Vitesco-Technologies-Group-AG

Vitesco Technologies Group AG - Analyst and Investor Conference on the Annual Report for Fiscal Year 2023

File length: 00:44:40

HE Heiko Eber

AW Andreas Wolf

SN Sabine Nitzsche

O Operator

MT Marc-René Tonn

MR Michael Raab

DK Daniel Kukalj

Intro The electrified future is now certain and it's accelerating.

We at Vitesco Technologies are driving that future. We have established ourselves as one of the leading e-mobility providers in the world. Our customers value that we provide outstanding experience, strong reliability, and a comprehensive system (00:25).

From microchips to fully integrated (00:28) drives, from software to full systems, our solutions make e-mobility more efficient, safer and affordable for everyone. That is why we are a winner in e-mobility.

Key to our success have always been our highly skilled and motivated employees. They are the dedicated enabler of our transformation into an electrified future. We have committed to protect human rights [01:00] and to further improve working conditions for all people in our own operations and in our supply chain. As drivers of sustainability, we will further reduce CO2 emissions and environmental impacts in our entire value chain. We strongly believe that ESG is a key enabler for our long-term success. [02:00]

HE Ladies and gentlemen, I'm very happy to welcome you to our today's webcast on our financial results 2023. This is our third and most likely our last webcast on our full year numbers as a standalone company. It was a pleasure that you have been a part of our capital market journey so far. The press release, the following presentation and our annual report has been published today in the morning at 7:00 AM CET on our Investor Relations homepage. Now, before we take a look at today's agenda, I'm sure you have all taken notice of our well-known disclaimer.

Today, Andreas Wolf, our CEO, and Sabine Nitzsche, our CFO, have joined the webcast to guide you through the key information in [03:00] our presentation, both on a group and divisional level. In addition, we will talk about our current order backlog, our cash flow, and of course about our balance sheet. Finally, we will also discuss our guidance for 2024. Afterwards, both will be available for a Q&A opportunity. And now without further ado, let me hand over to our CEO, Andreas Wolf. Andreas, please.

AW Heiko, ladies and gentlemen, thank you for joining us today. We are pleased to share our results for 2023 and provide an overall company update starting on slide number four. [04:00] The year 2023 was very eventful, I can say. Just to name a few topics, our company's listing in the German Mid-Cap Index, MDAX, our announced partnerships such as onsemi, (ROHM? 04:16) and Infineon, which we further intensified. And of course the public tender offer from Schaeffler. Unfortunately, the market continued to be challenging due to negative events. We saw further geopolitical conflicts and continued high inflation rates combined with increased material and labour costs, while economic data from several countries showed signs of a downturn.

However, we managed to manoeuvre our company smoothly through the rough sea. This resulted in another successful year for [05:00] Vitesco Technologies. To give you some hard facts, our sales came in at 9.2 billion euro and the adjusted EBIT amounted to 341 billion euro equating to 3.7% margin. Consequently, we delivered 85 million euros of free cash flow. This increase in profitability and the positive free cash flow allows us to pay out for the first time in our history a dividend of 25 cents per share, provided that our shareholders approve it at our annual general meeting next month.

One other important note, our transformation to electrification continues. One proof is our electrification sales, which increased to 1.3 billion euros. Another proof are [06:00] our multiple new electrification awards, which we won during the course of the year. Thus, our order intake in electrification amounted to 8.3 billion euros. To be noted, some customers started to be more cautious with orders and the projected volumes. This means for our order books, it is filled up with a great number of orders, including all our electrification products. Our backlog at year end 2023 amounted to over 57 billion euros, of which around 55% are electrified. Essentially, we continue to see a strong global sourcing for our products based on the strength of our portfolio. This underlines once more our attractive offering in that area. [07:00] But now let's move on to the next slide for a detailed look on our order book.

We continue to see a strong momentum towards electrification, which now accounts for a set around 55% of the total order backlog amounting to 57.6 billion euros. In absolute numbers, this means that our orders in electrification were around 32 billion euros at the end of last year, of which over 70% related to high voltage applications. This strong number indicates that we are a preferred supplier with regards to our electrification offerings. The strong momentum can also be seen in the book-to-bill ratio of our electrification order intake. It stood at [08:00] 6.4. Considering all areas of the group, including the steadily decreasing Non-Core ICE parts, the group book-to-bill ratio was still very strong.

To summarize, we ended 2023 at a solid level in terms of order intake. Thanks to an order backlog of around 32 billion euros in the electrification business, we continue to be well positioned for the future. When we initially guided for our fiscal year 2023 in March last year, we had a long year in front of us with a few uncertainties, especially with regards to the overall economic development. However, we fully achieved and in some cases exceeded our guidance [09:00] for all the main financial KPIs. Our sales came in on the lower end of the guidance, given the softer end of the year. Our adjusted EBIT margin of 3.7% and the consequently higher free cash flow exceeded our expectations. And the final note on our CapEx, we are committed to our investments into electrification, which was reflected in our group CapEx ratio of 5.4%, well within our guided range.

Let me elaborate a bit more on our numbers before I hand over to Sabine for a deeper financial insight in a minute. The 9.2 billion sales, which I mentioned earlier, correspond to an increase of 2% compared to 2022, influenced by negative [10:00] FX effects. The sales development is in line with our expectations considering the planned phase out of Non-Core business, which decreased by over 350 million euros throughout the full year. Supported by improved results within our segments, we managed to increase our adjusted EBIT margin to 3.7%, as mentioned a few times already. This corresponds to an improvement of one or 20 basis points. Our CapEx increased to 5.4% as highlighted before. One aspect I would like to remind you about, we had many product launches in '23, also '24 is an intensive year with regards to product launches which support our significant growth in the field of electrification. Our free cash flow came in [11:00] at 85 million euro driven by higher profitability. Even though we had higher CapEx, our strong operating cash flow resulted in a positive cash generation. And a final remark on our equity ratio with about 38%, it remains at a very solid level.

Let's move on to the market view. The worldwide light vehicle production picked up in 2023. Europe saw the strongest recovery. China's light vehicle production saw a good step up as well due to different reasons such as a strong export activity and government incentives. However, I have to say that the Chinese commercial vehicle market unfortunately continues to be challenging. Overall, we saw an increase of 9.4% in light vehicle production. [12:00] As you can see from the bar chart on the right-hand side, for 2023, our reported group level sales increased by 1.8%. But I never get tired of repeating, this figure includes, again, our declining sales of Non-Core ICE business and contract manufacturing, as well as negative FX effects. Organically, our electrification and Core ICE sales outgrew the global light vehicle production by about three percentage points. And with that, you will now receive more insights into our financials from our CFO, Sabine Nitzsche.

SN Thank you, Andreas, and a warm welcome also from my side. [13:00] Let us now take a closer look at our top and bottom line development at group level. Since we have already (13:11) released preliminary figures on February '23, I'll keep this session rather short and only focus on the most relevant aspects. Please feel free to use the Q&A session if you want to discuss additional topics or have further questions. Our organic sales growth was at 4.4%. That excludes currency-related headwinds of 1.6 percentage points as well as consolidation effects. More impressive is our Core technology sales, including both electrification and Core ICE. [14:00] Here we saw an increase to over 6.6 billion euros sales and 4.2% adjusted EBIT margin. Also, please keep in mind that we ramped down our Non-Core business by 356 million euros in 2023, which also dilutes our top-line growth. To sum up, these numbers are quite positive and very much in line with our expectations.

Now let's take a look at the results for each division, we will start our powertrain solutions division. The main reason for declining sales was as mentioned, the planned ramp-down of our Non-Core activities. Inside the segment, [15:00] contract manufacturing sales alone was down by about 30% year over year. Overall, sales came in at around 6.1 billion euros with an adjusted EBIT margin of 7.6%. Even more impressive is our Core ICE business within the division. We managed to increase our sales to 3.4 billion euros. On top of that, we further improved our adjusted EBIT margin to 11.5%. These numbers, again, underline our resilience and our strengths of our Core

ICE portfolio. Besides many factors, our continuous cost containment supported overall profitability levels during the full year.

Now [16:00] switching gears, over to our electrification solutions division. As in the past here, we recorded the strongest growth underlying our ambitious midterm targets. We experienced a very strong top-line development, which was especially driven by our performance in China and Europe. Our organic sales growth of roughly 17% equates to an out performance of over seven percentage points compared to the global light vehicle production. With regards to profitability, we managed to improve our adjusted EBIT margins to minus 3.1%. This number also reflects the increased cost, which we see for our current order intakes, as well as the [17:00] many project ramp-ups Andreas already mentioned. To conclude the top and bottom line development, let me provide you with more transparency on the categories, electrification, Core ICE, and Non-Core. As you can see, we further increased our electrification sales by about 21%, and as Andreas already mentioned, this was due to further ramp-ups of new products and a better availability of critical components, and we will continue to grow.

I would like to mention the improved adjusted EBIT margin by about four percentage points on a full year basis, even though we had higher upfront costs for fuel for the new product launches. [18:00] Here, I want to pause on very important note. We have always said that the global industry growth and electrification will not be a straight line. There might be near-term bounces, but these translate into long-term opportunities for companies like us. Companies which have demonstrated financial strength, earnings resiliency, and the wide product portfolio. This means that the longer combustion tail will help us to generate margin and cash. Specifically when electrification growth is under pressure, it's likely to be offset by stronger performance in the rest of our Core ICE portfolio, which I want to describe now. Core ICE, excluding electrification, experienced sales of more than [19:00] 5.3 billion euros. This results in a solid top-line development despite a weaker year end. However, we saw an incremental increase in our adjusted EBIT margin to 7.9%, which reflects the normalization of our supply chain.

And now for the last category, you can see on the right-hand side, our Non-Core business is further ramping down as planned and it also includes our contract manufacturing business. You may have noticed the EBIT margin coming in at 2.5%. Please keep in mind our long-term margin level is stranding around breakeven with smaller swings. To summarize, first, within the electrification area, we will continue [20:00] to grow significantly and further improve profitability. Second, our very resilient Core ICE business with the gradual step-ups providing attractive EBIT margins. And third, the ramp-down of Non-Core is progressing according to plan. We will see further acceleration, especially in the area of contract manufacturing, which will decrease by over 75% until year end.

On slide 13, I want to provide some colour on our cash development. As you can see, our operating cash flow came in higher compared to last year. To a large extent, this was driven by positive operational performance and improved profitability. Our [21:00] investments increased resulting in investing cash flow of minus 544 million euros. As stated on this slide, it was mainly due to higher spendings prior to project ramp-ups in the area of electrification. And as a result, our free cash flow for the full year of 85 million euros came in better than anticipated. Talking now about our financing cash flow. This was characterized by utilization of long-term loans, hence coming in positive at 234 million euros. This all resulted in a continuous solid cash situation.

Having said that, let's move on to our balance sheet structure. It has not changed much [22:00] compared to previous conference calls, which means we still maintain a very healthy structure. On our networking capital intensity, this increased to 5.8% of sales, mainly driven by a decrease in accounts payable. The networking capital intensity is therefore in line with our anticipated midterm range of 5 to 6% of sales. The net debt to adjusted EBITDA ratio remains stable at minus 0.4. Our net liquidity position of 337 million euros underlines our still very comfortable cash situation despite the phase out of our Non-Core business. On top of that, we still have undrawn credit lines [23:00] so that our available liquidity gross remains north of 1.8 billion euros. And to finalize with our equity ratio, it remains at very solid levels of about 38%. As you can see, we continue to have a very robust balance sheet structure and cash position, despite the mentioned challenges we experienced in 2023.

Before I get into the part you all are waiting for, our guidance for 2024, let me quickly summarize the past year whilst looking at the different quarters. We can see on this slide how our earnings have developed over each of the four quarters, especially cost increases and the geopolitical issues led to a difficult 2023. [24:00] But we managed well. On top of these challenges, we suffered from higher gross input costs such as material and labour costs. We were able to end the year with our fourth quarter on a very strong basis, especially due to finally negotiated compensation payments as well as R&D reimbursements we received from our customers. Now we have kept your waiting long enough, therefore, on our final slide, let us come to our guidance for fiscal year 2024.

I think we all hope for a more normal 2024 after having four years of totally different challenges. Unfortunately, the market uncertainties are quite big. This can be seen in the market outlook for [25:00] this year on the right-hand side. Without going into the details, overall for the global light vehicle production forecast, we expect the market to be more or less flat with only minor growths in China and North America. The outlook for fiscal year 2024 does not consider any effects resulting from the integration into Schaeffler. This means for our guidance on the left-hand side, when talking about our group sales, almost one billion euros will have to be compensated due to planned phase-out of Non-Core technologies, but also divestment-driven changes in the consolidation base. However, even with our anticipated organic growth in Core ICE as well as our dynamic top-line development in electrification, [26:00] our outlook at group level foresees a decrease in sales between 8.3 to 8.8 billion euros. The adjusted EBIT margin will presumably range between 4.5 to 5%. This clearly demonstrates that we are progressing with our transformation also in a challenging environment.

Furthermore, we are on track to achieve breakeven within our electrification portfolio, which also drives EBIT improvements. Due to the high number of product launches in this year, especially in the second half of 2024, we expect our CapEx ratio to come in at about 7% of sales for the entire year, fully focused to invest into electrification. Here, I want to mention that this number [27:00] seems a bit high, but given our sales outlook, the absolute amount trends to a similar level as in the past years. However, on a midterm basis, we still expect our CapEx to be around 6%. Coming over to our free cash flow, this is expected to be around minus 350 million euros. If we would adjust this figure for special effects, mainly related to contract manufacturing, you would see a positive number for the underlying business. However, given the change in our former favourable payment terms and the return of spinoff related advanced payments to Continental, this figure ends up quite negative. Overall, as you can see, we keep walking the talk and we will further [28:00] improve profitability, especially regarding our electrification breakeven target in 2024.

And with that, I have reached the end of my presentation. It was a great pleasure to guide you through our financials. And now back to you Heiko for the Q&A session.

O Dear ladies and gentlemen, thank you. We will now begin the question and answer session. If you have a question for our speakers, please press nine, followed by the star key on your telephone keypad. Once your name has been announced, you can ask a question. If you find your question is answered before it's your turn to speak, you may press nine star again.

HE Thank very much, Sabine. Thank you very much, Andreas. Ladies and gentlemen, as announced, we will now enter into our Q&A session at today's webcast. Normally, this is the point in time where I remind [29:00] you to limit the number of questions, but we are very well aware that many of our loyal analysts are unfortunately restricted. So I will skip that one for today. And with that, Operator, we would be ready for the first question.

O The first question comes from Mr. Marc-René Tonn of Warburg Research. Please go ahead.

MT Yes, good afternoon, and thank you for taking my question. Probably a couple of questions, if I may. The first one would be on the margin guidance, four and a half to 5% this year following 3.7% last year. Seems at least at the first glance, a rather cautious approach given that you're striving for breakeven in the electrification business towards the end of the year, and let's say one billion euro decrease in margin dilutive, contract manufacturing, Non-Core business and the injection business from Italy. But you could give us some indication of what is, let's say, behind [30:00] this margin assumption. And particularly perhaps in, let's say, related to that, you alluded on the good profitability of the Core ICE business in the powertrain business. I think when we look at the Core ICE within electrification, the margin is mid-single digits, so not really bad, but probably not on the level where you would like it to be. Could you give us some remarks on what is behind that development and how we should think about the margin progression of that business going forward and what it needs to improve this business?

And the third one would be on free cash flow. You mentioned you would expect, let's say free cash flow positive excluding the special items we see from the ramp-down of the contract manufacturing. The question would be, can you give some kind of, let's say a phasing over the year on how we should think about free cash flow very negative in the first half and then improving later on, or will it be more backend loaded, the cash outflow? [31:00] And secondly, if let's say this technical effect from contract manufacturing is then behind us at the end of this year, or should we expect let's say further negative effect from the remaining, I think about 150 million you may still have in contract manufacturing sales for the full year to still play a role next year or three, 2024, which terminates this issue? Thank you.

HE Very good. Thank you very much. So I guess at least you made use of the chance to ask more than two questions, which is positive. So I would propose that maybe Sabine would take number one and number three. And number two on the profitability of division P and E, we leave it up to Andreas.

SN Okay. Then I would start with the first question, margin guidance of four and a half to 5%. And this seems to be a bit cautious given breakeven of electrification, if I remember right. So first of all, I would like to [32:00] say we improve our profitability further by over 1%. That's what we are saying. And yes, I agree you may have expected more, but as Andreas and also myself showed you a little bit, the market development within this year is challenging again, and the effects will vanish throughout the year. So that we took here a bit more conservative approach of our guidance. And as you know, we normally come in a bit more on the higher end of our guidance. So I would like to answer like that.

HE Thank you. Sabine, you want to continue right away with the cash flow?

SN Yeah, I can continue with the cash flow. So it's the third question, not the second. The free cash flow, the more negative effects we see in the first half year of 2024, second half year will be positive again. [33:00]

MT And no more effects in 2025 from the contract manufacturing?

SN Yes, this is what we are expecting.

MT Okay, thanks.

HE And that leaves basically 30 minutes for Andreas to elaborate on the profitability.

AW I'll explain that indeed I have an Excel sheet in front of me and go through it line by line and column by column. No, Marc-Rene, the basic answer to your question is that yes, we performed very well inside the Core business, ICE business at powertrain solutions. And the target was also that we have the same operational margin at division E, also the ICE related part. But here, and that's linked to a couple of factors, we are on our way, but not yet there. You said, yes, it's a middle margin where we are currently standing, but we don't give up. We fight for moving that margin [34:00] step by step up also to a double-digit number.

MT Perfect, thank you. Just one follow up, if I may. Looking at the order intake of a bit more than eight billion last year, I think slightly below what you had been targeting initially, do you see more delays in order placement or is this more related to lower volumes, which are let's say the background to these expectations due to, let's say perhaps the slower pickup of e-mobility than previously thoughtful or any just let's say discretionary delays, which have to do with let's say the year being ended at the 31st of December? So some of the, let's say, potential, so the orders you expected for last year to then show up this year?

AW Yeah, Marc-Rene, I always said that we will be in a range of eight to ten, and I referenced year 2022, and then obviously everybody thinks it will be ten. So one order more being reported in a specific year means we go up [35:00] to ten. And yes, there were some delays for a couple of customers. There's also, as I said during my introduction, a little bit of cautiousness now looking to the volumes, but the overall expectation for the market is completely unchanged. So if you would've added the question, what is your expectation for 2024? Yeah, we will continue to be in the same range and projecting that into the future. And you remember those 2026 marks where we say five billion, and then for the outer year we go into the range of ten will basically be unchanged.

MT Perfect. Thank you very much. Thank you.

O Thank you also from my side. The next question comes from Michael Raab of Kepler, please go ahead.

MR Hi, Michael Raab, Kepler Cheuvreux. I'd like to follow up on the question of Marc-Rene as for the order intake [36:00] for electro mobility, is this really just a timing issue or are you seeing rising hesitation on part of your customers to auto componentry for that type of powertrain in view of say, consumer reluctance to adopt this type of technology? And then could you perhaps update us on the dispute or let's say controversy that you seem to be having with Audi that was frequently reported in the press most recently? Thank you.

AW Thank you very much for the two questions, Mike. I will basically directly go to the second part. We don't talk about customer relationships openly. Whatever happens in the press, we don't further continue to discuss here. I will come back to the order intake. I don't see a reluctance. We see that there is a lot of push if you look [37:00] into the different markets because sometimes it comes out of Germany or the European market, but the real game changer of this market is China, is Asia. And there we have a boost in battery electric and plug-in hybrid vehicles on top, number one, three times higher than the plug-ins are the battery electric vehicles. And with the latest data we have seen that to continue and it's at the end, the question of is the growth rate 30%? Is it 25 or 27 or 28%? But it is nothing, which I sometimes see also in newspapers, especially in your German newspapers, but it's now over, it's stopped or it's flattening out. It's not at all the case, the race is on, and we want to be part of that race.

MR All right. Thank you and good luck with it.

AW Thank you.

HE Thank you.

O Thank you. Dear ladies and gentlemen, [38:00] if you wish to state a question, please press nine followed by the star key on your telephone keypad. So please press nine star now. At the moment, there seem to be no further questions.

AW Very good. I have so many answers for questions, but I know (38:22) not asked. But there is one good news. If there are more questions to come, we can still give 30 more seconds and see if there's more.

O Yes, there is a follow-up question from Michael Raab of Kepler Cheuvreux, please go ahead.

MR Thanks again. I'd like to seize the opportunity of the additional 30 seconds time for questions. So in terms of say componentry pricing, [39:00] what are you currently seeing in the individual powertrain area? So do you see more headwind for electro components than for combustion engines or vice versa, or is it comparable or in perhaps not seeing any head on at all and our customers are willing to say, reward you for your innovation in electro mobility through better pricing?

HE You see, Andreas, you said that you have basically an answer for everything...

AW I should have stopped before, right?

HE Now you have to take it.

AW Yeah. I think the behaviour is unchanged in the sense of there is no... How did you word that? Price adders for being innovative, so it's a market-driven component supply. And whether you are playing on the ICE fields or on the more traditional part of the business [40:00] or in the electric mobility, we don't see a big difference in the pricing strategy. There are many suppliers and therefore the market forces are working. So shooting out of the hips, I don't see a big difference in the pricing or flexibility of our customers.

MR Okay. Thank you.

O Thank you very much. And there is another question incoming of Daniel Kukalj of Quirin Privatbank. Please go ahead.

DK Hi, Daniel Kukalj from Quirin Privatbank. I have two questions. How can we understand the ramp-ups in the year, in which quarter do most of them occur? And my second question is, do you see any demand for extensions for your ICE components? Thank you. [41:00]

AW I can take those two questions. Demand for extensions, yes, we see that, but that's sometimes also linked to contractual frameworks. Like we have... That's only an example. Now we have a contract to supply a specific engine or so until '25. And knowing that that engine survives another two, three, four years whatsoever, we see those extensions. That's I would say quite normal. Extensions beyond 2035 or something like that, we are not negotiating, we are really talking about midterm extensions. I would say still quite normal.

Now, ramp up during the year, it's more backend loaded because we have a lot of launches, especially in the second half of 2024. And you can assume that every night when I go to bed, I have in my prayers that everything runs well because that's now the proof of we are delivering what we promised to our customers. [42:00] In the last rounds where we met and had those Q&A sessions, I always said, yes, we have a lot of orders and we have a lot of order backlog. Again, I repeated the number today with 32 billion only on the electrification side. It's now the time to prove that we seamlessly can industrialize those products. And we have really full attention on those launches this year. We had that also in '23. Many launches happened in '23, again, full attention on the launches this year.

DK Okay. And any issues on the supplier side, which could burden your targets or the business runs normal?

AW Generally speaking, as you know, and you will hear that from other competitors, also from us, the supply situation [43:00] is somehow back to normal. We see that for older components where capacity was not increased, for good reasons, I understand that, we still fight a little bit the reduced capacity with a reduced capacity. But all in all, and talking flight level 100 here, we are back to normal. What we will see in the outer years is how are we really able to ramp up our thick components for the inverters of the world? We have an extremely steep ramp-up during the next years in front of us, that will be another focus area for the next years now. But so far for '24, all in all, I'm fine.

DK Okay. Thank you.

AW You're welcome.

HE Thank you, Daniel.

O Thank you also from my side. Sorry. [44:00] There are no more questions in the queue. So I am returning the floor over to you.

HE Thank you very much. So since there are no further questions, I would like to close today's session. The good news is if there are more questions coming to your mind afterwards, feel free to reach out to our IR team. We are always happy to help. So with this, I would like to say thank you to Sabine and Andreas for being here with us today. Thank you very much for you guys, for your interest and the good questions. And of course, thanks to the entire team for making this event happen. Thank you very much. Goodbye and stay healthy.