Third Quarter Results 2024

Wednesday, 30th October 2024

Operator: Dear ladies and gentlemen, welcome to the Third Quarter Results 2024 Analysts 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 analysts 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

Welcome

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 Q3 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. Afterwards, we will have a Q&A session. All the documents you can find on the homepage under the IR section, and – since 07.00 this morning.

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

Financial Results 9M 2024

Isabelle Adelt

Chief Financial Officer, FUCHS SE

Highlights 9M 2024

Strong nine-month result in challenging market environment

Thank you, Lutz, and warm welcome from my side as well. I'm happy to introduce to you the results as of September year-to-date as well as our third quarter.

I think what we can report, looking at the highlights of our performance, we closed a very strong third quarter as well as a very strong year-to-date performance, especially given the challenging market environment we're in Germany, but globally as well.

So, looking at the three numbers here, my highlights would for sure be that sales is on prior-year level. So, only reason why it is down slightly is currency effects or translational effects. But volume year-to-date, volumes are up, which is explicitly great, looking at how challenging the market environment is. So, across all regions we saw volumes picking up, which is majorly due to the excellent work of our sales team of winning over new contracts. And on the other hand side, very good management of pricing versus the backdrop of slightly lower input cost compared to the prior-year period.

Due to that, we managed an over-proportionate growth in profitability. So, EBIT year-to-date is up 7% despite some one-time effects. I will elaborate on that in a few moments when we look at our EMEA numbers. So, we managed to grow our EBIT margin to 12.5%, which is up almost a percentage point from prior year and shows a very good margin recovery.

And then last but not least, we saw very good cash generation in Q3 again. Obviously, below prior year, but we had some extraordinary effects there, some catch-up effects from the very high pricing in previous years. Now, we are back to a more normal pattern where we see a relatively weaker cash flow in the first half of the year, and then unwind effects in the second half. And this is – so we are really satisfied with this free cash flow number at almost €200 million as we close Q3. I think very good performance, majorly driven by the good operational result, for sure.

That taken together enabled us to grow our earnings per share double-digit. And I think one contributor, for sure, was the good operational result. The other one was the conclusion of our share buyback programme during Q3. So, this is now finished, and the stock will be cancelled throughout the remainder of the year. This is why we are very happy. We can, in this challenging market environment we're in, confirm the outlook we gave to you beginning of the year. And we are more than confident we can deliver those numbers in the next couple of weeks.

Sales Development

So, looking a little bit more into the details, our sales development shows a good improvement year-over-year as well as quarter-over-quarter. And of course, I mean, the first question that arises is, how do we manage to grow sales and grow in a very profitable way in such a difficult market environment? And I think the answer, once again, is we have done our homework in terms of segmentation, in terms of strengthening the very decentral setup we are having. And I think good news is that this growth we are looking at is carried by all regions.

So, last year the same time, the message was we're growing nicely, but most of the growth is contributed by the EMEA region only. This year we're looking at a much more diversified growth pattern from all regions and from all kinds of industries. And I think this growth is carried by not only price realisation, but by volume growth as well, which is explicitly nice in this market environment.

EBIT Development

A very similar pattern, looking at our EBIT development. So, improvement year-over-year as well as quarter-over-quarter, a step-up in profitability again, which is really nice to see. And looking at the 3%, we are actually looking at over-proportionate growth, given we had a one-off effect in the single-digit million euros in Q3, contributed by the EMEA region. So, there, we're looking at a smaller portion of that revaluation of a pension scheme in the UK. I think bigger portion is due to the closure of the production that is now officially announced in France, which is part of the streamlining of our European footprint and more thorough capital allocation going forward. So, all of the costs associated with that are catered for in our P&L as of end of Q3. Already the effects, the positive effects will only come as of next year.

9M 2024 Group Sales

When we look at the sales development a little bit more in detail, we can see it looks pretty flattish, but I can assure you there's a lot of work behind. So, the market environment is very tricky, especially looking at the automotive market, but we managed, in automotive, but especially in all other industries we play in, majorly the specialty segment, to win over new customers and new contracts, add additional volumes. And by doing so, have what we say is a flat organic growth, so, a little bit higher volume and a slightly negative impact from our price variation clauses[?]. The external contribution are the first two months of the LUBCON acquisition you're seeing here, and then a slightly negative currency impact that is translational only, contributions from almost all regions, although impact in APAC and Americas is a little higher than in Europe, where we have positive and negative contributions that balance each other out almost completely.

9M 2024 KPI Summary

We now move to our P&L, I think very solid, very healthy. So, in addition to what I already mentioned, I think one highlight here is obviously the gross margin development. We are now 34.6% again, compared to 31.9% the year before, majorly driven by lower material costs. So, excellent contribution by procurement, but then as well by our sales team, who really managed to keep the prices at a very good level throughout the entire year. Functional costs are up as well. I think major contributor to that was the inflation-driven wage adjustment. So, I think important message is we are still very careful in adding new hats. It looks like it jumped a little bit when you looked at our report, but those were, I think in Q3, majorly the acquisition of LUBCON, who increased our headcount by more than 200 full-time employees. And then throughout the rest of the year, the insourcing of the high rack material warehouse in Germany, which we now run ourselves, and the win of some big service contracts in Poland from one of our biggest competitors. And we took over those people who are on customer-side, so that's in the triple-digit as well.

Taking this out, our headcount is flat year-over-year, but, of course, we are working on productivity and efficiency to make sure to compensate for those higher personnel costs we're looking at.

But I think, overall, a good step-up in terms of EBIT margin, over-proportional growth and profitability. So, this is what we like to see. And then change in working capital, of course, looks massive compared to prior year. I think we have to keep in mind that prior year, we had a lot of unwind effects and a lot of active management effects from the years before where we had relatively higher working capital levels due to the high price increases in 2021 and 2022.

Europe, Middle East, Africa

Now, let's take a deep dive into the single regions. As already stated before, I think what we explicitly like is the good contribution from all three world regions. Last year it was more focused on EMEA. This year, once again, EMEA is performing in a very strong way, but the other two regions, we will look at that in a couple of minutes, are contributing very nicely too.

When you look at EMEA, I think all of the countries, give or take, are contributing very nicely. So, if I had to pick two, for me, it would definitely be Germany. Germany is growing nicely despite the extremely difficult economic environment. I think all of you are aware of how the automotive industry, or, for that matter, all the big industries, chemical industries are performing. But we are still growing, and we are growing in a very profitable way.

Another very positive contributor is Poland. I already mentioned the effects of taking over service business from one of our biggest competitors, where we actively manage lubricants on-site. But that, taken together with some really nice other wins and new businesses that were brought in, a very good development. But I think those are really just the two big ones.

All other Eastern European countries performed really nicely. The Nordics, yet again very good performance, UK, Southern Europe, so, I think across the board.

I think another highlight, we finally closed the acquisition of the LUBCON Group. So, as of 1 August, they're officially part of our P&L, and we're really excited to see how that develops. Plus, we signed a letter of intent to take over the STRUB Group, a Switzerland-based company. So, if all goes according to plan, we can hopefully still place that one during this year too, which will be another nice addition to the portfolio and strengthen our foothold in Switzerland.

Asia-Pacific

Looking at the APAC region, if you still remember, last year was still challenging, given that China is still the heavyweight in that region, and China did not bounce back from COVID as quickly as everybody would have hoped. We now see China back – almost back to old strength. This is due to the excellent performance of our Chinese sales team. They are gaining market share. They are taking over new contracts. I think especially in the wind industry, then automotive, especially in the e-car industry, they're doing a very good job as well. The biggest contributor to that growth for sure, China, as I said, the heavyweight in the region, but I think a few others to mention too.

So, Australia is growing very nicely as well, despite a rather weak agricultural demand this year, and due to the weather conditions. But mining developed very nicely, the automotive aftermarket developed very nicely. So, great contributions across the board. I think not to forget Southeast Asia, with India becoming a constant growth engine, still from a very low base, but they're growing double-digit since a couple of years now. And we can see that our team there, but our business too, is becoming stronger and stronger. And not to forget the new plant we opened in Vietnam last year. So, their business slowly started to pick up again, and we see that it was a wise decision to enter the Vietnamese market at a relatively early stage.

North and South America

And then last but not least, our colleagues in the Americas. I think similar picture in terms of slight organic growth, higher volumes, but then, of course, massive FX impacts when you look at the top-line. But they're growing in an extremely profitable way. Part of that is the mix impact, for sure, because what is growing really nicely in the Americas at the moment is our specialty division, majorly the Nye business, located at the East Coast, really big profit contributor, excellent growth rates. But as well to mention our subsidiary in Mexico, they're growing very strongly, nice new businesses, and I think one of the big markets for the future, especially now with some of the Chinese OEMs moving production sites to Mexico.

I think those two factors mainly, so the Nye business and the specialty business in general, as well as the Mexico business, were able to more than offset the relatively weaker performance in South America. There's nothing wrong with our business, particularly, but I think Argentina, with the high inflation, Brazil with a shaky economic environment, it's just, I think, a very difficult environment to currently navigate, and the economy is very depressed. Especially the high inflation accounting in Argentina, of course, takes away a great share of the profit, but I think the great development in North America is able to more than offset this rather negative development in South America. So, with the operational result, we are really satisfied.

Net Liquidity

And now looking at our net liquidity, I think this is something that came along really well, especially in Q3 as well. You can see that we're looking at a great step-up in terms of cash generation compared to half-year. This was expected, and of course, biggest contributor to that were the great earnings after tax, especially looking at the great Q3 we had. The working capital is slightly higher than expected, but nothing to worry about. Major impacts to that were the extremely strong September. A lot of receivables converted in the last two weeks. Those already started to unwind in October. And then of course the consolidation of LUBCON, which brought in further inventories. But this will normalise as of year-end too. So, we are expecting a very good tailwind from working capital unwind in Q4.

And I think good news behind that is that we expect our net liquidity to be at least around zero again at year-end. And this includes all the spends we had, besides dividends for our share buyback programme which is now included, plus €100 million we spent on all the acquisitions we did this year in total.

Net Operating Working Capital (NOWC)

Looking at the working capital in a little bit more detail, I think we see a rather stable development, as said majorly due to the fact that September, and especially the second half of September, was extremely strong. So, what we currently see is working capital unwind, and we expect the level to be significantly lower again at year-end.

Different Price Development for Raw Material Basket

I think one other thing we always like to mention is raw material pricing, although right now, I think nothing exciting to report as prices have some swings and roundabout in their different regions, especially looking at base oils for different reasons. But we largely expect pricing to be stable, and this is a trend we see for over a year right now. So, of course, some categories are up slightly, some are down slightly, but so far, we were able to really hold that on a very stable level, partially because there's still a lot of supply in the market, partially simply because our procurement department did a good job. So, I think this is something that has stabilised quite nicely, and we are expecting to see the first price increases with our customers again during next year.

2024 Outlook Marking a Step towards EBIT Target 2025

All of that taken together, we are very happy. As already stated initially, we can confirm our outlook for the full year. We believe we are well on track. Of course, it's still a way to go. And looking, for example, at the publications we saw today, the market environment is not getting any easier to navigate, but I think we are very confident with just continuing what we did in the first nine months of the year to reach those targets.

So, we're happy to confirm Sales at €3.6 billion, EBIT at around €430 million and free cash flow at €250 million, with the FVA then [inaudible] number coming out at around €240 million.

FUCHS Capital Market Day 2024

Then, last but not least, a gentle reminder, our Capital Market Day coming up quickly. So, we would be more than delighted to welcome you on 5 December in Pfronten at our dear partner DMG MORI, so you can see some of our products in motion. You can be assured we created a very exciting programme, a lot of new things to communicate. So, in case you haven't registered now, please do so, and we would be happy to welcome you at the Capital Market Day.

Having said this, I would hand back to the operator and open the floor for your questions.

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 Matthew Yates from Bank of America. Please go ahead. Your line is open.

Matthew Yates (Bank of America Merrill Lynch): Hey Isabelle, afternoon. A couple of questions, please. I guess, I mean, congratulations on the result and particularly the volume growth. As you say, it's a very tricky environment. Perhaps this is an unfair question, given the variety of your portfolio, but is there anything in particular you would want to draw attention to that's been particularly meaningful in terms of new customer wins? I guess from your introductory comments, it sounded incredibly broad-based, but I don't know if there's a success story such as China EV that's worth maybe talking a little bit more about.

The second question, in your role as CFO, you're in the enviable position that the company is generating a lot of cash. As you said, the buyback is finished. How are you thinking about the use of that incremental cash? I hear when you say that Nye has been an incredible success story for the company. Maybe I'm naive, but why is it so difficult, given the fragmentation of the industry, to find the next Nye, and be more proactive and bolder on the acquisition strategy? Thanks.

Isabelle Adelt: Thanks for your questions, Matthew. So, I think to really just pick one of the customer wins would be a tricky one, because we see them, I would say, across the board. So, I think what we really saw is a nice pickup of our specialty business, especially all the business around medical technology, semiconductors and that, I would say, really internationally, given once you have approvals, and you are stacked in, you basically deliver to all of their factories, no matter where they are. So, looking at customers like Eli Lilly or ASML, this is really global contracts. But then we saw, for example, even in automotive, some very nice wins with some of the big OEMs again for first fill, but as well for their refill business. So even the OEM business, given how harsh the environment currently is, our volumes are flat on prior year, and this is, I think, something very remarkable. It sounds a little bit flat, but it really isn't. But it means we won over a lot of new business, given that most of the production numbers, especially for the more mature markets, are down. So those are really new contracts with existing customers as well as some really nice new businesses in the parts of [inaudible], especially in China.

And then I think what we're really excited about is that our service business starts to pick up. So, in Poland, I already mentioned that beforehand, we managed to win over some of that, what we call lubricant management services. So, our people on site, maintaining the machines, managing lubricants for our customers. So, we added two really huge sites in Poland there. And this is something very exciting for us to see, because this is an area we would like to explore a little further.

Regarding cash allocation, I think – I mean, we have one slide in our investor relations deck that shows you a cumulative view over the last 10 years. And I think this is a pretty good indication how you should think about cash allocation going forward, which means, give or take, one-third on M&A and two-thirds on share buyback and dividend, taken together.

M&A, as you rightfully said, the market is very fragmented. Of course, we always say we will not do M&A just for the sake of becoming a bigger company, but it needs to be value accretive. So, we do have a big wish list, you can imagine, of companies we would like to acquire. Some of them very similar to Nye. For example, the LUBCON acquisition we just closed was a very nice addition to the portfolio.

But as you can imagine, in terms of non-vertically integrated, independent lubricant companies, we are by far the biggest one globally already, which means all of the targets we are looking at are much smaller than we are. Which means most of them are family-owned businesses. And of course, some need to find the right timing when they're ready to sell. I think good thing about that is, once they are ready to sell, we are somehow the natural new owner, given that FUCHS is still somehow considered a family-owned business, and they want to know, basically, their baby, their business in good hands. Of course, we can only [inaudible] it that much, and it really needs to fit purpose and needs to make sure now that we have an acquisition where we say one plus one is more than two.

Matthew Yates: Got it. Thanks, Isabelle.

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

Martin Rodiger (Kepler Cheuvreux): Thank you. Good afternoon. One follow-up question on the market share gains. You mentioned winning service contracts in Poland from a key competitor, and you also gained market share in China. Can you elaborate a bit on these market share gains, how that was possible? Did your competitors step out, or did they have some production problems, and who were these competitors who have lost market share? That would be my first question.

Secondly, on the financial result, I just tried to get my head around the -€3 million in Q3 after -€1 million in Q1 and Q2, and I know that you are not any more in that cash position after your share buyback. But when I analyse this -€3 million figure in Q3 to full year, then I get €12 million, and that is 20% versus your net financial debt figure. What do I miss here? And what is the likely run rate in interest expenses in the quarters to come, if you're right in your assumption that your net financial debt will be zero by the year-end?

And the final question is on your guidance. With the strong Q3 results, but the unchanged guidance for EBIT for full-year, the implied guidance for Q4 on EBIT level is €96 million. We know that there is always a, kind of, seasonality in Q4 because of Christmas holiday, but beside the typical conservative approach by FUCHS, is there any other reason which holds you back from raising your guidance? Thank you.

Isabelle Adelt: Yeah, thanks for your questions, Martin. So, I think – I mean, market share gains, even in an environment where economy is growing, we always say the lubricant market is flat, so we need to gain market share to grow. So, it is somehow, I would say, all across the board and I think – I mean, especially in the US or in Americas for that matter, and APAC, given we still have relatively low market shares, of course, it's easier to give you, like, the silver bullet or that one simple answer, who did we gain it from. Given the market is so fragmented, very hard to tell. It could be like the big names you are well aware of. It could be rather small local competitors. Especially, now looking at the Chinese market, and they're planning to go more global, they need a global supply chain. So, this we see happening a lot. But yes, not the one big name or the one industry we're looking at. But it's really, especially when you look at our development all across the board.

So, what I can say, looking at the industry, volumes for OEM are flat, which is a very good result. And really, contracts with e-car manufacturers, with all of the big names for that matter, plus the well-seasoned OEMs from Europe we already know. But that means, of course, looking at volume growth, we see a very nice growth in all of the other segments. That includes the automotive aftermarket, the refill business, that includes especially the specialty business. And here it's really rather a lot of smaller companies we're looking at, we want contracts from.

Looking at the interest development, yeah, I mean, I think there's a lot of seasonality in there. So, you saw that we did two acquisitions, we spent roughly €100 million, we did the share buyback, which means, right now, of course, we are still cash negative. Plus, of course, not all of that is on our bank accounts in Germany, for that matter. But this is more, I would say, a timing effect. So especially, the financing of the LUBCON acquisition, which was by far the biggest chunk of what we saw played into this, but we are planning to repay that by end of the year. So, this is why I would say in total, we will see maybe, year-over-year, a slight increase, but we are very confident we can get back to at least, I would say, a black zero by end of the year.

And last but not least, guidance, you're completely right. So, Q4 historically is always our weakest quarter due to the number of working days we're looking at. So, in all of our big locations, Germany, China and the US, we have extraordinary holiday days, the Christmas break, Thanksgiving break in the US, the Golden Week in China. So, this is why usually the number is lower, and this we expect to see the same pattern. And the number you just mentioned, we are very close to what we saw last year, and there we had a very strong Q4, especially driven by China. So, we need to see if we can repeat that. Plus, of course, I mean, you can imagine the environment we're currently operating in is becoming tremendously difficult to navigate in. I think our local management teams, our salespeople, they're doing an extremely good job. But, of course, you need to react quickly. You need to find new opportunities, new markets as we speak, day by day. As you said, I mean, FUCHS is not known for issuing a very bullish guidance. And I can assure you, I mean, we will do all we can do to exceed that number. And I'm very confident we can achieve what we've posted.

Martin Rodiger: Thank you.

Operator: Thank you. We'll now move on to our next question. Our next question comes from the line of Konstantin Wiechert from Baader Helvea. Please go ahead. Your line is open.

Konstantin Wiechert (Baader Bank): Yeah, hi. Thanks, Isabelle and Lutz, for taking my questions as well. And congratulations to the good results as well.

Maybe if you could help me understand again a bit the moving parts behind your sequentially lower EBIT margin in EMEA, but also in the Americas, because I would assume that you might have seen softer volumes from the automotive side, but that you mostly compensated that with growth in the specialty products, as you said, in sectors like the food or med-tech industry or semiconductor industry. So, I would have assumed that you gain a higher relative margin due to this mix effect. And now we saw a lower margin here, so maybe just some colour on that.

And then secondly, you highlighted in previous calls that your Americas results also held back by the cautiousness of your US customers ahead of the presidential election. Now that we are one week before the election, maybe you can give us an update what indications you hear from your customers for the fourth quarter. And also, I guess, visibility might still be low, when you would expect your customers to regain confidence, and also give you a bit more visibility.

Isabelle Adelt: Yeah. Thanks for your question, Konstantin. So, regarding margin, very easy answer to the EMEA question. That's the single-digit, one-off impact we talked about. So, if you add that back, margins are up. And in Americas, I mean, as you rightfully said, we have a big mix impact in there, right? So, there are so many moving parts. We have a very good specialty business, yet, I would say that what we call the core business is still relatively weaker. That's not only automotive, but industry too. And I just talked to our president of the Americas yesterday, and what he hears from our customers is, I mean, elections are in exactly one week from now, so, next Tuesday. The Fed will have basically a conference the exact same day, and people expect they will come up with two different scenarios to lower interest again, depending on who will be elected. And this will be announced next Wednesday. And everybody in the industry knows, and the consumers know for buying new cars. And this is why we expect, I would say, a boost in business somewhere during November, December, again, when everybody somehow knows what direction they are heading in.

I think – I mean, margins compared especially to last year, they are still extremely nice in the US or in Americas for that matter. Of course, you need to be mindful you have the relatively weaker core business, nicely performing specialty business, plus then just some mere accounting effects, especially due to high inflation accounting in Argentina, which pushes a little bit on the margin too. And that really depends on where you are in that quarter in terms of exchange rate and deflation. So, I think not the one easy answer, but I think a lot of that is really the cautiousness and the wait-and-see mentality of the upcoming elections next week.

Konstantin Wiechert: Thank you so much. And if I may, I have one more clarification on your comment around raw material price expectations. On what kind of oil price is that base? Because we see Brent now really going back towards the low $70s. Would that be something where you would also expect base oil prices maybe to be a bit softer, or was that what's already included in your expectations on the flattish basis?

Isabelle Adelt: Yeah. I mean, when we look at our price development, there's really more what we see with some industries we buy as well as with our suppliers, right? So, the crude oil price has never been a really good indicator for the base oil prices, given that the demand and supply situation is very different. So, we need to be careful with just looking at the oil price, at the Brent or crude oil price, because this is pretty much decoupled from what we buy. But it's really carefully looking into what we buy, what we see with our suppliers, what indications they give us, plus some indices we can look at for the base oil development. And this, again, is very different in the different world regions as well. And then the more refined you are, so base oil group 1 is closer to the crude price than the more refined ones we use in a higher quantity like the group 3, group 4 PAOs and what have you. So, it's not like the one index you can watch, but it's really refined analysis we put in there.

Konstantin Wiechert: Okay, thank you so much.

Operator: Thank you. We'll now move on to our next question. Our next question comes from the line of Michael Schafer from Oddo BHF. Please go ahead, your line is open.

Michael Schafer (Oddo BHF): Yeah, thanks for taking my three questions – quick ones. The first one is on the restructuring which you have announced for France. I recall there have been also plant closures in Germany two years ago, and you also described on the call that this is part of a more longer term also on continuing restructuring efforts. So, I wonder, let's say from your ideal production base outlook going forward, so where are we there? So, what are the next targets in terms of optimising your production footprint? So, this would be my first question.

The second one is since you closed now LUBCON with two months of contribution and looking more into the details there, so what should we expect looking into 2025 in terms of EBIT contribution and maybe, more meaningful, EBITDA contribution looking into 2025?

And the third one is on the pricing which you indicated. So I think it was in your prepared remarks that you indicated some price initiatives which you have launched primarily in EMEA, if I recall this correctly. Given that the base oil and the raw material outlook which you have provided, I wonder to what extent – and maybe you can quantify what you have launched in terms of price initiatives. And then also, what's the base for those price initiatives and maybe also some colour on the stickiness and what you have received from your customers backwards[?].

Isabelle Adelt: Sure. Thanks for your questions, Michael. So, regarding restructuring in France, I mean, I think this project has been in the making for quite a while already, and of course, I mean, this for us is more like a constant effort. So we continuously – we have an operations department and supply chain department centrally, and they continuously look at, do we have the right manufacturing footprint, what kind of capacity do we have, where do we actually need it, and what is, in very close collaboration with our finance department, the best way to allocate the capital we do have, where do we invest? So, it's not that we have a huge pipeline coming up and have restructuring every year.

I think the two things you mentioned in Germany was really rather consolidation of really small sites in Bremen and Dohna. So that was really much, much smaller than what we're looking at in France right now. In France, we have a big factory, and given that we would need to invest a lot to bring it up to speed, and we still have spare capacity in some of our factories in Europe, we took the decision that it's – for us, it's the better way to not produce domestically anymore, but realise better margins by filling the factories in other – basically, other European countries. This is across the board. So, some of the volumes go to Germany, to Poland, to the UK, to Spain, so they can absorb what we currently do in France. That's a rather big location. But, of course, we will not close France completely, but it will remain as a sales company. But this will, for sure, be the biggest project.

So, we are looking at something, 70 to 80 people we will lay off in total, and quite big volume, given how big France is. But this was really the decision looking at our capital allocation and somehow calculating through how much we would need to invest to bring the factory to the latest standard. And given that we still had capacity in factories that are up to speed, this was the decision we have taken. But it's not that we have a long pipeline and a new restructuring case every year now.

In terms of LUBCON, I mean, we see the business picking up really nicely, and I think it's a very good message that the former owner of LUBCON, Heiko Engelke, is now an employee of the FUCHS Group too. So, he's overseeing our new business segment, really looking at the core competency LUBCON brought into the Group, majorly railway, corrugated, construction industry, so high chain temperature oils for MDF for example. And we are planning to see very good growth rates.

Since we did not disclose the actual EBIT number, but you can be assured, given we're looking at greases majorly, it's higher than the average EBIT margin we have in the Group, and we are expecting to see a very nice contribution with nice growth rates, basically, from the sales we would've closed. The €40 million per year, we expect that to be higher next year with a very nice margin in terms of EBIT. Of course, yeah, there will be PPA effect. We don't have that finalised yet. So, it's too early for us to answer how the allocation and then the amortisation going into that will look like.

Then, last but not least, the pricing initiative. So, we've been looking at rather flattish pricing in terms of our input cost for almost a year and a half, come year-end. And this is why in some countries, especially when we look at high inflation rates, high labour cost increases, we decided to go out with some price increases to cater for general inflation. But this is rather in the single digits, what we're currently looking at, given that the pricing and especially raw material pricing is not really giving us justification to do big step-ups in terms of pricing. From what we currently see, is that the market environment is becoming more receptive to that, so we thought that this is a good time to incrementally start doing small price increases again.

Michael Schafer: Is there a regional focus on those price initiatives, or is this basically across the board?

Isabelle Adelt: I wouldn't say across the board in all countries. I mean, Germany, for sure. But then I would say in some countries in each of the regions, yeah.

Michael Schafer: Okay, thank you.

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 Sebastian Bray from Berenberg. Please go ahead. Your line is open.

Sebastian Bray (Berenberg): Hello, hello, good afternoon, and thank you for taking my question. I just have one, please. It's on the reference to the electrolyte facility co-owned with E-Lyte in the press release as having 20,000 tons of capacity. Can you remind me, where does the financial impact of this occur from FUCHS? Is it currently just sitting as a small loss in the associates' line? And two related questions to that. One, if I take 20,000 tons of capacity, and let's say I assume $5,000 a ton, which, I think, is premium to what one would normally pay at least in China. I appreciate this is in Germany for electrolytes. This can be a relatively substantial mid-double-digit, euro million sales amount at full run rate. Is the capacity to allow this already there? And when does FUCHS make the go/no-go decision about potentially expanding the facility and/or buying up the rest of the stake that it doesn't own? Thank you.

Isabelle Adelt: Yeah, thanks for your question. Excellent question for that matter. So, I think we have to keep in mind that we still have a minority share in E-Lyte of only 28%. And of course, I mean, the facility is ours, and this is where we built the plant, given basically that the other owners do not have the premises they could use to do so. But that, of course, means that we only, in the proportion of our – basically of our shareholdings, which is 28%, paid[?] for the CAPEX, too. And I think – I mean, you would see that in basically the equity results, if there were any. But given it's so small, this is still, like, a relatively low number, so it would be hard to find in our report. But we believe that this can be a very interesting business for us.

So, as you rightfully said, we do have a capacity of 20 kilotons. Given we are looking at specialty electrolytes, and we are, for that matter, the only one in Europe, prices would be even higher than what you mentioned. So, it can be an extremely profitable business, and it does not only go into cars, but in stuff like drones and rockets and so on as well. Of course, it's still much too early to say if this is really, like, the next big thing, let's call it like this, or the market is really receptive to something produced in Europe at a higher pricing point, with much better performance too. And this, for sure, will for us be the trigger point. We still do have the call option at a predefined formula, so we can take the majority share anytime. But we said for us, the trigger point is really the first very big customer orders coming in.

So, what we see right now, they are profitable, they are cash positive, so it's not a cash burning machine, which is good. But for us, it's really now to – like, to support the business, to do what we can by giving them access to our network, but really observe very closely how the business is developing and when – and for me, it's rather a question of when than if this trigger point for us to take the share will come. But from what we see, I mean, we have good contact with a lot of different customers. It's just, given we're majorly talking around e-mobility, right, the market is not developing as fast as I think we anticipated, still, like, two or three years ago. So, I believe it will still take a couple of quarters, for sure, for us to be assured that this business is something for us and that we can really do it at scale, looking forward.

Sebastian Bray: Thank you. And is the price a pre-agreed fixed price, or does the price depend on the business performance in one, two years' time or whenever FUCHS exercises the option?

Isabelle Adelt: So, it's a predefined formula with a cap. So, it's not a fixed price per se, but we have a calculation mechanism, depending on the profitability, and it does have a cap to buy the rest of the shares to gain majority.

Sebastian Bray: That's helpful, thank you. And a final follow-up on this one. This business is producing at the moment, the plant is running, or the plant is sitting there relatively empty, with just [inaudible] volumes?

Isabelle Adelt: The plant is running, but still, of course, not to the full capacity yet.

Sebastian Bray: That's helpful. Thank you.

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

Isha Sharma (Stifel Europe Bank AG): Hi, good afternoon. Thank you for the presentation and all the questions before. Really helpful colour today. I just have one question left. So of course, I appreciate that it's too early to talk about 2025, but we've had so many moving parts that we talked about. You mentioned flat raw material costs and a difficult automotive environment, but, on the other hand, there's contribution from LUBCON, and we see a good development in specialty. You already have a guidance out there of EBIT to be €500 million, which is quite a step-up if you make the guidance. How confident do you feel at this point of time to achieve the guidance, and are there any other points, like the cost savings that you mentioned from the French operations, that we should keep in mind when we make the bridge to 2025? Thank you.

Isabelle Adelt: Thanks for your question, Isha. So, first thing to clarify, the €500 million is not a guidance, but it's our strategic target we issued in 2019. It's a very important small difference. But having said this, I mean, of course, it's a very ambitious target, especially given the circumstances. So, we issued that target in 2019, where we didn't know about COVID, where we didn't know about the war in Ukraine, in Middle East, about the disrupted supply chain, about the automotive crisis. So, having said this, I would say we are very cautiously optimistic we can achieve that target. But we will, of course, need some help from the macroeconomic environment. So, the moment – I mean, Germany is in a recession right now, America is taking[?] out, all of the high-tech industries are in a recession right now. If that trend continues, it will be difficult, obviously. But if we could get a little tailwind next year with good growth rates back in Europe, in the US, I wouldn't say that target is out of reach, but it's definitely not an easy one.

Isha Sharma: Thank you so much. Very helpful and very fair.

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

Lutz Ackermann: Yes, thank you for that. Thank you for the participation in the conference call today. The next one will be next year on 21st March, when we will come out with the full-year numbers. But, as Isabelle already mentioned, we will have the Capital Market Day on 5 December, so if you want to join us there, register soon. And we're happy to see you there.

So, until then, goodbye.

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

[END OF TRANSCRIPT]