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OSRn.DE - Q1 2021 Osram Licht AG Earnings Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome, and thank you for joining the OSRAM Licht AG Analyst and Investor Call. (Operator Instructions)

I would now like to turn the conference over to Julia Klostermann. Please go ahead.

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### Julia Klostermann - OSRAM Licht AG - Head of IR

Thank you, Haley. Good morning and good afternoon, ladies and gentlemen. A warm welcome to the OSRAM conference call on our first quarter of fiscal year 2021. With me on the call are Dr. Olaf Berlien, our CEO; Kathrin Dahnke, our CFO; and Francois-Xavier Gerard, Head of Corporate Controlling.

Olaf and Kathrin will comment on the market development and our financial performance. Afterwards, we will be happy to answer your questions. As a reminder, today's call is being recorded. You can follow the webcast on our website at [osram.com/ir](https://osram.com/ir), where you will also find the presentation available for download.

As with previous conference calls, I would like to draw your attention to the safe harbor statement on Page 2 of the earnings release presentation. As usual, it applies throughout this call.

It is now my pleasure to hand over to you, Olaf.

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### Olaf Berlien - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes. Thank you, Julia. Ladies and gentlemen, welcome to our conference call this afternoon. I will start with an overview of our fiscal year. And my colleague, Kathrin, will then go into the financials in a more detail. And as usual, we will then be happy to answer your questions.

So let's get started on Slide #3. We had a strong start to the fiscal year. The quick rebound in the automotive and electronics industry have led to full order books. Profit and cash developed positively across all reporting segments.

At a comparable revenue level, our EBITDA rose sharply by over 40%. It shows that we are focusing on the right products with our high-tech strategy. And it's once more the result of our long-term performance programs as well as a COVID-related short-term measures. Especially, the semiconductor business delivered excellent performance in the first quarter. We've set an absolute record with the highest EBITDA margin to date.

Due to the positive business development in Q1, we significantly raised our outlook for the fiscal year at the end of January. Meanwhile, we are working together with AMS to complete the business combination pending court procedures regarding the DPLTA (sic) DLPTA registration.

So I move on Slide #4 and the figures for the first quarter. In the period from October to December, we achieved comparable revenue of EUR 840 million. This is more or less the previous year's level and that's the level before the global pandemic.

Adjusted EBITDA climbed by 42% to EUR 162 million, which corresponds to an adjusted margin of over 19%. Free cash flow also developed very positively, resulting at EUR 50 million. In the biggest economic crisis since the World War II, OSRAM is, therefore, very well positioned.

Especially, we've performed excellently in the first quarter. With an EBITDA margin of over 31%, it achieved the record results in the group's history. Year-on-year growth rates in the first quarter for visualization and lasers were 15%. In the area of semiconductor-based illumination, the figure is as high as 23%.

The automotive business unit also increased its adjusted EBITDA in the first quarter compared to the previous year. The strong retrofit and replacement lamp business generated high cash flows. And also the turnaround measures initiated in the digital unit showed positive effects. Despite the corona-related decline in revenue, we were able to post an almost breakeven result here.

Free cash flow was slightly positive. And this, in a time, close of cinemas and concert events worldwide. So a really strong performance by the team.

And that brings me to Slide #6 in the economic environment. Q1 showed a continued upward trend in important economic indicators. The OECD composite leading indicator reached pre-corona levels, while another important indicator for us, as you know, JPMorgan's Purchasing Managers Index exceeded pre-pandemic levels.

The continued economic recovery has put the global supply chain under pressure. As we have recently seen in the automotive industry, volatile demand for semiconductor products has led to shortages in the industry. And, of course, to allocations at various suppliers, which again resulted in a higher stocking orders. We have also noticed this trend in our order volumes. And I have to say we are happy to have expanded our production footprint in Kulim and, of course, in Regensburg.

So it was the right decision for the future of this company, which takes me to Slide #6 and the global car production forecast. This shows the global production figures as predicted by IHS. The light vehicle production in the last quarter continued to improve. And the forecast for the fiscal year '21 sees a further recovery.

IHS expects global car production numbers now at 86 million cars. This is slightly more optimistic than forecast a quarter ago. Especially, the forecast for NAFTA and China have been increased. NAFTA is now expected to grow by 24% over the fiscal year and China by 10%. This positive development is also reflected in our order volumes. Our order books are full. We are seeing a trend towards high-quality metric solutions where we are the leading supplier.

So this takes me on the Slide #7 and to our performance programs. Despite COVID-19, we continue to implement our existing performance programs. Total savings for the quarter amounted to EUR 25 million, which the biggest contribution coming from the corporate overhead adjustments and the transformation of our plants.

As you know, since the start of the programs of 2018, we have been continuously working on our performance. And this also explains our positive development and profit and cash. Overall, we have already achieved savings of EUR 280 million over this period, meaning that we are ahead of schedule and close to the reaching of our total program target of EUR 300 million. And maybe, as you know, from last quarter results, this was originally planned for the fiscal year 2022. Still, the transformation of our company continues.

And this takes me to Slide #8. In recent months, we have checked various options for further development of our DI business unit. As we increasingly focus on photonics, we have decided to find a new best owner for the DI components business with ballasts, drivers and modules. We are convinced that DI, as one of the leading supplier in the market, can thus further improve its position.

For our production plant Plovdiv in Bulgaria, we already found a new owner, the U.S. company, Sanmina, which is one of the 10 largest contract manufacturers for electronic products in the world. It is taking over the plant and its 800 employees. Sanmina will continue to manufacturing for us, but will be able to better utilize the plant.

So let me summarize quickly. The successful last quarter shows that we have managed the crisis very well. We have protected our employees and kept the business running. At the same time, we have lowered our fixed cost and brought new innovative products in market at record speed. And as we discussed it in the past, this way, we have successfully gained market share.

And with that, I now hand over to Kathrin for a deep dive into the financials. Kathrin?

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

Thank you, Olaf, and welcome also from my side. Let us now take a more detailed look to the first quarter figures, starting with our revenue development on Slide #9.

Overall, our revenue development was quite stable compared to the prior year quarter, resulting in revenue in absolute terms for the OSRAM Group of EUR 840 million. But compared to the previous quarter, the Q4 of the fiscal year 2020, revenue increased by 14.1%. This development was supported by a swifter than expected recovery on our markets, especially for the business units, OS and AM.

On the other side, we had a negative effect from foreign exchange rate of minus 5.5%, leading to a comparable growth of minus 0.1%. Also, when looking at our region, we can see a recovery.

APAC showed a positive development with 5.7% on a comparable basis. There, China even grew by 12.7% year-on-year. The biggest growth in APAC came from OS with a mid-teens percentage figure. AM showed a slightly positive comparable development in APAC, while DI sales were still declining.

EMEA and Americas showed a moderate negative development of minus 4% and minus 2.9%, respectively. However, the development in all regions is even more impressive when looking at the sequential growth rates. The biggest improvement we see is in APAC with a sequential growth of 21%. EMEA grew by nearly 9% quarter-on-quarter, while Americas even improved by 13% compared to quarter 4 of the fiscal year 2020.

Let me now come to the revenue development in the 3 reporting segments. Opto grew 4.7% comparable year-on-year. More remarkable is the sequential growth with 11.7%. This results in a revenue in absolute terms of EUR 556 million (sic) [EUR 356 million]. The growth at Opto was mainly driven by visualization and laser as well as illumination, both showing a very satisfying growth in the low to mid double-digit percentage amount.

Revenue in automotive and sensing showed a flat to slightly negative development year-on-year. What we currently see at Opto automotive is a tight supply and allocation situation due to extraordinarily high and rapidly growing short-term demand increase and a very high order entry.

Let me now move to the revenue development in the reporting segment, automotive. Overall, the AM revenue came in at EUR 474 million, resulting in a year-on-year comparable growth of 1.4%, mainly driven by the aftermarket business. Sequentially, however, comparable revenue growth was even at 20.4% compared to quarter 4 of the previous fiscal year.

Year-on-year, automotive LED components only showed a small decline in the first quarter of this fiscal year. And last but not least, the revenue development of the OSRAM Continental subsidiary showed again a decline in this quarter.

Turning now to the revenue development of Digital. DI sales were still impacted by the corona effects, especially as throughout the last quarter in the entertainment and the city beautification area. Year-on-year, the comparable revenue decline was thus at minus 12.6%. However, sequentially, DI revenue increased by 8%. Fluence again showed a satisfying development.

Now let's move on to the profitability on Slide 10. The adjusted EBITDA in Q1 came in at EUR 162 million in absolute terms, translating in, as we think, outstanding margin of 19.3%. Again, our early initiated corona mitigation measures supported the adjusted EBITDA margin.

Moreover, we saw positive impact from volume as well from -- as from an improvement in functional costs in the quarter, overcompensating price erosion, inflation and negative mix as well as foreign currency impact due to the weaker U.S. dollar versus previous year's level.

In the first quarter, we also had some one-off effects mainly at OS. In the Opto segment, the adjusted EBITDA improved compared to prior year quarter-to-quarter to an all-time high of 31.7%. This was mainly driven by portfolio management, strong operational performance and cost control, but also one-offs play -- one-off mainly related to an insurance compensation in the amount of more than EUR 20 million were taken into our books.

The adjusted EBITDA margin in the automotive was 13.6%, also outperformed the prior year level of 9.7%. High productivity savings and positive volume effects as well as digression due to the very high loading in our plants could overcompensate price decline, inflation and, as mentioned before, negative FX effects. OSRAM Continental subsidiary continued to be dilutive in the quarter, and the adjusted EBITDA stayed negative.

Moving to the profitability at DI. The adjusted EBITDA margin was at the same level of the previous year quarter and came in with minus 0.8%. This was mainly driven by the corona impact and, therefore, low volume. Productivity and strict cost management could, however, offset the earlier mentioned strong revenue decline.

Adjusted EBITDA in corporate items for OSRAM was negative with minus EUR 14 million. It is also worth mentioning that our net income from continuing operations resulted at EUR 6 million, the first time -- positive EUR 6 million, the first time since 2018.

Turning to Slide 11 and the cash flow. The free cash flow was positive with EUR 50 million, as mentioned before, in our first quarter of the fiscal year. CapEx was with EUR 21 million, still on a low level. However, the CapEx spend will increase over the next quarters.

Despite our positive revenue and profitability development in Q1, our focus is still on cash and liquidity. And as you can see in the bar chart on the lower right side, our available liquidity in terms of cash and undrawn credit lines slightly improved versus last quarter. Undrawn credit lines apply to the revolving credit facility granted to us from AMS.

Cash in the amount of EUR 273 million was lower compared to the previous quarter, as a result of the EUR 75 million repayment of our credit facility to AMS. However, the cash and undrawn credit facility together are with a total of EUR 723 million on a very comfortable level. As you can see in the chart on the upper right hand side, we slightly reduced our net debt at minus EUR 507 million.

And with that, I would like to hand back to Olaf for the outlook for the fiscal year 2021.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes. Thanks, Kathrin. Ladies and gentlemen, let's move to the last chart, Slide #12, my outlook -- our outlook.

In view of the current developments, we have recently raised our guidance for the current fiscal year. On a comparable basis, we now expect revenue to grow by 10% to 14%. The adjusted EBITDA margin is expected to be between 12% and 15%. And free cash flow, we now expect to range between EUR 70 million and EUR 130 million. These ranges imply, of course, lower sales for the next quarters compared to the strong Q1.

Furthermore, we will see a higher OpEx in the upcoming quarters due to the ramp-up of new projects. Please also note that the guidance is based on the assumption that COVID crisis will not have a significant impact on the OSRAM business or our supply chain.

And with that, Kathrin and me, I hand over back to Julia for your question and answer.

**Julia Klostermann** - OSRAM Licht AG - Head of IR

Thank you. Haley, please open the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And the first question is from the line of Sebastian Growe of Commerzbank.

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**Sebastian Growe** - Commerzbank AG, Research Division - Team Head of Industrials

Can you hear me well?

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes, Sebastian.

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**Sebastian Growe** - Commerzbank AG, Research Division - Team Head of Industrials

Perfect. I got 3. Olaf, the first one is on DI and the announced portfolio change that you have made today on the lighting components. Can you remind us of the overall contribution of that lighting components business that you have in Hungary? I think on the press call, you said about half of DI comes from lighting components. But you also made, in your prepared remarks, a statement that you have formed an agreement with Sanmina for the Hungary plant. But to just get a better understanding of how big that is compared to what is still with the company, and may also ask around the overall terms, if you can disclose them, that you have agreed with Sanmina?

That's the first set of questions and then I have a quick one around Opto, if I may. The first one is on price mix. I was a bit surprised to not see stronger tailwinds from price mix really in the bridge, quite frankly, because I think you also talked about scarcity earlier today. Talking about scarcity, can you also remind us of where the book-to-bill is currently standing? That's all of my questions.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes. Thanks, Sebastian. I give you the answer together with Kathrin. Let me start with the announcement of the portfolio change. It's the ballasts and components business. And it's not Hungary. It's Bulgaria. It's in Bulgaria, this plant. And it's a supplier plant, an internal supplier plant with around 800 people. And it developed and produced the ballasts and the components. So it's an internal turnover and not an external.

And in future days, I think we move from make to buy. That means that we do not have the risk of underutilization in our plants. So we have -- coming to the terms, what I can say to the terms is that we will have a cost advantage in future days in 2 ways. One way is that Sanmina is a much better player in the market to buy electronic components cheaper in the market than OSRAM. And the second one is that Sanmina is able to run the plant in 3 shifts. That means it will reduce fixed cost in the way that we have a higher productivity and that will be a cost advantage for OSRAM.

We will not have any -- we sold some -- we sold Plovdiv in a way that we do not have any impairment. That means we got all what we invested, including return on capital employed. So in this way, it was a good deal for OSRAM today and a good deal in the future.

The price mix, Kathrin is coming to that, but I will answer your book-to-bill. Our book-to-bill is above 1. In some areas, it's above 2. We have a very strong order book. And that means I expect a very strong Q1 -- Q2 as well. So as you have seen, we had a great start in Q1 but I see that we will

have the same speed in Q2. So very nice and good Q2 we expect, and that's what Kathrin already said. And I said, we expect lower sales in Q3 and Q4 because today, the visibility to Q3 and Q4 is much less. But the next quarter, January, February, March, will be good.

And maybe, Kathrin, you can say some words about the price mix. That was one of the questions of Sebastian.

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

Well, I think that the price mix can be best explained in the revenue development, as I outlined. So we had a strong -- as I commented on earlier, we had a strong revenue growth in both visualization, laser and illumination. And these were -- these were the fastest-growing business segments within OS with a good margin. And therefore, the -- some of EBITDA margin improvement is due to that revenue switch into those segments.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Sebastian is it...

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

Is that answering your questions, Sebastian?

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**Sebastian Growe** - Commerzbank AG, Research Division - Team Head of Industrials

Yes, that does make sense. If I may just ask 1 quick thing around illumination. My understanding would still be that this is still a loss making activity within Opto. Is that function correct? Or...

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

No. We are very proud that it is -- it's not loss making anymore. And you see, therefore, that it was worthwhile really doing a great job there on focus and also on cost structure.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

And Sebastian, it's really changing, as I said, we had the growth quarter-to-quarter by 23%, and we have the same speed for the next quarter as well. So we are very proud and very happy.

Thanks to Kulim and sometimes it takes time, but now it's coming.

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**Operator**

And the next question is from Sandeep Deshpande of JPMorgan.

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**Sandeep Sudhir Deshpande** - JPMorgan Chase & Co, Research Division - Research Analyst

A couple of questions here. I mean you're guiding -- you've had a wonderful first quarter, 19% plus EBIT margin -- sorry, EBITDA margin. And -- I mean when you look at your guidance, you're seemingly suggesting that your margin is declining in the next few quarters because you would

need a big decline in the margin to be at the kind of range you're giving for the full year. Why is the margin going to decline for the rest of the year? That's my first question.

The second question I have is, I mean what we are hearing across the board from the auto space is very strong orders, many semiconductor companies are not able to supply. And you're saying that you're going to see a softness in terms of semiconductor supply or whatever your product supply into the next couple of quarters. Why is that you're seeing this sort of trend? Is it just that you're cautious and you don't know whether the order book is real? Or is it because you're actually seeing softness?

And then my other question is, maybe you can comment on where you -- if you have any kind of booking numbers because of what we are hearing is that the bookings are extremely strong in the space. So maybe you can help us understand via bookings as such, and I have 1 follow-up after that.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Okay. Thanks, Sandeep. Thanks for your question. In fact, as I said, we had a strong Q1, and I said it in my speech and maybe on one of the answer of Sebastian, I expect a strong Q2 as well because we already have the January and we are in the middle of February. And of course, we have a good visibility to March.

Why do -- I'm a little bit softer for Q3 and 4. And the reason is that, in fact, I have seen or we have seen a strong order in Q1 because it was a restocking, especially all the industry OEMs and suppliers, they are very careful in COVID times, in 2020, cash is king, people are moving production down, return -- they try to reduce capital and so on. So we had low stocking in 2020.

And on the other hand, we had a strong demand for automotive sales, as you said. So the demand is on one side there. On the other side, storages are empty. So we had strong booking for 2 reasons: real demand in market and destocking of the product. So I do not have the same in Q3 and Q4. I have it still in Q1. Our Q1 means January, February, March, but we see that this destocking will not happen in Q3 and Q4.

And then, of course, Sandeep, it's a little bit a guessing. How strong is the market with COVID and all these worldwide economic issues we have in Q3 and Q4. So we are a little bit more soften for Q3 and Q4. But nevertheless, if we are 1 quarter ahead and we have then a better visibility, it could be that we have a different view. But today, we are more soften for Q3 and Q4.

And for this reason, we expect this EBITDA margin maybe on the right side of our guidance, means really to the range what we said, EBITDA between EUR 12 million and EUR 15 million, and it will be more closer to the EUR 15 million than to the EUR 12 million.

That was the question for your order book and real. And booking numbers, what do you mean with booking numbers? I'm not quite sure what you mean with booking numbers. The real number, what is my booking numbers for January, February? I can't give it you today.

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**Sandeep Sudhir Deshpande** - JPMorgan Chase & Co, Research Division - Research Analyst

Okay. Maybe I'll ask -- thanks, Olaf. I mean one follow-up on another metric, cash -- free cash flow. I mean you're guiding EUR 70 million to EUR 130 million, which is essentially only EUR 80 million at the top end for the rest of the year when you've done a very strong job of EUR 50 million in the first quarter itself. Some -- is there something happening on the balance sheet that you expect through the rest of the year that will mean that -- that will cause lower free cash flow from the EBIT -- or lower free cash flow conversion from the EBITDA, such as CapEx or some other balance sheet line item moving?

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes. I think Kathrin can give you a little bit better flavor on that.



**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

Yes. Yes, you're perfectly right. The planning assumption behind that one is, first of all, the margin erosion in the Q3 and Q4 as just outlined by Olaf. Second, I also mentioned that CapEx in Q1 was unusually low. So that will increase to our budget CapEx. You may remember that we had a strong CapEx restriction in the previous fiscal year. We are determined today to go into the CapEx needed as in the fiscal year before the year of the crisis. And therefore, CapEx is like speeding up. That's also one of the reasons.

And the third reason is with business increase as such, you need some more working capital, but there is no major effect behind that. It's just that we have a recap of the business, and that also requires some more amounts in working capital. That's 3 reasons basically.

**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

And maybe on -- add on that, Sandeep, is that I think we talked already about the 2 new technologies products coming up in future days called mini LED and microLED. And we need, as Kathrin said, some investments, especially for the mini LED. And we will start with mini LED in Kulim soon. And for this reason, we need additional CapEx. And for this reason, cash flow is going down.

**Sandeep Sudhir Deshpande** - JPMorgan Chase & Co, Research Division - Research Analyst

Understood. And my final question on digital. I mean you've done an incredible job on the Opto Semi business and Automotive business in terms of margin. The Digital business, though good for the current circumstances, is still just about close to breakeven as such really. I mean once you've announced that you are going to exit this ballast business, et cetera, so this component business. Once that is done, would you expect the margin in Digital to improve? Or are there more divestments required or more cost-cutting required to make this an ongoing profitable business?

**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes. It's a good question, Sandeep. I think we have to be a little bit fair with the digital colleagues. I think, as you know, the main products in real estate, the components and ballasts and entertainment business. And we are a market leader for cinema -- in cinema business. I think there's no single cinema open in the world. Most -- 99% of all the cinemas are closed. I think all the theater, opera and so on are closed. So they had a huge decline in their business. And I think they made really a good job with 20% less turnover. They achieved breakeven. I think that it's a great achievement from the team.

Nevertheless, as I said that the Digital business will never achieve our target on profitability. And from this point of view, it will be a dilution on our business of Opto and our Automotive business. And for this reason, we said, let's go to a divestment.

And coming to your point, in the other parts of Digital is, for example, the horticulture business. This is running quite well. Our company Fluence in U.S. had growing rate above 25% year-over-year and is highly profitable. So I would say that could be -- it will be a nice product and nice business in our portfolio. So step-by-step, we are selling now the DS business, and then let's see what we will do next.

**Operator**

And next question is from [Joseph Yao of Redbend].

**Unidentified Analyst**

I have 2. My first question is on your Kulim investment. Obviously, CapEx has taken a pause for a couple of years. And what is your plan for current year CapEx as well as future CapEx given the auto production is recovering, and Kulim is still being an unfinished piece versus your original ambition?

And could you give us some color on that and the CapEx plan? I think it was EUR 50 million in Opto last year. What's your current CapEx plan for the year and for future, please? That was my first question.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes. I have to smile a little bit. I got a lot of questions about Kulim about the last year. And one learning session is that I will never, never talk about what kind of investments in detail we will do in one plant. We were open and had fully transparency about our steps we would like to do in Kulim. And I already said, we do it in steps. Step 1 was, as you remind, EUR 400 million. And then we said we will invest up to EUR 1 billion. And this plan is still valid.

The Kulim capacity is -- we are fully utilized. That means we are running by 100%. We invest in Kulim. We invested in the last year in Kulim and the year before, but I didn't talk about that, and we will invest currently as well, and we will invest next year.

So we are right on plan. And as I said, 2 new products are coming up. The mini LED will start soon. And of course, we need investment for the machines for the mini LED. And so it is -- this plant is -- will expand. And -- yes, that's what I can say to Kulim. I'm -- we are happy to have it.

Without Kulim, to be honest, we wouldn't achieve 31% margin by Opto. So the biggest part for this nice increase of margin, of course, came of our production in Kulim in Asia because that's the best effective factory we have.

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

And let me add that the overall level of CapEx, which we always had was in the area of 6% to 7% of revenue. And that's also in the budget for this year.

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**Unidentified Analyst**

Then my second question is to do with pricing. I mean, just going back to the pricing point. I understand your Opto division typically experiences kind of a high single-digit price erosion. And can you give us some color on the current price erosion level at Opto and your expectation for 2021, please? This is particularly given the full utilization and also a tight supply situation.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

I think I give the answer together with Kathrin. As you know, with many of our customers, we have, we call it, [4P]. That means we have a clear agreement about the productivity increase, we have to deliver price increase, price decline, and altogether, we have a price erosion by mid-single digit. So that means something between 5% and 7%.

And what I can say is that we are very successful with the development of the discussion with my customer. Of course, if you have a situation like we have now that you are underallocation, the price erosion is -- you have good -- you have some good points in your hand. If in 1 hand, your customer is asking for products, then you do not have this pressure on price pressure.

So we had in our budget, price erosion, mid-single digits, and that's what we achieved. Kathrin is saying, yes, to me by nicking, I don't know what English...

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

I'm confirming.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Confirming. But you can confirm what I'm saying, Kathrin?

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

Sure, sure. Exactly. So we see that price erosion since it's part of the long-term contracts agreed. However, we are fighting against it every day, and the situation may be helping. But in general, the price erosion is sort of like characteristics of the industry.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Yes. And as I said, we already agreed 90% of all the contracts for this year. So we are -- and they have -- again, that's helpful in the time where you are underallocation, then you come much faster to agreements with your customer.

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**Francois-Xavier Gerard** - OSRAM Licht AG - Senior VP & Corporate Controller

And maybe, Francois here, 1 additional remark regarding this [DPA]. Most of them are kicking in on the 1st of January. So to the previous question in terms of the profitability in Q1 higher than the overall guidance, obviously, this will be a negative impact starting in January for our main European customers.

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**Operator**

And there are no more questions at this time. I hand back to Julia Klostermann for closing comments.

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**Julia Klostermann** - OSRAM Licht AG - Head of IR

Yes. Thank you very much for your participation. So with that, we would like to close this conference call. And if you do have further questions, please get in contact with our Investor Relations team. Thank you, and goodbye.

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**Olaf Berlien** - OSRAM Licht AG - CEO & Chairman of the Managing Board

Bye. See you wherever it will be.

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**Kathrin Dahnke** - OSRAM Licht AG - CFO & Member of the Management Board

Goodbye.

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**Operator**

Ladies and gentlemen, the conference has now concluded, and you may disconnect your telephones. Thank you for joining, and have a pleasant day. Goodbye.

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