First Quarter Results 2024 – Conference Call

Tuesday, 30th April 2024

Introduction

Lutz Ackermann

Head of Investor Relations, Fuchs

Introduction

Operator: Dear ladies and gentlemen, welcome to the First Quarter Results 2024 Analyst Conference Call for Fuchs SE. This conference will be recorded. As a reminder, all participants will be in a listen-only mode.

After the presentation, there will be an opportunity for the analyst for Fuchs to ask a question. May I now hand over to Lutz Ackerman, Head of Investor Relations at Fuchs SE, who will start the meeting today. Please go ahead.

Lutz Ackermann: Yeah. Good afternoon, ladies and gentlemen, this is Lutz Ackermann speaking. I wish you a very warm welcome to today's conference call on the Q1 figure, which we released this morning.

With me on the call today is Isabelle Adelt, our CFO. And as always, Isabelle will run you through the presentation, which is then followed by a Q&A session. All the documents you can find on the IR section of our homepage since 07.00 this morning.

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

Q1 Results

Isabelle Adelt

Chief Financial Officer, Fuchs

Introduction

Thank you, Lutz. And a warm welcome from my side as well to the presentation of our Q1 results. As Lutz said, all information were uploaded this morning, but we would like to take the opportunity to give you a little more insight on how we started into the year.

Highlights Q1 2024

Fuchs with good start into 2024

So if you look at our highlights section, I think what we can say is that we had a good start into the year according to our expectations, and that the good trend we saw in the second half of the year 2023 continued. As already indicated in the call we had a couple of weeks ago, our guidance, and there our expectations were based on flat pricing compared to the end of last year. And this is what you see reflected in the Q1 numbers now.

We have a little lower sales. This was expected given we have a little bit of a let's say cyclicity within the quarters in our business due to the relatively lower pricing compared to the first quarter of 2023. Plus, we saw a little bit of headwind from currency effects. What exactly that was, we will talk about later in this call. At the same time, our EBIT is up year-over-year, driven by all regions. So if you recall our calls we had in last year, the message was usually driven by the EMEA region, but now we really see all regions back to strength with some lowlights and highlights. We will run through the regions later in this call. But this, for me, is an absolute positive that we see that the entire world is driving those results now. And those two numbers taken together result in another step-up in margin compared to the last quarter last year, as well as compared to Q1 2023.

Free cash flow, given that we put in place a quite thorough working capital management programme in 2023, is now back to, let's say, the normal pattern you see in the Fuchs business. So we have the usual net working capital build up in Q1 and Q2, and then a lower working capital subsequently in Q3, Q4, again. This is due to the fact, especially compared to last year, that we significantly reduced our payables and inventories last year. And now we are back to a more normal pattern.

All of that taken together, we say a good start, healthy start into the new year, we see the good trends continuing. And this is, I think, not surprisingly, while we confirm the outlook we cited mid of March for the full year 2024.

Fuchs Acquires Lubcon Group

Family-owned company with a focus on high-performance lubricants

Before I start with the numbers, I'd like to come to a highlight of an acquisition we did that was announced just a couple of weeks ago.

So we signed a binding offer to acquire the Lubcon Group, a German-based, family-owned company headquartered close to Frankfurt, who is specialised in the grease segment. We're really happy that after negotiating a little bit, we were able to close that deal, given that this is really fitting to our focus. We have in the niche in the speciality product segment and Lubcon focused on greases, but in a little bit different segments than we are usually exposed to, such as paper, cloth, rail, a little bit more farmer and stuff like this.

And we really believe that we can leverage our global footprint to have a similar success story as we've seen for Nye in the past. So this, for me, is one of the absolute highlights we had in the first quarter, or now the beginning of the second quarter. Together, I think, we've already signed a strategic partnership with the Mercedes-Benz spare part segment to really join forces here. I think from a strategic point of view, from a positioning point of view, some steps we have taken in the right direction.

Sales Development

Now, given we are in our Q1 results, call back to the numbers. As said, our sales development slightly below prior year. But luckily this is not volume effect, but a mix of price and FX. Of course, a little bit down on prior year, but if you compare that to the Q1 performances in previous years, we can still see a solid growth. And this is nothing that causes worry from our point of view, but completely as expected in terms of lower pricing compared to Q1 2023.

EBIT Development

At the same time, we were able to increase our EBIT of the quarter. It was the best Q1 in a huge number of years. I think last time we had such a good result, at least I was not with a group, but I think €107 million in one quarter, especially given the cyclicity you see in our business in terms of earnings, usually, this is an extremely good result and with contributions of all the regions. I will run through who contributed and what went really well in a couple of minutes.

FY 2023 Group Sales

To shed a little bit more light on how organic growth in terms of EBIT, or a little bit decline in terms of sales and currency impacts are distributed, you can see that in terms of sales, it's more or less split into half.

Q1 2024 KPI Summary

So the organic decline is pricing-driven exclusively. And then we have kind of a negative impact, surprisingly, from currency again, since the euro is relatively strong. Plus, what we see is that due to the high inflation environment, we have a relatively big impact considering the size of the country from Argentina. But this is only due to the high inflation accounting application we see here. And this is contributing quite a bit to the negative currency development.

But all in all, I'd say a perfectly healthy P&L we are looking at. So I think very similar picture to what we've seen in the last year. A slight decline in sales, but at the same time a step-up in terms of profit and in terms of margin. If you compare the gross margin we are able to have now compared to prior year, it's a step-up of almost three percentage points, and slightly above previous quarter as well.

I think this is where we really see all of the good price management of our salespeople, as well as the operational excellence programmes coming into effect. At the same time, we were able to manage our other functional costs in a really good manner. Despite the high inflation we saw or still saw last year, our functional cost increased by €3 million only, which is under proportionate. And this is why, compared to last year, we were able to increase our EBIT by 4% to a margin of 12.2% in the first quarter, which is 1.2 percentage points above prior year and a good step towards reaching our midterm margin target of 15% EBIT margin again, that's below average.

Leading over to our free cash flow, I think CAPEX is in line with our expectations. We still stand by our promise that we say CAPEX at the same amount as we have depreciation, which is roughly €80 million a year. Last year we had €20 million exactly. Now there is a little phasing in there, but I think nothing substantial. Biggest change compared to last year is the net working capital development. But I think message I already gave on the first slide, this is the more normal pattern that we see. A slight net working capital build up in Q1 and Q2 and then have the counter effect in quarter three and quarter four. And this is what we are expecting in this year as well.

This is why €15 million is in line with what we expected. And this is why we confirm our guidance in terms of free cash flow as well.

Europe, Middle East, Africa

Now let's take a look into the regions.

As said, what I really like looking into this is that we have good contributions from all regions this time. EMEA is continuing the strong performance we saw last year. I think sales down a little more than Group average, which is due to the fact that most of the price declines were driven by our price variation clauses.

And especially in Germany, we have comparatively higher share of those variation clauses than in the rest of the Group. But apart from that, the single contracts were managed really well. And when you look at the margin, we were able to hold on to higher prices compared to how the raw material cost developed because at the same time sales were down 7%, EBIT was up by 8%, with big contributions from all companies in the regions, all countries.

So it's really hard to just pick one to stress, but if I wanted to make a really positive mentioning for contributions, it would be the UK and Poland, which last year were our countries number four and five after the big three contributors. And they really continue their good performance they showed last year and this year.

Asia-Pacific

The Asia-Pacific region, majorly driven by China, obviously, is making a recovery as well. And there once again it shows how effective our operating model and our decentralised structure is. We see China getting back to old strength and continuing the really good performance we saw in Q3 and Q4 last year after they recovered from the COVID restrictions.

India did a really nice step up compared to last year as well.

The rest of the region had a relatively weaker start into the year but would say after a very strong year last year where they compensated partially for the Chinese development and some impacts, like, for example, the little slower agricultural development in Australia, nothing to worry about and in line with our expectations, what we planned for. And we can now see that China is taking the lead again in that region after last year where it was the rest of the region.

So really good performance. Sales down less than in the rest of the world and our EBIT up, majorly contributed by China and by India.

North and South America

Last but not least, our Americas region.

Here we see a very nice development after rather flattish last year, again with, I would say, good contributions from especially the northern American sphere. So we see really nice development in Canada, despite, let's say, some import disruptions in Mexico due to new legislations and let's say some hiccups of the local government to make sure all the companies can still import. A really good performance in Mexico too, and I would say especially to mention really good performance of our speciality division, Nye, namely in the Americas.

But I think as already stated in our last call, I would say the general the bread and butter business in Americas is still relatively slower, given that the economy is currently still in a little bit of wait-and-see mode to see how the elections in November will turn out, since very different stimuli for the industry are expected depending on who will win those elections.

South America is slightly below prior year. This is mainly due to the difficult macroeconomic situation all over the region, but particularly in Argentina. I already mentioned that a little earlier. There's a high inflation environment. They have the new government now, really, let's say challenging exchange rates, and this is what we see in the results. But luckily for us, South America is not such a big part of the region, given that Mexico is accounted for in our northern American results. So, overall, we could still show a really nice step-up in terms of EBIT in this region too.

Net Liquidity

Looking at our net liquidity, I think nothing out of the ordinary. Earnings after tax directly contributed with a negative effect of the net working capital build-up. But still, we are in a net cash position despite spending €33 million on our share buyback programme in that quarter. So still perfectly healthy liquidity situation and a perfectly healthy balance sheet.

Net Operating working Capital (NOWC)

To remind you once again of the net working capital development, this is what I already mentioned earlier. If you look at how high the level was beginning of last year still, this is now back to I would say a little more normal development compared to prior year given the elevated levels in especially '22 and '23, due to the high pricing effects we had on our raw materials, but due to shortage of materials and a little bit more safety stock for some of the rarer materials as well. Now we are back to what I already mentioned, our target level of between 21-22%, and we expect to see this more normal pattern of the increase in the first half of the year and then decrease in the second half of the year.

Different Price Developments for Raw Material Basket

I already mentioned pricing, and what we see here is, I would say, a very mixed picture. So we saw a slight decline in some of our material groups in the first half of the first quarter, but then we saw especially Group I and Group II stabilising; Group III, very different indicators and relatively stable environment for additive packages, other raw materials too. This is why looking into this year, even I would say a little bit more challenging than still a couple of weeks ago to predict where raw material pricing is going, since especially in the Group I and Group II, we see that prices started to firm up, and we somehow reach bottom already. So this is something we will monitor quite closely because it could obviously have an impact on our pricing.

2024 Outlook Marking a Step Towards EBIT Target 2025

And having said all this, we are still very confident to reiterate the outlook we stated on 12 March, namely €3.6 billion worth in revenue with an EBIT of €430 million, both of which would be all-time highs in the history of the Fuchs Group, with a solid free cash flow a little bit above our midterm guidance, and another step up in one of our major KPIs for our management, the FVA. So overall we are looking positively into the future and think the guidance we put out a couple of weeks ago is still valid for this year since we had a good start into 2024.

Fuchs Capital Markets Day 2024

Then to end my presentation on a high note, we would like to share 'save the date' with you. We are planning to have another Capital Market Day this year on 5th December, so please save the date. More details with the location will be announced quite soon, together with the registration. We just wanted to make sure you have that in your diaries, and hopefully a lot of you will be able to join us on that day.

Having said this, I come to the end of my presentation of our Q1 results, and I would like to open the floor for questions now.

Q&A

Operator: Thank you. To ask a question, please press star one-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. We will compile the Q&A roster.

We will now take the first question from line of Riya Kotecha from Bank of America. Please go ahead.

Riya Kotecha (Bank of America): Hi, good afternoon, this is Riya Kotecha speaking. I've got two questions, please. My first one is on Group volumes that appear to have been flat in 1Q relative to the full-year guide that assumes a pickup in volumes, and also last year where you had volumes that were down. Has that been to your expectations so far? And is there an element of seasonality in this, with sequential volumes expected to be better? And to what extent do you have colour on 2Q developments so far?

My second question is on M&A, and maybe you can speak about the synergies that you typically realise from M&A, such as Lubcon acquisition, what that translates to in terms of a percentage of sales, maybe drawing on the Nye example? And related to that, a grease supplier based in Frankfurt would seem like a logical target. So why has this deal maybe not happened before? Has the outlook for grease changed or become more positive, or is it really a family ownership timing change that explains the timing of this deal? Thank you.

Isabelle Adelt: Thanks for your question, Rhea. So happy to elaborate on that.

So, as you indicated correctly, our volume assumption for the full year is that volumes will be up. And this is what we see as a general guidance. Definitely.

So we saw volumes up in January and February. What we see right now is what suggests the seasonality effect due to Easter being a little earlier this year. So we had a couple of days we missed in March compared to last year, where Easter was completely in April. And this is according to our expectations. And I would reiterate that we still expect volumes to be up over all this year. So this is really pure seasonality due to Easter being end of March.

Thus, less working days and more vacation days in March compared to the year before. But apart from that, we saw really good developments in terms of volume as well. And this is what we now see starting into Q2 as well.

Talking about the Lubcon acquisition, I think the easier one is about deal timing. Well, as stated on my slide, Lubcon is a family-run business, so of course we would have been interested to acquire them earlier as well. But it's always a matter of timing if and when the family wants to sell.

And I think for them, it's now the current owner is in his mid-fifties, they don't have a successor, and they were looking for a new owner. I think as a lot of times before, new natural owner is then potentially another, at least, family-backed business. This is why they approached us when they were thinking of selling.

The former owner will now join the Fuchs Group as one of our segment managers to make sure we can scale that successfully, which for us is a really good thing as well, because he knows the business inside-out. He has built it up successfully over the last couple of decades. I think this comes to the second part of your question.

So of course, I mean, the deal is not closed yet. We signed it a couple of days back. It's now basically with the antitrust authorities to approve the deal. We do not expect any issues there, and then expect to have the closing somewhere in Q3, once all the approvals hopefully came through.

And then, of course, this is now the time for us to really look into their segment, into their customer base, into more detail, and then come up with a thorough plan. But as you said, very similar to the Nye acquisition, what we expect is not really synergies in terms of taking cost out, synergies in terms of leveraging their product portfolio and our global strength in terms of sales and operations, to really have their product portfolio, their customer access and their approval, especially in industries we formally have not been in to leverage that on a global scale too.

Riya Kotecha: Thanks, that's really helpful.

Operator: Thank you. We will now take the next question from the line of Isha Sharma from Stifel. Please go ahead.

Isha Sharma (Stifel Europe Bank AG): Hi, good afternoon. Thank you for taking quite my questions. I just have two, please.

In the EMEA and Africa region, we saw a sequential margin decline. Was it driven mainly by price adjustments? And related to that as well, in the current environment of rising raw material cost, could you remind us of the time lag that you might need to pass on these higher costs? And should we expect already some pricing based on what you already see, or do you have some more buffer? That is, do we see more price increases on the cost side before you can actually pass on the costs?

Isabelle Adelt: Thanks for your question, Isha.

So what we usually compare is a year-over-year development when we look at the region, given that we have some seasonality in there. Some customers rather buy, for example, at year-end some than, rather to the front. So what we see in EMEA is more, I would say, an improvement year-over-year than comparing Q4 to Q1.

So there's no special effect in there. It's I would say really just a sequential step-up compared to Q1 2023. And I think given the strong performance EMEA had this year, what we iterated in our guidance for them, it would be a really good achievement to reach basically the same result this year, given that we expect, compared to full year last year, a slight decline in overall pricing.

So lower top-line, which means obviously for the entire year, margin will be up, if we can reiterate the same EBIT we saw last year, which we are very hopeful we can do, and indicate to show in the right direction. But I think for us, very positive development in the EMEA region.

To talk about price increases, I think this is still too early because indicators we see in our raw material basket, they are still pointing in different directions, and we have diversity of developments there.

So usually, once we decide to increase prices, or lower prices for that matter, pass-through rate, so the lag effect, so called, would be roughly 12 weeks usually before it hits our P&L. But this is true for both directions on the way up and on the way down.

Isha Sharma: Thank you so much.

Operator: Thank you. We will now take the next question from the line of Konstantin Wiechert from Baader Helvea. Please go ahead.

Konstantin Wiechert (Baader Helvea): Yeah, hi, thanks, Isabelle, for taking my question. I think in the last quarters you mentioned also Italy and Spain are very positive contributors. I was just wondering how those developed in the first quarter; and maybe also some words on Germany and what you see into the second quarter there as well?

Maybe also with regards to especially the OEM sector and what you see there for EMEA for the rest of the year. And then just maybe to add again on the previous question about the margin, I think sales were up sequentially, but then the margin was down. So, was this maybe due to a product mix or is this now really how maybe – maybe the question is: How volumes developed also there sequentially? Maybe there was then higher volumes, but lower margins, or what was really the driver there? Again, just to clarify this. Thank you.

Isabelle Adelt: Yeah, so thanks for your question, Konstantin. I think generally the EMEA region developed very positive in all countries. Again, so what I said, if I had to pick the two best performing countries, both the UK and Poland, but if we see, especially in terms of EBIT, we had to step up of 8% again.

And this you can see throughout the entire region, more or less. So in all the countries we stressed last year, maybe Italy, Spain or Sweden, which was really good. Germany too, we see a very good development, especially in terms of profitability. In terms of margin assets, we usually compare – don't compare the quarter this year compared to the quarter last year, since it's a little tricky with some countries having different seasonalities, some customer groups having different seasonalities. So really nothing to worry about in EMEA from my point of view. We had an exceptional year last year. We are planning to repeat this this year. And what we really focus on is sequential margin improvement over the respective quarters the year before. And this is what, from our current expectation, we will see throughout the rest of the year.

Looking at the German business, I think that was your second question. The development we see is, I would say, a really nice development across all sectors.

If you recall, last year, I think OEM was relatively stronger than the industry business, given they still had a little bit of a backlog due to the chip shortage the year before. What we see now is really good contribution of all of our business segments again, since the general sentiment, the industry is picking up a little bit. Although, I think what we have to stress, I mean, Germany, when you look at the European economy overall, is still a little bit of the problem child, let's put it like this, in terms of growth expectations, in terms of economic output. This is of course in terms of growth rate a little bit of what we see as well. But I would say, overall nothing to worry about. And demand of all of our customer groups still really nice with a really good order book and a really good pipeline we see to date.

Konstantin Wiechert: Perfect. Thanks.

Operator: Thank you. We will now take the next question from the line of Martin Rodiger from Kepler Cheuvreux. Please go ahead.

Martin Rodiger (Kepler Cheuvreux): Thank you and good afternoon. I have three questions if I may.

Firstly, assuming you reach your EBIT guidance of €430 million this year, what makes you confident that EBIT growth will accelerate from 4% growth this year to 16% growth next year, which is required if you want to achieve your midterm target of €500 million in 2025?

The second question is on your admin costs. In Q1, you mentioned digitalisation expenses as a reason for that. Assume that these digitalisation expenses continue, is it fair to say that this €50 million burden you had in Q1 is a good run-rate also for the quarters to come?

And third question is on the let's say hyperinflation of some countries, such as Argentina, but there might be also some others in the world. Some other companies try to compensate this hyperinflation effect with price hikes. Would that be an option for you as well? Thank you.

Isabelle Adelt: Okay. Yeah. Thanks for your question, Martin. So I think in terms of EBIT growth and EBIT acceleration, I think we pretty much stand by the statement we did in our call on 12th March.

So what we currently see is still a little bit of hesitation in some regions of the world. I will come to that in a minute. Whilst 2025, when you currently look at estimates from the World Bank or the big institutions, is expected to be a rather bullish year.

We always said to reach our guidance of €500 million. Of course, we need a little bit of tailwind from what we always call a more normal economic environment. So what would be the major growth drivers is, I would say, really a more – even more stable Europe than what we see now. But I would say utmost and biggest contributor for sure will be the US, given that we currently have this wait-and-see mode for, I would say, what is our base business due to the uncertainty in the market with the upcoming election. And if you compare the growth rates that is estimated for this year to next year, and we can take our fair share of this, we are very confident, if that materialises, that we can do the €500 million by end of next year.

Talking about our admin cost, so I think when we talk about digitalisation, I think one of the biggest projects we are planning to do if you are all aware, is the S/4HANA implementation. As already stated, I think in one of the earlier calls, all of the costs we will have there are baked into our midterm guidance for this year as well as for next year already, as well as in the midterm margin assumption.

To give you, I would say, a total guidance in terms of run-rate, I mean, there are so many different influence factors that go in there would be a little too easy, but just moving that to digitalization. But I think what we know is that we will see a little bit higher cost for digitalisation given we have the S/4 implementation as well as the group-wide programme, 'Fuchs goes digital', where we develop some new business models for the future. So this is planned for and this is expected. So this is something we will see sustainably going forward.

And then your question regarding hyperinflation. Luckily, the only country we have like fully consolidated within our Group where we have to do hyperinflation accounting is Argentina. All of the other companies where this is applicable are at equity, equity shareholdings we do have, especially in Turkey. So it only comes into our equity result. We've seen that in the last two years, that we had to take quite a bit out there too. Given the size of Argentina, we have not yet at least looked into any measures of somehow matching that, given that it's a relatively small operation for us, majorly sales operations only. But we, of course, need to see how that develops and then take it from there.

Martin Rodiger: Thank you.

Operator: Thank you. We will now take the next question from the line of Michael Schafer from ODDO BHF. Please go ahead.

Michael Schafer (ODDO BHF): Yeah, thanks for taking my two questions. On the one hand, I'd like to come back on the volume side.

Isabelle, you said, well, starting from rather flattish volumes, first quarter, you expect an acceleration, i.e., making a volume growth for the full year. I wonder whether you can shed some more light on the regions, how we should differentiate between the respective regions because it looks like that EMEA was also rather flattish year-over-year in the first quarter, and what are the drivers for the volume recovery in the respective regions? So this would be the first question.

Second is, you said that March was a bit, let's say, curtailed by Easter holiday. So I wonder whether you can talk about how April is performing so far and whether we should, in general, in 2024 expect typical seasonality also at Fuchs, i.e., Q3 marking the strongest quarter of the year? Thanks.

Isabelle Adelt: Thanks for your questions, Michael. So I think in terms of volume, we saw very good development across all regions.

But yeah, I mean, of course, I mean, we have to be fair towards seasonality. So overall, we expect the same seasonality we have every year at Fuchs. So with basically quarters ramping up, and then Q4 being a little bit weaker, this is what we've seen over the last years, and this is, according to our expectations right now, what we will see in 2024 as well.

In terms of volumes, I think this is a very similar pattern for most of the regions. So what we saw is a really nice pickup in volumes in January and February. And this is what we expect to see continuing in March and April, taken together according to our visibility as well. What we have to take into account is that last year, March was a very strong month for us in terms of volume. We already knew that this could not be repeated, especially due to Easter holidays in Europe. But we now see basically this volume moving over to just order delivery into April. So I think, end of Q2, both two quarters taken together, we will see this volume growth we guided for beginning of the year.

Michael Schafer: Thank you very much.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one-one on your telephone and wait for your name to be announced. We will now take the next question from the line of Lars Vom-Cleff from Deutsche Bank. Please go ahead.

Lars Vom-Cleff (Deutsche Bank): Thank you very much. Good afternoon. Thanks for taking my questions. Three quick ones, if I may.

You talked about the contracts that include price variation clauses. Is it still around about 25% of all of your contracts, or has this percentage figure changed recently?

Isabelle Adelt: This is still roughly the same number. But of course, let's say with very, let's say different exposures in the different regions. I can imagine, usually the customers, we do have those kind of contracts with are the big OEM customers because we need some kind of, let's say, agreement on how we increase prices. Customers such as Volkswagen or Mercedes-Benz and so on. And this is why we have a relatively higher exposure to price variation clauses[?] in the EMEA region, and a relatively lower exposure in Americas and APAC. But overall, the 25% is still the number you can calculate with.

Lars Vom-Cleff: Perfect. Many thanks.

And then I think I remember you once said, or you said in the '23 call, that a 100-basis-point gross margin improvement should be possible this year, with impaired prices increasing a little bit or tending to increase a bit more. Would you repeat that statement? Is that still in the cards, 100 basis points?

Isabelle Adelt: You're talking about gross margin?

Lars Vom-Cleff: Yes, gross margin.

Isabelle Adelt: Okay. I mean, we really have to see how pricing turns out, I would say. I mean, last year, especially so if you look at the step-up now we had in Q1, that was already pretty solid with a roughly three-percentage-point.

We are aiming to get back to old strength, definitely. But I think the major influencing factor will be how pricing turns out, obviously. So what we've seen is that the raw material pricing, some groups already somehow hit bottom and are starting to swim up. So I think this, and then taken together with whether we will need to have price increases in the market or not, will be the major determining factor where we will end up.

Lars Vom-Cleff: Okay. Understood. Great.

And then lastly, with the free cash flow now reaching a more normalised level, again, you also always picture your net working capital-to-sales ratio and your range of 21-22%. And I think you also mentioned once that you are trying to come or even undershoot this guidance or this range. Do you still think that this should be possible with increasing input prices, also inflating your inventory level? Or the question is, is it in your hands, or does it to a large extent also depend on input price inflation?

Isabelle Adelt: Well, would say the answer is both, yes.

So of course, it always is in our hand to diligently manage our working capital. I think you're referring to our discussion we had during one of the roadshows we did together. So of course we will now start to look diligently, given that we were able to reduce our working capital to below 22% in 2023.

Whether there are other levers we can pull, but this is yet to be determined. There is for sure something more we can do, and all we can do, we will do. But of course, the moment prices start to increase, the working capital level will go up as an equation of sales is pure mathematics, given that we need to buy basically material at a higher cost.

And if you look at this lag effect of 12 weeks until it hits our P&L, of course you will see the same lag effect in our working capital as well. This is the normal pattern we always see when prices go up or down.

Lars Vom-Cleff: Perfectly clear. Thank you. I'll go back into the line.

Operator: Thank you. Once again, as a reminder, if you wish to ask a question, please press star one-one on your telephone and wait for your name to be announced. That's star one and one if you wish to ask a question.

Lutz Ackermann: So, if there are no further questions, we would conclude the conference call today.

The next conference call will take place on 30 July, when we are about to report on the half-year number. Until then, have a good day and speak soon. Bye-bye.

This concludes today's conference call. Thank you for participating, you may now disconnect.

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