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C: Bernard Schäferbarthold; HELLA GmbH & Co. KGaA; CFO
P: Christoph Laskawi - Deutsche Bank AG, Research Division - Research Analyst
P: Kai Mueller - BofA Merrill Lynch, Research Division - Associate and Analyst
P: Henning Cosman - HSBC, Research Division - Analyst
P: Christian Ludwig - Bankhaus Lampe KG, Research Division - Analyst
P: Akshat Kacker - JP Morgan Chase & Co, Research Division – Analyst
P: Jügen Pieper – Bankhaus Metzler, Research Division - Analyst
P: Yasmin Steilen – Commerzbank AG, Research Division - Analyst
P: Sascha Gommel - Jefferies LLC, Research Division - Equity Analyst
P: Operator

COMPANY EDITED TRANSCRIPT

Operator: Thank you all for standing by, ladies and gentlemen, and welcome to today's HELLA Investor Update 2019/2020. (Operator Instructions) Please be advised, this call is being recorded.

And I would now like to hand the call over to your speakers, Dr. Rolf Breidenbach, CEO; and Bernard Schäferbarthold, CFO. Thank you.

Rolf Breidenbach: Yes. Thank you very much. So, ladies and gentlemen, good morning to all of you. And of course, first of all, a happy new year. Thanks a lot for dialing in. This is Rolf Breidenbach speaking. Welcome to the HELLA investor call on our half year results and for our fiscal year 2019/2020. Also, of course, a warm welcome on behalf of my colleague and our CFO, Mr. Schäferbarthold.

And as always, please allow me to first give you a brief overview on the market and our business development overall. I will start with the market. I think you are all aware, the latest IHS update on the global lighting vehicle and production showed a decrease of around 6% for the first half of our fiscal year 2019/2020. This negative market development was expected and came as no surprise for us. The declining trend is, from our perspective, still ongoing.

The second half of the fiscal year 2019/2020 is still uncertain, and it is not yet apparent if we will see some stabilization in the upcoming months.

Looking to the latest figures published by IHS, we are facing a market decline of around minus 4.9% for our entire fiscal year, again, 0.9 percentage points worse compared to the forecast from our report for the first quarter. So unfortunately, we are getting closer to the market decline of around minus 6% of our entire fiscal year, which we assumed earlier in August 2019.

But geopolitical risks such as the latest developments in Iran or, of course, the ongoing discussions on trade restriction have potential for further downturns from our perspective. The outcome of these topics is, for us, impossible to forecast. And hence, those factors are not included in our current market assumption.

Looking at our business development in the first 6 months of the fiscal year, we are faced with a decrease of our portfolio and currency-adjusted sales of 3.2% mainly due to the general market decline I mentioned before.

In the Automotive segment, especially the Lighting business was impacted by the decline of the market with fewer and slower ramp-up curves. And in addition, despite our strong sales performance in North America, we were also influenced, of course, by the GM strike. The overall weak economic environment also negatively impacted the volumes in the Aftermarket and Special Application segments and resulted in a sales decrease in both segments.

But overall, we are satisfied with our sales performance, especially the Automotive segment showed resilience and again outperformed the overall light vehicle market by 4.4 percentage points. The continuously strong demand for our electronic product portfolio, especially for our energy management and sensor products, contribute to this outperformance.

Regarding the profitability, we achieved an overall margin of 7.8%. The margin decline by 100 basis points compared to the prior year is no surprise for us and was expected, as you also can see with regard -- or as concerns our guidance.

Since autumn 2018, we have consequently realized our cost savings based on a global rollout cost control program we have also mentioned in the calls in the past and, of course, the stringent headcount optimization. Therefore, the overall number of FTEs declined on an adjusted basis by around 1,650, which means a reduction of 4.2% year-over-year. If we would add the temporary workers, we would come to a number of more than 2,800. And when I compare the current HELLA staff with the peak in September 2018, we have reduced the number of employees by more than 3,100. This perhaps gives you a feeling on how stringent our cost control program has already been implemented within the whole company, and this very strict implementation will continue.

Of course, furthermore, we continuously use these times of slow growth to focus on making processes more flexible and automated and, of course, to increase our overall productivity and competitiveness. And also with this regard, we are, as of today, quite satisfied of what we have achieved so far. At the same time, and this is exactly what Mr. Schäferbarthold and I said in the last call, we do not lower our R&D spending but consequently invest in key technologies and product groups so that also mid and long term, HELLA has a good chance to outperform the market based on product innovations and new launches.

The payoff of these investments is shown in the recent acquisition success of products, for example with regard to DC/DC converters, radar products and also -- and with regards to our newest HDSSL lighting technology.

Our continuous focus is not only on cost, of course, but also on cash management. As you all know, this is especially on projects that our CFO is leading within our company, and we both are very satisfied what we have achieved so far. We were able to increase the adjusted free cash flow and cash conversion rate. And also in the first half of this, not-so-easy first half of our fiscal year, we have achieved an improvement of around 18% and now to a figure of EUR 130 million. And the cash conversion rate is now at a level of above 50%. Furthermore, of course, we continue to consequently optimize our portfolio. The disposal of the wholesale activities and the relay business are two examples. And of course, we will continue with this kind of active portfolio management also in the future.

In this dynamic market environment, of course, we also continuously expand our partner network. The latest partnership with Oculii and the plant opening of HELLA BHAP Electronics are recent examples for our strategy to foster our co-operations and serve our customers with the best and possible expertise. Our partnerships constitute a solid pillar of our performance today and in the future. And again, allow me to point out that, of course, we will continue with these kinds of co-operations and partnerships, also in the future.

Nevertheless, as we have already communicated in September, our outlook for the entire year has not changed, so no change in our outlook. We are still on track with respect to our guidance for the fiscal year 2019/2020. The market, of course, will remain challenging and volatile. Therefore, we are more cautious with respect to our sales guidance. However, we will continue to execute our cost-control measures and programs. Therefore, we remain very positive with respect to our profitability target.

I would also like to stress again what I already said at our last investor call, we are still convinced that we are also able to outperform the market mid and long term because we have no structural issues and hence we will continue and we are continuing investing into our R&D activities. In a stabilized market environment that shows, let's say, slight growth, we should be able to achieve the growth range we've presented at our Capital Market Day.

After this brief overview, allow me to shortly give you an overview about our financial key figures, which are shown in Page 4. So our currency and portfolio-adjusted sales, as I said, decreased by around 3.2%. Especially Automotive, as I also mentioned, has performed much stronger than the market. In the other fields, we do not think that we have lost market share, but we mainly developed with the different markets in Special Applications and Aftermarket.

Our adjusted EBIT decreased by 13.1% now to EUR 257 million. And already, again, mentioned our adjusted EBIT margin is now at a level of 7.8%. And this has decreased by 1.0 percentage points, which from our perspective is not so bad in such a demanding business environment.

As always, please allow me also to show you in detail the development of our Automotive segment with regard to the different markets, and this is shown on Page 5. Globally, our Automotive business outperformed the market, as mentioned, by around 4%. When I look at the different quarters, our outperformance in Q1 was at a level of 2.7%. And the outperformance in Q2 was at a level of around 6%. And this, of course, then adds up to this outperformance of 4.4 points.

When you look at the different regions, we have a very strong outperformance in North and South America by nearly 7 percentage points. This is due to a lot of new launches in those regions, which we successfully managed, and therefore, we could show this good development. With regard to Asia and rest of the world, also, we could show an outperformance at a reasonable level. In China, it was at a level of more than 6.7%, which shows that also in the Chinese market, we are well positioned, and we are gaining market share.

With regard to Europe, we more or less developed with the market. So this decline of minus 6.8% is a little bit behind the general market development but nothing which, in the end, concerns us. So overall, again, I think a very good growth performance.

Having said this, allow me now to hand over to our CFO, Mr. Schäferbarthold, who will give you more details about our financial performance.

Bernard Schäferbarthold:

Thank you, Mr. Breidenbach. Good morning to all of you, ladies and gentlemen, also from my side. I will continue on Page 7 of our presentation. Sales is, in H1, at EUR 3.31 billion up in H1, adjusted to a positive FX development, especially out of a stronger U.S. dollar in H1. Sales Growth considering the FX effect was at a negative minus 3.2%.

All three segments of our business are showing a negative growth in H1 of our fiscal year. Automotive, in H1, shows a negative growth of 1.6%. Nevertheless, as said, this represents and reflects an outperformance of 4.4%, positive to IHS production volumes. And looking at Q2 only, the outperformance was even stronger with 6.0%. This growth is especially driven by our electronic products portfolio in this fiscal year. And especially in our energy management and other products, we have been able to grow significantly in the last two quarters.

Aftermarket shows, in H1, a negative growth of minus 3.8%. On one hand side, we had lower sales out of our workshop products business mostly to strong comparables in previous year because of exhaust gas testers which were required by the law in the previous year. In Q2 only, Aftermarket was showing a positive growth of 1.7% driven by a good demand, especially in our IAM product portfolio.

Sales volume in Special Applications are down by 10.2% in the first quarter. Still, the closure of our Australian plant was one reason for that in the previous year. But on top of that, we see that within our important customer segments like agriculture, construction and trailer are showing lower demand in the first half of this year within the economic downward trend. Actually, we are not seeing that we are losing any market share here.

Coming to Page 8. Due to lower sales, our adjusted gross profit is decreasing in absolute and relative terms. One part of the decline is still related to higher material costs in comparison to the previous year. For example, a lot of electronic components had higher cost levels compared to last year. Negotiations here are ongoing, and we are optimistic to come to further reductions in material costs in the future.

The other part of the decline is related to underutilization of our factories, the very high volatility. And overall, the weak market volumes lead to costs which cannot be fully flexibilized. This effect should normalize again in the future with the stabilization of the market volumes and with further reduction of our cost base, where Mr. Breidenbach also referred to, mentioning our continuous efforts in reducing some headcount also in the upcoming periods.

Coming to Page 9. Our R&D investments increased by EUR 15 million. With a declining sales volume, this led to an R&D ratio of 10.0%. The additional expenses and investments are mostly related to our future electronic product portfolio and supporting especially the market trends into electrification and autonomous driving. The additional spend, as often set by us, is based largely on already booked orders.

On Page 10, we are showing the development of our SG&A costs. We show here a very nice and decent SG&A cost reduction, where we were able to reduce overall SG&A by EUR 35 million. The largest improvement came out of lower distribution costs with a 0.7 percentage point reduction related to sales. It's good to see that one important global cost-reduction initiative tackling our logistics area we have initiated last year led to such a good reduction on our cost level.

On Page 11, we show an overview of the reductions. We were able to reduce, on a year-on-year comparison, the reduction is at minus 4.2% on headcount and reflects all areas and regions of our business. As said, we will continue to further adapt our organization to the expected lower market volumes in the future. Our already initiated measures should limit the effect of underutilization we have partly seen in H1 of our fiscal year. Furthermore, we aim to increase efficiency and then increasing the automation degree in our factories and our processes overall.

Adjusted EBIT, I'm now on Page 12 in our presentation, adjusted EBIT is at EUR 257 million, which is a decrease of our profitability of around 1 percentage point. Overall, we could sum it up in a way that underutilization, in addition, the higher material costs are largely compensated by our cost-saving initiatives. On the other hand, we continue to invest in R&D in our future product portfolios based on our solid order book.

On Page 13, some additional details. Our reported EBIT is at EUR 230 million. Adjustments are at a negative amount of EUR 27 million. The largest amount of EUR 23 million is related to the restructuring program of our lighting plant in Lippstadt where actually, in the last 3 months, around 200 people found an agreement to leave the company in the foreseeable future, and that should especially also support the competitiveness of our plants, also in the future.

Taking into account the improvement of our financial results, especially due to a good development of our securities due to a solid and good development of the capital markets, EPS is at EUR 1.45 in H1.

On Page 14, looking at the second quarter only, as already mentioned, a slightly positive growth in Auto and Aftermarket. The EBIT profitability in Auto declined by 1.3 percentage points. The reason, as mentioned, is the underutilization, higher material costs and our continuous investment in R&D. Nevertheless, it is worth to mention that with a flat sales development, the Auto segment realized an EBIT margin of 8.1% even with these headwinds, we already mentioned.

The EBIT margin in Aftermarket shows a decent improvement to 9.5%. It's very good to see that, supported by a positive product mix, the cost-reduction measures already and immediately implemented after the disposal of our wholesale business shows such a decent result.

Special Applications shows still a solid EBIT margin of 9.9%, but a significant reduction in EBIT margin compared to previous year. Despite lower demand, here, we continue to invest in our product innovations, especially to enlarge our product offering in the electronic area to sustain and even to increase our strategic leadership position here in the different customer segments we are focusing on.

Coming to Page 15. Our adjusted free cash flow increased to EUR 130 million on a like-for-like comparison. The cash conversion, as mentioned, is at 50.6% in H1. Cash generation remains with a very high focus and priority in managing our business on a daily base, and it's good to see that it's continuously paying out.

Lastly, coming to the segments on Page 16. Automotive shows a sales decline in H1 of 1.6%, where electronics is growing at plus 2.9%, our lighting business is declining in H1 by minus 5.5%. As said, due to less but also slower ramp-ups we are seeing in the last 6 months. But again, please allow me here also to say, again, that we do not see any structural issue in lighting because of a negative growth now in this six-month period.

Our order book is very solid going forward. And actually, we are seeing a strong demand in our lighting products today, especially also the mentioned new technology, SSL | HD is showing a high interest on customer side these days. EBIT is at 7.6% and reflects the mentioned underutilization, higher material cost and continuous R&D investments.

Aftermarket and Special Applications on Page 17. Last comments to that Aftermarket, as said, shows, in our view, a very nice and decent profit increase in H1 with a good product mix and big reduction of our cost structure. Special Applications still at a 9.7% EBIT margin. With a volume decrease and, on the other hand side, continuous investments in our future product portfolio, the margin was lower. For sure, we try here also to reduce cost levels, but we maintain basically our mid and long view to see how to sustain and maintain and even increase our market position, as said, so we will continue to invest in that area also.

With that, I hand back to Mr. Breidenbach with the outlook, and then I am happy to take your questions after our presentation.

Rolf Breidenbach: Mr. Schäferbarthold, thank you very much. With regard to the market outlook, as already said, according to the latest IHS forecast, we see for our whole fiscal year –a market development of minus 4.9%, and these are the December figures. In January 2019, the forecast of IHS was at a level of plus 2.2%. And you can see how step by step the expectation with regard to the market development went down.

When we look at the different regions; not much differentiation. Asia Pacific, minus 6%; Europe, including -- not without -- excluding Germany, minus 4.5%; Germany, minus 6.7%; and Americas, minus 2%; with of course a lot of uncertainty from our perspective.

And the last chart - you can see, again, our guidance. We will stay with our guidance that we have given starting of our fiscal year. It is true for the currency and portfolio-adjusted sales at this range of EUR 6.5 billion to EUR 7 billion. And the same is true for our adjusted EBIT margin, excluding restructuring and portfolio effects, here, we see this range of 6.5% to 7.5%.

Having said this, allow me to end now with our presentation. And as Mr. Schäferbarthold, I'm also looking forward to answer your questions.

Operator: (Operator Instructions)

And your first question comes from the line of Akshat Kacker.

Akshat Kacker: Akshat from JP Morgan. Three from my side. The first one on organic growth in Automotive. You are still mentioning that end markets are volatile, which is very understandable, probably going for a minus 6% Auto production in the second half as well. In that scenario, do you think you can push organic growth, positive organic growth in the second half? Just trying to see if the order intake and the order book implies a sequential improvement as we go into the second half and when we look into FY '21. That's the first question.

The second question is on headcount reduction. Can you tell us what the numbers are, excluding Aftermarket disposal? How many workers have come out? And what is the rough split between temporary and permanent employees?

And the third one on Aftermarket, please. Good improvement in profitability. Can you discuss the measures, cost actions that you're taking in that division? And how sustainable are they? And what should we expect for margins in FY '20, please?

Rolf Breidenbach: Thank you very much for your question. Starting with the growth topic. This is, as you also said, very difficult to assess due to the volatile markets. But this outperformance at the level of, let's say, 4%, we have achieved over 4%. And we have a good chance that this will continue, especially due to our very good development in electronics, especially with regard to our sensor area and also our energy management and products. Here, we see significant growth which will, in general, help us to grow in these areas.

So with regard to the headcount, the figures I told you are already adjusted. So the whole disposal of our wholesale business is not included here.

With regard to temporary staff and our, let's say, constant staff, the reduction of our temporary staff is at a level of, let's say, around 1,000, and the rest is permanent staff approximately.

Your last question is Aftermarket. As we've said, we'll be constantly carrying out our cost-control program. We reduced our costs in all dimensions of our Aftermarket business. This is true for salespeople, for logistic people, for admin people. So it's an overall reduction, over proportional to the sales decrease related to the disposal of our wholesale business. So -- and this, of course, then leads, in addition to a positive product mix, to a higher margin because we over proportionately reduced our staff, especially in admin.

Operator: The next question, it is from the line of Sascha Gommel.

Sascha Gommel: It's Sascha from Jefferies. My first question would also be on your cost management. I understand the temps. But coming back to the normal employees, so to say, how much have you drawn down your time accounts? And is there still something left? And should we read the relatively high deterioration of the gross margin also as an indication that you kind of draw down quite a bit and there's limited additional scope?

My second question would be on your working capital situation. Are you happy with the development of receivables and payables? Or are you still facing kind of late payments from OEMs on the receivables side? And then for clarification, your improvement in payables, is that driven by underlying management? Or are you implementing also supply chain financing measures?

And then my last question is actually on your business model in general. Do you think it makes sense to have Aftermarket and Special Applications under one roof with the Automotive business? Or are there any benefits? Or would you actually consider divesting those 2 businesses?

Rolf Breidenbach: Perhaps, let's start with the first question with regard to our time accounts. This for us is, of course, one possibility of flexibilization but not the most important one. Of course, we have our temporary workers. And as I already said, we significantly reduced, but we are also reducing our permanent staff, be it with special payment programs or due to, let's say, labor law regulations in other countries than Germany. Here, we still feel very comfortable to at least flexibilize our staff according to the sales volume. Of course, there will always be a portion of people which cannot be flexibilized.

And this is one important reason why our gross margin -- or our gross profit has gone down. Especially in the area of indirect persons in production, the flexibility -- the degree of flexibilization is limited. We can't do it 100%. Our clear target, and here, we are very successful, is to flexibilize our direct workers. So minus 5% sales drop, minus 5% direct workers. But with regard to indirect, this 100% flexibilization is not possible. This would jeopardize the stability of our organization and especially the stability of our processes.

So this is the reason why our flexibilization is not 100%. This has less to do with our time accounts because we always try to, let's say, surf in front of the wave. And this means when we see the tendency that, again, the sales are going down, we try to implement proactively this, of course, not, let's say, good from a human perspective, but necessary measures.

Then allow me to hand over with regard to the working capital questions to Mr. Schäferbarthold.

Bernard Schäferbarthold:

On working capital, the end result end of Q2 was not, from my perspective, good. Because as you said, overdues were at a higher level. Here, we certainly also see that somehow this market pressure also is really there also on customer side. So here, we are intensively working on bringing this down again.

And secondly, also our inventory level is actually too high by far due to the very high volatility we have seen in the adaptions and the short-term adaptions of customer volumes, leads to effect that inventory levels are too high. And then this also we are working on to bring that down now in the second half.

On the positive note, we now see that constantly, also on the supplier side, we get to higher levels. So our DPO, if I look at the days, we are able to reach and to negotiate with our suppliers. We are constantly improving here. And you can see that because this follows then with the numbers after 3 to 6 months really on the cash side. So that is positively developing well. Actually, there is no supply chain financing program active. We are in the evaluation now and considering if we want to set it up. But until now, there is no program.

And to your third question, are we considering further divestments? No, is the short answer. For sure, in the Aftermarket, you have seen that we are constantly looking where and how our competitor's position is in the product areas. So we -- that was also the reason for the disposal of wholesale. And especially now within end of December, we are handing over also the business on thermal products back to Mahle and as already commented in previous calls. So there is somehow a constant adaption of our Aftermarket business if it comes really to the product we are offering. But -- and this is nice to see that the target is still to improve at the end also the relative profitability.

And Special Applications, as I mentioned here, in contrary, we see a good opportunity for us. So there, we even want to invest more to strengthen that area of our business because that's very interesting field even if it's still small in comparison to Auto today.

Operator: The next question, it is from the line of Henning Cosman.

Henning Cosman: The first one, maybe, thanks for your comment on R&D spend where you said the increase relative to sales is largely related to business that's already been booked. So in respect to that, if we see beyond the current fiscal year, I still have in mind your sort of growth ambition, if we can call it that, 5% to 10% in a relatively flat market. Can you please discuss -- yes, maybe, in fact, related to that, can you please discuss what your outlook is beyond the current fiscal year? Some of your competitors are now talking about a down market over the next 3 years. So if you could please share your view and then also discuss if, on the basis of these project wins that you've been discussing, the increasing R&D related to booked business, if you think in a flattish market, you can go into this 5% to 10% window again? That's my first question, please.

Rolf Breidenbach: With regard to the interval, you mentioned 5% to 10%, of course, and this is a low brainer. It depends on the general market development. But what you can see is that we constantly outperformed the market with this constant R&D spending. Of course, we think in a flat market, we are more than sure to grow of around 5%. And of course, when the market is getting above that, then we can again reach this 5% to 10%.

So -- and on the base in our R&D spending as you mentioned, it's mainly caused by our order book. We think we have selected the right products. I mentioned energy management. I mentioned our sensor, and also our actuator area. And based on the spending, we will be able, from our perspective and we have the clear target, to at least have this plus 5%. 5% plus X from our perspective should be possible on the mid- and long-term range. So when the market is flat, it's slightly growing, then we again achieve this 5% to 10% growth

Henning Cosman: Are you prepared to say what your midterm market expectation is? Because I think in some of your other comments, you said that you're adjusting the cost base to your expected or to another expected decrease in market volumes in the future. So is that a comment that we should understand beyond the current fiscal year? Can you just clarify that, please?

Rolf Breidenbach: We have to distinguish between, the let's say, very, very short-term perspective. And this has to do a lot then with our activities in -- with regard to our cost control. We always try to find out, okay, what will be the sales in 1, 2, 3 months? And based on that, we do our short-term cost-reduction measures, especially our personnel measures. And here, we try to do this very proactively. If we don't do this, we cannot achieve the flexibilization we are currently achieving.

And this has nothing to do with the general market development. Here, we are talking about very specific sales figures in the plant transferred from our customers. We have to analyze and have to get a feeling, okay, what will the customer really need in the next 1, 2, 3 weeks and months?

With regard to the mid- and long-term perspective, it's very difficult for us to assess this so far. So far, we see no light at the end of the tunnel. This means when we look at our systems, when we talk to our customers, overall, of course, there are exceptions, but overall, it looks as if the market will continue to be weak midterm. And this is true for all the regions.

Henning Cosman: Sure. And maybe related more to the shorter term, I'm afraid I have to ask you about the degree of conservatism in your margin guidance because, of course, the run rate is now above the top end of your range, let alone the midpoint. So are you saying you're effectively expecting a further deceleration in underlying market volumes? Or anything else that should lead to a margin compression in the second half versus the first half of the fiscal year?

Bernhard Schäferbarthold:
I think we remain basically what we have said, mentioning that if the market would be at a minus 6%, then we could come to -- on the sales volume, basically to the lower end of our guidance. And certainly then -- and that is where the uncertainty also is, how strong then the outperformance is and also, certainly, the development of Aftermarket and Special Applications considering that. But then here, actually, as Mr. Breidenbach said, I think we, in my opinion, we come very close to the minus 6%. So we are -- and that was also a comment more prudent, I would say, to sales -- to the sales guidance. We are more optimistic, really, if it comes to our profit targets, not now to say that we maintain on this level we have. But with all the measures we are working on, we should not see in the second half, a big surprise on profit levels negatively. So there, we are more optimistic on the outcome.

Henning Cosman: That's very helpful. And the very last one, if I may. If you could maybe help us understand this cost of underutilization, if you could possibly even quantify it, so that we get an idea for the potential uplift once you have these competitiveness measures fully implemented.

Bernhard Schäferbarthold:

So actually, we are seeing that on the material side, that's roughly 0.6%. If really we do the comparison to what is the effect on materials. And the underutilization, if we look from a gross margin perspective, it's somewhere between 0.8%. So it's the higher amount where partly, it's, for example, the depreciation, which is basically fixed. But the other element, which is also the same in the amount, it's half of it, is related to the flexibilization, we are not able really to fully do in our different facilities

Operator: We'll take our next question, it's from the line of Christian Ludwig.

Christian Ludwig: It's Christian from Bankhaus Lampe, I've got three. I'll just go through them once and then you can answer as you wish. First of all, you mentioned that one of the things that hurt your sales was the GM strike. But we're looking at your regional sales development, your U.S. or North America and South America revenue share grew actually by 11% year-on-year after 6 months. So what's going on there? I mean without the GM strike, it would have been an extraordinary result. Maybe you can explain a little bit what had happened there.

Second of all, if I understood you correctly, it sounded like that you see a slight change of demand for your lighting products. In the past, you had said that you think lighting will not be that strong in demand. With the change in market, now you've mentioned that you have a lot of orders, very solid demand in lighting. Is there indeed a change there?

And last question would be on your Oculii joint venture. Could you explain a little more what your goal is, what you want to achieve with this? And there was also a mentioning that you invested in equity. How high is that? What's your stake there? If you could elaborate a little bit more what you want to try to achieve with Oculii?

Rolf Breidenbach: With regards to our NSA development, this is based on a number of -- on a very high number of new launches in lighting but also in electronics. We have increased our lighting capacity especially in Mexico. We have now step-by-step utilized our plants in Mexico. We have opened our electronic plant -- our second electronic plant in Mexico. They are also now step-by-step increasing the utilization. So many, many launches, a good order book in NSA, a good positioning at the core customers. Nothing, let's say, no miracle behind this. It's only a concentration to utilize our new plant capacity in NSA.

And with regard to lighting products, there is no change. And so we, of course, we continue to, and have the clear target to, grow in lighting when the markets are coming back. Our order book is strong. As I said, the HD-SSL technology is very well perceived by our customers. And also, LED headlamps, let's say, the standard LED headlamps, the demand is -- continues to be very high. Also, rear combination lamps and interior lighting. So everything, let's say, good position and no change with regard to our strategy.

But -- and this, I think we also mentioned, due to this very fast-growing market in electronics with regard to energy management and also the sensor area, and we have invested into these in both areas and in the past, we see a stronger growth midterm in our electronic division.

And with regard to Oculii, we invested EUR 5 million into Oculii. And the reason is that based on our 77Ghz radar technology, Oculii and the technology of Oculii is able, from our perspective, to significantly increase the efficiency of our current radar sensors and technology. And therefore, we invested into it. And we are -- we will use this edge in functionality and performance now in our -- in the quotes coming up in 77Ghz, and we are very optimistic to be very competitive in this field.

Christian Ludwig: Did I understood it correctly, this is not an exclusive agreement and I think Infineon has a similar agreement with Oculii? Is that correct?

Rolf Breidenbach: I don't know the agreement between Infineon and Oculii, but we have an agreement which fits all our needs, let's say it this way. And we are working very closely together with these guys and have full, let's say, availability of their latest core know-how.

Christian Ludwig: Okay. But you will do the marketing for the customer, that's not what Oculii does?

Rolf Breidenbach: That's correct.

Operator: Our next question is from Yasmin Steilen.

Yasmin Steilen: Actually, only one left. So you stressed already that the performance in lighting is not a structural issue, and you mentioned that HD-SSL technology has seen strong demand. So can you share an update on the product ramp-up and the product that gives you the confidence? And what should we expect in terms of lighting in the second half? Yes, so maybe can you give us an indication on the expected under- or outperformance you see? And how should we think about lighting mid to -- yes, midterm versus the underlying market?

Rolf Breidenbach: With regard to the second half of this fiscal year, it's very difficult to assess this because the sales figures in lighting largely depend on, let's say, 10 to 20 main projects. Therefore, we will see a lot of volatile development depending on how the car lines are perceived and demanded by the market. It is a little bit different to electronics where we have many platforms and platform products we are delivering to a lot of car lines and customers. Therefore, the second half, when the market will not change, we see no, let's say, change. But this is only an estimate with regard to the growth performance of lighting in the next, let's say, 6 months.

This, of course, will change mid and long term. When the market again comes back, then also lighting will continue to grow. And when I look at the horizon in 2 to 3 years based on our order book, we -- from my perspective also, we'll gain market share, that the mid- and long-term perspective for lighting is, from our perspective, very good, especially in headlamps.

Operator: Our next question, it's from the line of Jürgen Pieper

Jürgen Pieper: I have one question, more longer term, a bit more general, it's on autonomous driving. It looks compared to 1, 2 years ago, that's a process to Level 4, Level 5, takes more time. This is at least the impression from my side and I think also from many investors. And so do you share that view that the whole thing -- the whole dynamics are a little less than we thought, let's say, a year ago?

And secondly, what does it mean for your planning for the years beyond 2020? And is also, what Mr. Schäferbarthold mentioned on Special Applications, I mean this view has definitely changed over the past 2, 3 years, that you'd go a little away from Automotive? Does it also have to do maybe with the point that -- the view on Automotive is maybe a little -- just a little less enthusiastic than 1 or 2 years ago?

Rolf Breidenbach: Thank you very much for the question. With regards to autonomous driving Level 5, we see that exactly as you. So we think that Level 2, Level 2+, Level 3 applications will now come and this also on a larger scale. Level 4, Level 5 needs more time. And we also see no, let's say, significant volumes until 2025. And also, when I look at our estimation for 2030, this is not a business we are concentrated on. For us, this has no consequence because we concentrated with regard to our sensors and applications mainly, yes, mainly on Level 2 and 3 applications. So the development is not a surprise for us, and it is already reflected in our product strategy and investment strategy.

With regard to SOE, the -- from my perspective, we are following 2 strategies. One is a clear portfolio strategy. And in all the areas where we have an under proportional profitability or limited growth perspectives like the relay business, on the one end, but also the wholesale business, we try to get, when there is an opportunity, rid of these businesses. But this is pure portfolio management and has nothing to do whether we now would like to over proportionately invest into one of our segments, Aftermarket, Special Applications or Automotive.

And then we have the general portfolio, let's say, the structural portfolio strategy of HELLA. And here, we have this clear strategy to strengthen all the segments, and this is true for Automotive but also for Aftermarket and Special Applications. And of course, I mention this very often, but please believe me, we are still looking at possible investments, especially in Special Applications, because we think this is an attractive area.

The reason for the structural portfolio strategy is that we, on the one hand, 100% count on Automotive. And we think mid and long term, Automotive is a good business. On the other hand, we would like to have this balancing. When Automotive is going down, then you -- let's say, very often, Special Applications and especially Aftermarket are more robust, and therefore, we will need also these other 2 segments and we're also to continue to invest into these segments from a structural strategic standpoint.

Operator: Our next question, it's from the line of Kai Mueller.

Kai Müller: First one, just a quick one on your orders for LED lighting products for the coming years. How much of that do you think is really related also for European OEMs to use it as eco-innovation means in order to reduce their CO_2 footprint? And can you maybe give us a little indication of what sort of incremental step-up a new LED system that you ship has versus a maybe older incandescent lighting one in terms of help for CO_2 reduction for vehicles?

The second one is when you think about your guidance, obviously, implicitly you still guide that step down in profitability H2 versus H1. You just said you are set that you are and you should be able to achieve the upper region of your guide. Can you just outline a little bit is, with the headcount reduction you have undertaken, are you now ready for the second half? Or does that still imply you have more to do?

And on that, you mentioned obviously, in Lippstadt, you closed the plant -- or not closed the plant, but reduced headcount. What is sort of the timeline you're seeing on some of your headcount reductions within German workforce?

And as the last one, your R&D step-up you've outlined across the Automotive division, can you give us a bit more detail? Is it really hardware-driven or is it software-driven? And what are sort of the key areas of investments that are really hitting your profitability right now for contracts that you've signed.

Rolf Breidenbach: Okay. Starting with the LED question, the exact reduction of CO2 compared, let's say, between standard LED and HDL LED headlamp and, let's say, convention halogen headlamp, I currently have not in my mind, but we will send you these figures on short notice.

With regards to the reason why our customers are now -- the European, but also the Chinese one and also the U.S. one, they're now counting on LED. I think CO2 here doesn't play such, but this is my personal opinion. I'm not talking for a specific customer. But my personal opinion is that these LED headlamps are not used due to the CO2 reduction, but they are used due to the design and the functionality, which is possible to realize with this technology. This is the main driver from my perspective.

Then with regards to our headcount reduction, we are never finished with that because we are adapting that month-by-month. And we have made a huge step. I mentioned this. I think when I look at the peak, more than 3,000 people, we reduced within our company, adjusted. This is an adjusted figure, nothing to do with selling off of the (wholesale) business. And when the market will further go down, then we will again reduce our headcount. And we have all the means to do this because we proactively discuss this with the Workers' Council and all the other relevant parties. Therefore, are we finished? I cannot say this. This depends on how the market will develop. But we, as I said, we already did a huge, huge step into this direction.

With regard to Lippstadt, as you said, we carried out our reduction program. It was perceived very well. So the figures we would like -- not we would like, we unfortunately have to achieve, we will achieve. And with regard to the utilization of our German plants, due to the fact that we have also significant growth in the one or the other plant and based on a good balancing, the utilization of our workforce in Germany is at a very good level.

Your third question was...

Kai Müller: On the hardware and software.

Rolf Breidenbach: Yes, hardware and software. So still, when I look at our order book, we are selling hardware with embedded software. This is so far our main business in electronics. Here and there, we -- of course, we have also this actuator business where we are selling pure hardware but mainly embedded software. And here and there, we also are in discussion, and we already, of course, also carried this out as software-as-a-product business. But this is currently not at a significant level. And from my perspective, this will also -- this will change in the future, but smoothly and step by step. So also, if you would also ask this question in 1 year, I would also, from my perspective, can give you the answer that is embedded software business is, by far, the most important one for HELLA.

Operator: The next one, it's from the line of Christoph Laskawi.

Christoph Laskawi: Christoph Laskawi, Deutsche. It's again a bit market related. The first one would be, we saw some OEMs pushing volumes into year-end in December, looking at the channel mix. So the question would be, did you see some sort of pull-forward effect on volumes late in 2019, which might dampen the Q1 underlying volumes in calendar Q1 underlying volumes to some degree? And if that was the case, is the volatility even increasing moving into 2020 as the

OEMs don't really know their mix yet and have to react potentially even more on short notice to reach the CO2 targets than before?

And the last question will be, in case the volatility remains pretty high, are you confident that you can essentially work down the inventories to some degree? Or would you expect to finish the year at the levels that we are currently seeing?

Rolf Breidenbach: So with regard to inventory, of course, we will reduce the inventory. This is clear. This is our clear target, and we will be able to do this from our perspective.

With regard to this year-end rally effect, here and there, see the one or the other customer doing this but not on a significant level, which will, let's say, significantly influence our Q1 -- or the Q1 figures of the industry. So I think it's known who has done this, in which region, but it's not at a significant level. And could you repeat your second question? Sorry about that

Christoph Laskawi:The second was, essentially, if that increased the volatility from the level that you currently see going forward as the OEMs face mixed questions and if this is more short term...

Rolf Breidenbach: Yes, this is a good question. This -- I have to admit, we do not know because now, many car lines for , full e-vehicles are launched and by our customers. And it's, for us, it's very difficult to assess how big the market success will be and how our customers will influence the market success and what does this mean for the volatility of demand. So far, we do not see this effect. But as you already said, this of course can occur, let's say, in the mid half of this calendar year. But so far, no signs that this will happen.

Operator: And there are no further questions at this time, sir. Thank you.

Rolf Breidenbach: Okay. Then, again, on behalf of Mr. Schäferbarthold and myself, thank you very much for your interest in HELLA, for all your questions. And yes, again, a good start into 2020. All the best. Thank you.

Operator: Thank you. That concludes our call for today. You may all disconnect. Thank you all for participating.

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