year.

At the same time, we were able to manage our other functional costs quite diligently. We have a little bit of tailwind from lower freight and lower energy costs compared to the year before. But of course, we were not able to offset all of the personal expenses, the increases, given that we saw relatively high labour cost growth rates over the last two years, especially. But in total, the higher margin we generated, the higher profit was able to offset. And this is why we are happy to report a step up in terms of EBIT margin of 1.4 percentage points compared to last year, and a step up in EBIT total of €18 million.

CAPEX is a little lower year-over-year, but this is only due to timing. So we still stand by the commitment we made that we want to invest basically the same amount we depreciate every year. So this is what we're targeting at for this year too.

Then net working capital, we briefly talked about already. So this is the normal seasonal pattern, we usually see the ramp up in terms of receivables and inventories over the first half of the year, and then subsequent decline over the second half.

Europe, Middle East, Africa

Shedding a little bit more light on the different regions. As already stated, EMEA is developing nicely again. So very strong performance, similarly strong as what we saw last year in terms of growth rate.

In terms of sales, they are down a little bit more than the other regions, but this is majorly driven by the price variation clauses compared to the other region. EMEA has more OEM business. And this is why we had to adjust prices accordingly, but nothing really to worry about. And the negative currency impacts in EMEA, let's say, almost non-existent. And this is due to the fact that we have a lot of different currencies in the EMEA region, so whilst South Africa and Eastern Europe especially were a little bit weaker and we got some headwind from currency, UK gave us some tailwind and those somehow added up quite nicely.

Asia-Pacific

When we now move on, as already said, what for me is one of the biggest highlights this first half of the year is that we have a positive contribution from all three regions. This includes APAC as well. So if you look at this, we are looking at organic growth, volume-wise as well as price-wise. And we only have slightly lower sales because of the high FX impacts we are looking at. This is majorly China and Australia, obviously.

Compared to first half of last year, China developed really nicely. Our management team there has done a fantastic job really positioning us and repositioning us in the market, giving the overcapacity we see there. So we are back to very, very nice growth rate. And the same holds for India and Australia. Although Australia, especially the first quarter was a little weaker due to the heat and the lower agricultural activity, but this was partially at least compensated by higher mining activity in the country. Compared to last year as well, we see a step up in terms of EBIT as well as EBIT margin.

North and South America

And this story nicely continues looking at North and South America. So we are looking at organic growth rates as well, with very good contributions, especially from the speciality lubricant business in the US, with a big contribution from our acquisition, Nye, as well as very favourable development in Mexico.

The high negative currency impact, this is only partially US dollar. A good portion of that is contributed by Argentina as well. Whilst our Argentina business is still very small, of course, high inflation accounting has typically its negative flip side on that too. So this is where we see a relatively high negative impact on top line. Major contributor to that would be the Argentinian peso.

But compared to last year, I think as well, very consistent picture, slightly lower sales, only due to currency impact. So this is a translational impact only, no transactional effect. Much higher EBIT, so resulting in a much better EBIT margin.

Net liquidity

Looking at how our net liquidity developed. I think most of that has already been said. Higher earnings after tax than we had at the same time this year, the same point in time in 2023. CAPEX is slightly behind expectations, but we believe that this gap will close throughout the course of the year.

Net working capital, we are where we expect it to be mid of this year. We will see this net working capital build up in terms of total value as well as in terms percentage of revenue unwind throughout the rest of the year.

And those other changes, I think very consistent picture too. This is majorly accruals and provisions for bonus payments and for tax payments, so given they're usually at the highest end of the year, most of that has been paid in the first half of the year and now we're slowly building up the provisions for 2024. So this number will likely turn into positive throughout the remainder of the year.

Of course, other impacts on net liquidity since December were the dividend we paid after our shareholder assembly, as well as the share buyback. This just indicated the share buyback will be concluded and we will then basically be through with that. So no additional big for the cash out plant throughout the remainder of the year.

Net Operating Working Capital (NOWC)

To give you a little bit more insight into working capital, I think here you can see that quite nicely. So we usually have the low point of working capital end of Q4, and we then see a sequential step up in Q1 and Q2, and then basically further reduction in the second half of the year. This is what we've seen this year as well.

We are comfortable with that development and reiterate our free cash flow guidance since we expect the unwind effect we see every year in the second half of the year.

And if you look at the numbers, they are still relatively moderate. To remind you, we said we are guiding for net working capital level on average in between 21% and 22%. We are perfectly in line with that expectation.

Different price developments for raw mat basket

To give you a little bit insight on how pricing played out and how it developed. So in Q2, combined with Q1, we saw a slight uptick in Group I and Group II in terms of base oil, whilst Group III is still slightly down. But we expect that to stabilise or even slightly pick up in the rest of the year. And I think same almost holds for additives and other raw materials we buy for production, although this is a relatively wide field, given the number of materials we buy and the number of geographies we operate in.

So this will be the picture what we expect to happen in the second half of the year. Pricing being stable or slightly up really depending on the region, depending on the material we are looking at. But from what we see now, we do not expect any real spikes in terms of raw material costs, but rather a modest and flattish development.

2024 outlook marking a step towards EBIT target 2025

So putting all of what we've just heard together, I think we are very confident reiterating our guidance. Given that we are at half year, we hit the half year mark more or less in terms of sales and in terms of EBIT. So despite the adverse environment and the macroeconomic conflicts we are all aware of, we are very confident to reiterate what we promised to deliver in March and what we reiterated in Q1 as well.

In terms of free cash flow, this is the normal seasonal development. So we continue the guidance of slightly above 80% in terms of cash conversion towards €250 million, since we expect: point one, the positive impact from the unwind of the working capital; and point two, then the positive contribution come the end of the provisions for bonus accruals and for tax accruals. All of this will contribute, and we are confident we can hit or possibly even exceed those targets come end of the year.

FUCHS Capital Markets Day 2024

And before we move into Q&A, some more update. We promised to you on our Q1 call. So we now fixed the location for our Capital Markets Day, which will take place in December. And we are delighted to announce that we will hold the Capital Market together with one of our strategically very important clients, DMG MORI. We will meet at their location, basically at their customer centre in Pfronten, which is in the south of Germany, closest to Munich.

Registration and more details will come soon. So please already block your calendars. We will have a dinner on 4th December. And then the event will take place together with DMG MORI on 5th December.

So having said this, I will hand back to Lutz, and we can start the Q&A session.

Lutz Ackermann: Yes. Thank you for that, Isabelle. And we can directly go into the Q&A. So moderation, maybe – or chief moderator, operator, take over for the moderation of the Q&A session. Thank you.

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 while we compile the Q&A queue. Our first 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 three questions. The first one is on EMEA. I wonder whether you can shed a bit more colour on, let's say, the key drivers behind the EBIT recovery despite the flat organic sales. So if I recall correctly, we had something like minus 7% organic decline in the first quarter. Then it was flat now in the second. So how have volumes evolved, primarily given that you have a very strong OEM exposure there? So key drivers would be very helpful.

The second one is on Americas, which looks like the key outperforming region. And so, I wonder, we look for almost record margins in the second quarter in the Americas. And if my math is right, then even record levels on a quarterly basis in terms of EBIT contribution in that region. So you pointed to Nye and the Mexican business. So how sustainable is what we have seen in the second quarter, in the upcoming quarters? So this would be my second question.

The third one is overall on your Group seasonality. I recall previous calls where you basically pointed to the typically – typical seasonality that the third quarter is the peak quarter of the year, and so therefore, we should expect basically a ramp up throughout the year. I wonder whether this is still valid and whether the seasonality picture you've provided before. Thank you.

Isabelle Adelt: Yeah, thanks for your questions, Michael. Happy to shed a little bit more light into that. So looking into EMEA first, you asked for key drivers. So I think what is a very important statement to make is that Fuchs is much more than just OEM business, obviously, right? So we have a very diverse customer base. We are exposed to a lot of industries. And this is really what is helping us to grow in terms of volume. So in total, EMEA volumes are up year-over-year compared to what we did last year.

And I mean, of course, there's a lot of different contributors, a lot of different countries. So it's quite difficult to give you a general statement, like what is the main industry or what's the main driver. But what we can say that EMEA found the same strength they had last year with good contributions for almost all countries.

So, of course, everybody's looking at Germany, and Germany is developing very nicely, especially in terms of price realisation. But we have amazing contributions yet again from Poland, which is currently the fastest growing market we have in FUCHS so far. We have good contributions from Italy, from Spain, from the Nordics, from Great Britain, from South Africa. So really, I think across the board, all geographies.

And then really playing out the strength, our exposure to so many different end markets. I think, of course, automotive industry is an important market, but it's not the only one.

And when we look at automotive, we, of course, have quite a big portion of automotive aftermarket as well, which is independent from the auto production, because as long as the car is on the street, you need to exchange our products quite frequently. And this is, I think, really what makes the EMEA region that strong.

Looking at Americas, if you ask me if this is sustainable development, for sure. But I mean, when you recover what we discussed in Q1, as said, we said our speciality business is really strong. And this is majorly nice, but ultra-chem and our normal speciality division as well. So this is performing really nicely. And especially for next year, we see a little bit more upside to that too. Because what we still see is that our normal, I would say, the bread and butter business we have for the metalworking or the industry business is doing okay, but there's still this little wait-and-see mode to see how – really how the elections turn out and where investment should be made. So this is something we really expect to come back next year.

And then last but not least, Mexico. I think we have a fantastic management team in Mexico, who is very good at acquiring new customers and bringing in additional volume. So there we see a growth where we believe this is sustainable. And especially, if even more US companies decide to invest in the US, we usually follow them. So we can have a good contribution there as well.

In terms of profitability, so we are happy US or Americas, in total, for that sake, is back to the good margins. So this is, honestly speaking, nothing we haven't seen before. So what I would rather – like, I would rather like to frame it, they're back to old strength with the entire portfolio they have now with a little wider geographical distribution with more legs to stand on, plus our procurement department in the US has done a fantastic job really including the US in more corporate contracts, so we can benefit from much better purchasing conditions than we could in the past.

And regarding seasonality, for me, there wouldn't be any reason to say it's changed compared to previous years. So what we usually see is a ramp up throughout Q1 up to Q3, but then usually a relatively weaker Q4 due to the Christmas break, to the China Golden Week break, Thanksgiving in the US and so on and so forth. And this is what we would currently expect for the rest of the year too.

Michael Schäfer: Thank you very much.

Operator: Thank you. We'll now move on to our next question. Our 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. I have also a few questions, starting with the momentum in the second quarter. I saw that obviously volumes, plus 3% in Q2, while it was flattish in Q1. So obviously, there is an improvement. Do you see that already during the quarter that month-over-month it's getting better and better? And you – that means also that at the beginning of Q3, what do you see in terms of demand? Is that trend also the same trend? Is that continuing at the beginning of the third quarter? That would be my first question.

And secondly, coming back to the EBIT margin in Americas, which was quite a bit strong. But I have the impression that the region is highly contrasted, North America very strong, including United States and New Mexico, and South America very weak because of Argentina. So would it be fair to say that there is a quite huge gap in profitability between North America and South America of, let's say, 1,000 basis points in EBIT margin?

And the third question is on freight costs. You mentioned in your speech that they went down, I guess, also in Q2 year-over-year. But we hear right now that freight costs for container shipping are rocketing as we speak. Is that a concern for you? Thank you.

Isabelle Adelt: Thanks for your questions, Martin. So happy to shed a bit more light on that. So I mean, I think we've seen a nice momentum in terms of volume growth, and this is what we invested into over the last couple of years. So we are very happy we can finally start to harvest those fruit.

In terms of momentum month-over-month, it's a little difficult to say, honestly speaking, given there are different number of working days in the month. We have national holidays, for example, a lot of national holidays in Europe in May. We've had the Easter break in March. We've had the Chinese New Year break in February. So it's a little bit difficult to really give some kind of guidance in terms of month-over-month improvement.

But what I can confirm, what we currently see in our order book and what we see, like how the market is developing in all of our big markets, it's a favourable development. And we expect that trend to continue throughout the rest of the year, although it's really difficult to say every month we're getting better, because there are different things to consider. For example, now to come the summer vacation and a lot of days, for some weeks it will be a little slower. When we have upcoming, we have a Chinese Golden Week beginning of October. So there are so many effects to consider.

And we say we're confident to confirm that this trajectory of volume growth will continue from what we see in our order book, but it will not be sequential like every month more than a month before. So there's some seasonality in there too.

In terms of margins in the Americas, you're perfectly right. So, of course, when you look at the numbers, I would say more than 90% of the Americas result is the region North America, which includes Canada, our three US entities, and Mexico. And this is by far the strongest profit contributor for that reason.

So looking at South America, I think to put that into perspective, our South America operations is very small. So we only have bigger locations or you can even call them bigger.

In Brazil and in Argentina, I mean, if you read the newspaper, both of the countries are not in the most favourable macroeconomic environment and political environment for that matter. So I think this is why it's fair to say that sales development as well as margin development is not as good in South America as in North America, where we have a much more stable environment to operate in and much more legs to stand on, honestly speaking, then in South America.

Regarding freight costs, it's true they came down. So you're correct as well that freight for container ships increased. But luckily, we'll say more than 90% of what we do is road and rail. So we are not really that much dependent on either container ships nor airfreight. And this – of course, you need to look into the different industries. But on average, this came down quite a bit in the first half of the year.

Martin Rödiger: Thank you.

Operator: Thank you. We'll now move on to our next question. Our next question comes from Isha Sharma from Stifel. Please go ahead. Your line is open.

Isha Sharma (Stifel): Hi. Good afternoon. I have two questions left, please. We saw a bit of volatility in terms of segment margin. So could you please help us reconcile regional trends that you saw from Q1 to Q2? We saw, of course, EBIT margin getting better in EMEA, but also Americas, whereas it was weaker in Asia. How should we think about it in the second half, and in that perspective for the full year, please?

And then could you please also talk about what you see currently in the market into Q3 so far in terms of end markets and regions, please?

Isabelle Adelt: Yeah, sure. Happy to take that, Isha. So in terms of regional development, you're correct that overall we had a favourable development. But of course, just looking at margins, step up in EMEA versus Americas, whilst APAC was slightly down. But I think, I mean, major contributor to that was honestly normal seasonal effect. So the margin, especially in China was stronger in Q1. But this is always, you know, the month or the time ramping up to Chinese New Year is usually the strongest month the entire year for China. And we had the entire January this year. So this is just a normal seasonal development and not an indicator that we see a downturn or anything in the APAC region.

And I think what we expect to see is, I think, a very similar development to the years before. So hopefully another step-up in the direction towards our target margin in Q3. And then historically, a little weaker margin in Q4 due to the fact that we will have holidays all over the world with Thanksgiving, with Christmas. We're usually looking at slightly lower volumes, lower sales compared to the other quarters, and thus a little lower margin. So this would be the expectation for all regions.

And from what we've seen, there's nothing that we say one region is developing stronger or there's any cause for concern in the APAC region. This is just the normal seasonality of Chinese New Year, given how big a share China is in that region. And what we currently see in Q3, I would say, is more or less continuing the trend we've seen in the last quarter. So I think very good development in all regions, good order intake. And I think, again, good contribution from a variety of different industries, especially, of course, the speciality segment we've mentioned a couple of times, which has exposure to semiconductors, to medical technology, to aerospace.

We are now really looking forward of the contribution of the LUBCON Group, because this gives us exposure to some very interesting end segments, too, such as railway business, medical as well. They are very strong in the building industries, like MDF plates, cardboard boxes, all of that stuff, which will be very cool.

Automotive Aftermarket has been performing really strong. Industry has grown nicely. So I think this is really what I would put in as that, basically, our many legs to stand on help us to continue this growth trajectory in almost all locations.

Isha Sharma: Thank you very much.

Operator: Thank you. We'll now move on to our next question. 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 Merrill Lynch): Hi. Good afternoon. I've got two questions, please. My first one is a follow-up on a question before, and that's about the business development through the quarter. Can you give us an idea of the exit rate of the second quarter in terms of volumes, and more specifically, speak a little bit about June? And the reason I ask that is – leads to my second question, which is, can you give us a bit more detail on the drivers for FUCHS' volume growth that was mid-single-digit percentage in the second quarter relative to the Western European market for autos that was down double-digit and seemed from the industry production data like it really deteriorated in June?

And I appreciate that FUCHS has many different end markets and also didn't see a huge spike-up when there was a strong autos market, but is there a reason that you think explains the divergence between the company's volumes and the underlying market? For example, are you gaining share, or are there some bright spots end-market-wise?

And on a more mid-term basis, would there be a reason why that business development wouldn't reflect the underlying market in that sense? Thank you.

Isabelle Adelt: Sure, I'm happy to take that on. So a lot of questions. In terms of our auto business development, volume development, this has been relatively steady, I would say. So, of course, April compared to the year before was a little stronger, but that, again, was just the Easter break. So the year before, it was in April. This year, it was in March. And then for May and June, I think we saw good order intake and I couldn't like really name one of the months that was stronger or that we saw a decline. And we saw – see this nice trend now really continuing well into July. So there's nothing that you could say was slowing down in June, if even, I would say, we saw a mild pick-up.

Drivers of the volume is really from across the board, I would say, from a lot of different geographies into a lot of different end markets. And from that, honestly speaking, I wouldn't even include – exclude the auto market.

So maybe to try to get some perspective on this. So, of course, what we do is much more than just passenger cars and new car production. So we have a lot of aftermarket business. This has grown really nicely in the first half of the year. But the same is true for agricultural production, for trucks, for heavy-duty vehicles. Whilst, of course, passenger car production was a little weaker, but not that we see that as a significant contributor to the business.

And then on the other hand side, especially the speciality applications were really strong in the first half of the year. Medical technology, renewable energy, semiconductors, just to name a few, are serving for us. This gives us very good confidence that we can continue this growth. If you remember, especially last Capital Markets Day, we talked a lot about our segmentation approach so that we really strategically and in a very focused way start to look at end markets, start to understand what our position is, how big the market potential is, and just use what we already know how to do in the Group in different countries.

And I think this is what you can see now as well. So those are the fruits we now harvest in terms of just somehow copy and paste what we've done in other markets already to new locations. And this is what is giving us a lot of tailwind in what are difficult – what is the difficult environment.

But I mean, you're – as you rightfully said, even when the auto market was up, we didn't profit from it as much as you would have expected. The same is now, passenger cars are down. But for us, it's not, I would say, a market that is big enough to really have an impact on the entire FUCHS Group, and especially not overshadowing all of the effort we put into the segmentation approach, the development of the speciality business, and obviously the broad base we can grow from in terms of automotive too.

Riya Kotecha: Thanks. That's really helpful. I've just got one follow-up question, please. And that's on looking forward into 3Q and beyond. I know the company's got some pretty close relationships, especially with the German auto OEMs on the first-fill business. So can you give us any colour or anecdotal information on what your key customers are saying about volumes going into the third quarter and beyond? There's been news articles and anecdotal evidence from other places in the markets that say that there might be extended summer shutdowns that might be an impact on the 3Q production rates. So just wanted to hear what your thoughts are and what your conversations with your customers suggest. Thank you.

Isabelle Adelt: So I think from – I mean from what I can share and what we hear in the market when we talk to our customers, of course, I mean, the atmosphere is not bullish and they're not overly ambitious, but we do not see huge reductions in volumes yet. So the order books are still filled pretty well. Of course, a little slower than what we've seen in the last two years, especially when they were still working on getting rid of the backlog. But from what we currently see, the market is still pretty much intact.

And I mean, you cannot forget that when we talk to the OEMs, we do a lot of what we call like genuine brands or like white label business for them as well, which is what they use in their shop. And this business is still running really nicely. So I think overall, the market is in shape quite well.

Riya Kotecha: Okay, that's really helpful. Thanks so much.

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. Our next question comes from the line of Konstantin Wiechert from Baader Helvea. Please go ahead. Your line is open.

Konstantin Wiechert (Baader Helvea): Yeah. Hi. Thanks, Isabelle, for taking my question. If I may, you talked a lot about – right now about the OEMs. I see you have another one on that. I think you invested increasingly amounts of R&D into also products for your battery electric vehicle, especially in the high performance area. So I would just wonder if there would be any slowdown, further slowdown from what we currently heard in the first half in Europe so far, how that would impact maybe your mid-term growth projections if rates of or if the share of ICE stays longer than previously expected and shares of electric vehicles consequently lower.

And maybe also second one. You also again expressed confidence on the APAC region for the third quarter. But nonetheless, I think that was also a sizable part of your bridge to your '25 EBIT target. So if you could also give some more colour here, how you currently see the consumer behaviour in China and whether that still looks for you like this part of the bridge can be achieved from the APAC region or whether that's becoming more challenging?

Isabelle Adelt: Sure. Happy to shed some light on that, Konstantin. So I mean, you're right, we invested quite a bit of R&D work and especially like strategy alignment work and how do we want to position ourselves for e-mobility. But openly speaking, we are happy as long as the number of cars sold goes up. And we don't really mind what kind of drive train we are talking about. So if it's an ICE, battery electric car, even fuel cell. So we have products that go into all of those cars. So as long as the number of cars is going up, we are good.

What we currently see, especially in Europe and the US and the more mature market is, as you rightfully said, the number of cars – of e-cars not picking up as fast as everybody would have wished for. This is a lot of infrastructure restrictions, not enough energy available, what have you. For us, honestly speaking, it's not – nothing to concern about, given – I mean, we have products in all of those drive trains. We have a lot of aftermarket business which go away much slower than the first-fill business, obviously.

So I think we are in a very good position. And I think to add to that, of course, we are in a lucky position compared to a lot of other tier one, tier two suppliers, that we do not really need to have a lot of copacks[?] and adjust our machine park, our production lines for e-mobility.

I mean, look at it like this. We are a batch manufacturer for something like the EDFs or the thermal fluids, we can use the same production lines we already have for engine oils, for gear oils right now. So it's really just a question of batches coming in, maybe a small tank here and there for new products. That's basically it.

So we have a much higher flexibility due to our low – basically our low value equation we have in-house, given we just buy the products we then blend for those kinds of applications. So for us, I mean, either way, as long as the number of cars and the car population is growing, we are very happy about that development.

Looking at the APAC region, I mean, that's a big region with a lot of different trends in all the countries. So maybe let's pick out the biggest three. So I think in China, I think everybody knows it's not as easy to do business in China anymore as it used to be pre-COVID. But I think now really our strategy of in China, for China, with a very strong independent management team has really paid off. So they managed to win over a lot of new domestic business. And we are currently starting with an initiative on key account management for the big Chinese players, especially in the e-mobility and the wind market. So for us, this has turned out really nicely.

But I think you're right. So I think consumer behaviour – consumer sentiment in China is still a little depressed. And they're suffering from overcapacity. But this is why a lot of those Chinese players are now looking to expand and to internationalise. And we are currently positioning ourselves as partners for them to do so.

So what we currently see is more the role of China shifting towards in China for China from in China for the world to help us develop those markets and those accounts, when, for example, BYD, now everybody knows that, expands their factories to Mexico and Hungary, and we can be their partners and be there with them to support them with those ambitious plans.

What we currently see is that we have nice growth rates in India as well. So, of course, still significantly smaller than China. But in terms of growth, it's our fastest growing country we see over the last couple of years in that region. And for us looking into the future, this will be a more and more interesting market too.

And I think we are really happy that we now added another small factory in India with the LUBCON acquisition, so we can really be closer to the market than we could before that.

And then to complete the big three in the APAC market, I think Australia mining activity is still pretty much intact. So for us, given that most of the business we have in Australia is mining business, it's a nice growth driver for the future as well. So I'm still very confident with the APAC contribution we have in our mid-term strategy.

Konstantin Wiechert: All right. Thank you so much.

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

Oliver Schwarz (Warburg Research): Hello, ladies and gentlemen. Just one question for myself. I'm wondering of what's the contribution of holding consolidation, which came down quite a bit from last year's numbers. Is there probably something amiss when it comes to who contributed what? Because that coincides with, I suppose, the huge increase in profitability in the US? And given your recent acquisition, last year's acquisition there, you stated that you want to export more from the US to other regions. So what is the mechanics behind that? That would be my question. Thank you very much.

Isabelle Adelt: Thanks for your question, Oliver. So I'll send very easy answer to that. So what we show is really segment results. So all of the intercompany profits that are within one region are already eliminated, but not, rightfully said, for example, when we deliver from the US to China. And the main impact behind that was just higher elimination of intercompany profits in our inventories and our warehouses. But we expect that number to come down by a year and two.

I will say major contributor was really the internationalisation of the Nye business. So formally, most of that was driven out of the US. But as we saw that it developed so nicely in the US, we said, okay, the local management teams need to be more in charge. So we shipped inventories to other locations, like China, especially, but like Germany, too. Those still sit in the inventories partially. As you can imagine, nice margin development, nice intercompany margin development, too. And this is actually the only influence factor there.

Oliver Schwarz: Thank you very much.

Operator: Thank you. We'll now move on to our next question. Your next question comes from the line of Anil Shenoy from Barclays. Please go ahead. Your line is open.

Anil Shenoy (Barclays): Hi. Good morning. And just a couple of questions, please. First question is on raw material prices. Now, they've been very volatile between 2020 to 2023. But in the last few quarters, they haven't seemed to move a lot. And FUCHS' earnings have become much more predictable now. You even stopped giving the graph in the presentation where you gave the prices for each of the base oils now. So are we to understand that we have reached a stage where we can now stop worrying about the base oil or additive prices and assume that if there is a 5%, 10% kind of a change, then it will be offset with higher prices? So that's the first question.

And second question is on seasonality that we can expect in Q3. Last year, we saw a 16% jump in EBIT from Q2 to Q3. And the jump was pretty much in all of the regions. So is there a chance that we can expect that kind of a jump between Q2 to Q3 in 2024 as well? Thank you.

Isabelle Adelt: Thanks for your questions, Anil. So regarding raw material pricing, well, I think this is the $1 million question anyways. So I think – I mean, what we've seen in especially ’21 and ’22 was unprecedented with the 70% price increase in only 18 months. And this is when we started to plot the graph to somehow guide you a little bit how pricing developed. And you could see really ups and downs all over the place.

So what we've seen in the last couple of months or even quarters is that we are back to a more normal situation. But still, of course, prices are still on a very high level currently. And this is why, to be fair, I think nobody right now can give you any real guidance if that's it now, and we're in a more normal new situation where prices will somehow relax a little more at one point in time.

But I think from what we've seen over the last – let's say, last four or five quarters, we are back to a much more normal development than where we've been in ’21 and ’22, given that we rather see developments of, let's say, like 2%, 3%, 4% up and down, but not those huge spikes of 15% here, 20% there anymore. And we somehow expect, at least throughout this year, that this kind of trend will continue, maybe a slight uptick, but not crazy double-digit growth rates again. And this is why we said, at one point in time, this graph we started to plot in the beginning of 2022 became meaningless, because you had those huge spikes, and suddenly everything else was flat.

So as soon as we see any new developments that we are worth reporting, we might think about how to change that going forward in terms of how we report on it.

In terms of seasonality Q2 to Q3, so you're correct that we usually see a step up in Q3, although I think last year was really extraordinary when you look at the step up, especially driven by China, for sure. I mean, given that the first half of the year was still comparatively weak with everybody trying to bounce back to COVID and trying to navigate the new normal, but we had some swings and roundabouts in other regions too. So I think we are expecting a step up, but not order of magnitude the same percentage as we saw last year, because otherwise any guidance would be a little shaky, obviously.

Operator: Thank you. We'll move to our next question. Our next question comes from the line of Martin Rödiger from Kepler Chevreux. Please go ahead. Your line is open.

Martin Rödiger (Kepler Cheuvreux): Yes, just a follow-up question. Based on your charts you have provided in the past, your sales to the highway vehicle manufacturers is 15%, and this is cars and trucks. And your exposure to vehicle components manufacturers there, Q1 to Q2 clients is 18%, but they also supply products to the car industry. So I would like to understand what is your exposure to OEM cars, if you combine your direct sales and your indirect sales?

Isabelle Adelt: So, I mean, I think it hasn't really changed in the long run. So we usually look at that, we say we have something like 40%, 45% of our total sales go to the automotive industry. Maybe we say roughly half of that heavy duty, half of that passenger car. But this includes obviously everything from first-fill, from really tier one, tier two, where we have a lot of speciality greasers, to automotive aftermarket with our own aftermarket brands, as well as like the private label, the white label business. So I think this hasn't changed compared to the last few years.

Martin Rödiger: The reason I'm asking was to figure out to which extent your Aftermarket business performed so well, that it compensates for the weak OEM business.

Isabelle Adelt: Yeah, I mean, [inaudible], as we say, really passenger car business, roughly 20% of our sales, which includes Aftermarket business. And still – I mean, of course, passenger car business is a little weaker, but it's not down completely. And you cannot forget, we are operating in a lot of different regions. For example, when you look at the – at China, the volumes are up currently from what we see. And there's something taking all of that into account is where we are not suffering as much from what everybody's talking about, then some people would anticipate.

Martin Rödiger: Okay, thank you.

Lutz Ackermann: Okay.

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

Lutz Ackermann: Yeah, thank you for your participation. With this, we've come to the end of today's conference call. And if there are any more questions left, don't hesitate to contact me. Otherwise, we speak next time when we release the Q3 figures, which is on 30th October. So until then, have a nice summer. And you may now disconnect.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please stand by.

[END OF TRANSCRIPT]