

# **Forvia SE (FURCF) Q2 2024 Earnings Call Transcript**

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**Body**

Forvia SE (FURCF)

Q2 2024 Earnings Conference Call

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Company Participants

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Olivier Durand - Group CFO

Conference Call Participants

Pierre Quemener - Stifel

Sanjay Bhagwani - Citibank

Christoph Laskawi - Deutsche Bank

Thomas Besson - Kepler

Michael Jacks - Bank of America

Jose Asumendi - JPMorgan

Presentation

Patrick Koller

Good morning, and welcome to our Half Year Results Presentation. With Olivier Durand, our Chief Financial Officer, we will guide you through our H1 performances. Our presentations include four chapters. We will start with H1 2024 key highlights, followed by H1 2024 financial performance, then the outlook; and finally, the takeaways.

On Chapter 1, key highlights for H1. I propose to look at worldwide automotive production and the pace of electrification. Worldwide automotive production stood at 43.6 million light vehicles in H1 '24, broadly stable compared to H1 '23, with contrasted situations by geography. We have clearly more volumes in China and less in Europe.

In Europe, excluding Russia, which accounts for 47% of the group's sales, production was down 5% at 8.4 million, representing around 19% of worldwide production. In North America, which accounts for 24% of our sales, production was up 1.8% at 8.1 million, representing around 19% of worldwide production.

In China, which represents 19% of our sales production was up 5.2% at 13.2 million, representing around 30% of worldwide production. We are strong in Asia and being in Asia is crucial due to the region's fast growing automotive market, but also because of its competitiveness. For the full year 2024, light vehicle production should be down 2% compared to 2023 at around 88.7 million according to latest S&P Estimate.

Now regarding the pace of electrification on the left side, the first half of the year presented a slowdown in Europe, while the EV market slightly increased in North America and continued to be driven by China, up 50 basis points between H1 '23 and H1 '24. This slowdown in electrification is most probably temporary. It is due to market adaptations related to infrastructures, technologies, prices and ongoing regulations.

The European CAFE regulation sets a 15% CO2 emissions reduction target in 2025 compared to change in '21, so from '21 to '24. And because of that, in order to avoid penalties, additional EV volumes will be needed, and it needs to be prepared starting in H2 2024.

I would like to remind you that FORVIA is mostly powertrain-agnostic for related supplies. We might be impacted by an ad-hoc designed part dedicated to a battery electric vehicle. As an example, a seating set assembled into a battery electric vehicle if this vehicle is not selling, but this is true for whatever the powertrain, we are impacted.

In this context, FORVIA recorded steady progress. Let's have a look on four key figures. First, FORVIA posted an organic sales growth of 2.7%, outperforming the market by 290 basis points. And excluding a negative impact of geographic mix, we outperformed the market by 460 basis points.

Operating margin grew by 20 basis points year-on-year to 5.2% of sales. This figure reflects margin improvement in all business groups with the exception of a one-off impact for Interiors in North America of EUR47 million, representing 30 basis points. This operating loss results from a supplier driven issue. The Mexican supplier Kamaplast (ph). It started early '24 and generated major disruptions until mid-April.

We had to refurbish and resource about 100 plastic injection tools while minimizing supply disruptions to six OEMs. This situation also impacted launch preparation at the time of record new SOPs. We had 18 launches in nine plants in Mexico, out of which two are greenfields. And this to be compared to three launches in H1 last year or seven launches in the full year 2023. The combination of these circumstances resulted into significant extra costs, including very high freight costs. But to be clear, June results were back to normal.

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Finally, in H1, the group continued to manage effectively its debt successfully issuing new debt instruments in H1. Let's look more in details into it. In H1, the group successfully issued around EUR2 billion of new debt instruments, essentially maturing in '29 and 2031. This almost cleared our '24 and '25 maturities and allows FORVIA to significantly extend its average debt maturity now of 3.6 years versus 2.9 years end of '23. Our target is to be above four years as quickly as possible. We were also able to contain the average cost of our debt at 4.6%, only up 30% versus the end of last year.

Let's move to our top priority, deleveraging the company. We announced in October '23, a second disposal program of EUR1 billion after the successful completion of our first EUR1 billion disposal program. We made good progress in the execution of this second program since the start of the year, with the closing of the disposal by FORVIA HELLA of its stake in BHTC to AUO and with the sale of Hug Engineering, our Clean Mobility business specialized in depollution systems to OGEPAR. With these two transactions, we already achieved 25% of the program.

Looking ahead, progress underway gives us strong confidence to finalize the second program by the end of 2025 as planned. I move to our order intake, which is driven by Asia and backed by electronics and innovation. Asia first, EUR6 billion made in Asia, China representing EUR4.9 billion out of it, and with more than 60% of -- sorry, more than 60% of which was made with Chinese OEMs.

Electronics, EUR4.3 billion, key awards from Chery, from GM and U.S. EV carmaker. Innovation I think it's important to highlight that we achieved an order intake -- several order intakes, but for accumulated amount of EUR700 million in hydrogen storage. It includes the largest award ever in this field. We also won a very significant Virtual Key program for General Motors and three awards from MATERI'ACT, I think these ones are the most interesting.

Premium OEM, EUR3.5 billion mainly driven by German and Chinese OEMs. And I would like to highlight that this under a real commercial selectivity, which allowed us to achieve a high level of operating margin and reduced upfront costs. This totalizing EUR15 billion in the first half. Strengthening partnerships with Chinese OEMs in China, but also beyond the domestic market. Here are some examples of our recent developments.

First, with BYD, we announced yesterday that we are extending our successful partnership to Europe through the Hungary Business Award. This represents a significant step for both companies and brings our collaboration to a new level. This, while we have also announced earlier this month, the opening of a new seat assembly plant in Thailand. It will serve at FORVIA's export hub for the Asia Pacific regions. And again, will deepen the global partnership we have developed with BYD.

With Chery, we signed in April a joint venture agreement, which reinforces our strategic cooperation in the field of smart and sustainable cockpit. We are speaking here about the full interior perimeter, the full cockpit perimeter. This is why our ambition to reach EUR1 billion sales in 2029 is justified. From the starting of the year, we won six awards with Chery, which is showing that this dynamic is ongoing.

We also have significant business acceleration with other Chinese OEMs, significant ones with an order intake up to EUR3 billion in H1. We developed our intimacy with leading players, such as Geely, Li Auto and Leapmotor. In parallel to these developments in Asia, we have also made significant strides in H1, marked by deals that bolster our commitment to sustainability and innovation.

Some highlights. In the field of connectivity and user experience, we completed in May the acquisition of the remaining 50% shares from Aptoide in the joint venture Faurecia Aptoide Automotive. This represented a strategic move to position ourselves in the automotive apps market. We have high ambitions to achieve a 20% market share in automotive apps by 2025 and 35% by 2030.

In the field of sustainability, MATERI'ACT continued its strategic development in two key regions. In early 2024, the company established a joint venture with PCR Recycling in North America to accelerate the development and delivery of recycled compounds. In April, MATERI'ACT signed MOU with Gree Electric in China to finalize a joint venture in October to produce plastics with a very high recycled content.

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Speaking about sustainability. We recently received new ESG ratings with systematically improved scores. In the first half of 2024, we improved our scores with Moody's and Sustainalytics and maintain our A rating with MSCI. These new ratings are an important recognition of our convictions in terms of social and environmental responsibility. We will clearly continue our efforts to lead the way.

Last February, we announced the launch of EU-FORWARD, a five year project aiming at reinforcing the competitiveness and agility of our operations in Europe, which is characterized by structural overcapacity. We have to deal with a capacity, which went from 21 million vehicles produced to 17 million. Our target is to achieve an operating margin in Europe, exceeding 7% in 2028, 7% operating margin.

The effective start of this project showed already interesting progress. 14 operations have been announced. They represent close to 20% of the overall project. The restructuring costs are on track. Restructuring expenses in Europe amounted to EUR186 million out of the EUR222 million recorded for the group in H1. Savings are on track. Impact will start in H2 2024 when the people will leave the company and will accelerate in 2025. This is ending the first part.

And now, I will leave the floor to Olivier who will deep dive in our financial performance.

Olivier Durand

Thank you, Patrick, and good morning, ladies and gentlemen. I would like to share with you some detailed comments about our group financial performance in H1. That shows that we have made progress on all our key financial metrics.

Let me start first with revenues. We have recorded sales of EUR13.5 billion in H1 '24. It represents an organic growth of 2.7% i.e. 290 basis points of outperformance in a market that was slightly down. This outperformance is actually 460 basis points if we take into account the unfavorable geographical mix of H1 and represent the same trend that we have had since the setup of FORVIA after the acquisition of HELLA.

On a reported basis, however, the sales were down by 0.6% as we were impacted by two elements that will neutralize the reverse in the second half. The first element is as in the second half of last year, sales continued to be impacted by the unfavorable currency impact. It has been at 2.6% in H1. It relates to the weakening of the RMB versus euro, but also to the impact of the strong depreciation of two currencies under hyperinflation, Argentinian peso and Turkish lira, for which the evolution has been more stable or at least eroding slowly in '24.

The second impact is the negative scope effect. We sold the CVI business to Cummins end of Q3 last year as part of the first EUR1 billion disposal program. And therefore, this is out of our numbers. And vice versa, we have the consolidation from January 1, of the HBBL joint venture in lighting in China. Those two elements will be -- will turn neutral to positive in H2 and will sustain the growth in the top line compared to H2 last year.

Now if I turn to the operating margin. It stands at EUR700 million for the first half, i.e. 5.2% of sales, an increase of 20 basis points versus H1 last year. The increase was driven by continued synergies of the combination, the anticipated benefit of the exit of the loss-making contract that we had in Highland Park as well as the gains from volume and mix.

And in this respect, I would like to highlight the improved inflation pass through performance through rigorous negotiation that we have with our customers. One element, however, weighted on the performance, which has been highlighted by Patrick, which is this sizable one-off of extra costs faced by interior in Mexico, which had an impact of EUR47 million or 30 basis points. This topic is now closed and will not impact the H2 figures. On an ongoing basis, our operating margin run rate in H1 is, in fact, 5.5%.

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Now if I detail those results by business group, let me start, of course, with Interiors. Interiors is recording strong growth, is recording strong half performance, but the profitability is, of course, significantly hit by the one-off that we mentioned. However, the other business groups are showing solid performance and showing margin expansion of a sizable nature for many of them.

Seating. Seating pursued its margin recovery towards pre-COVID level. We are recording a 130 basis points improvement year-on-year. This is not only the end of the loss-making contract in Highland Park, but is also benefiting from the better pricing and inflation pass-through as well as an improved execution, which is the case in all the geographies.

Clean Mobility benefited from the slowdown in electrification, recorded an outperformance of 330 basis points on the total market and also improved its profitability, driven by the sound performance of our ultralow emission activity, which returned to double-digit profitability in this semester.

On electronics, electronics is, of course, an engine of growth beyond pure electrification. It records 470 basis points of outperformance and it was boosted by the double-digit organic growth of Faurecia Clarion Electronics.

Let me highlight also that for Faurecia Clarion Electronics is actually the dominant part of the 150 basis points margin improvement that we are recording in this segment. And we have now this activity, which is recording a positive profitability over the last 12 months and in the direction to be no more dilutive in coming semesters.

Lighting recorded a flat organic growth in the context of consolidation. This is, however, on a reported basis plus 5%, thanks to the consolidation of the joint venture I mentioned HBBL, which reflects the expansion of our activities in this domain with Chinese OEM, which is an important topic. The profitability is a solid 5%, stable from a year before.

Now I will turn to regions. From a regional standpoint, EMEA is showing a margin expansion of 50 basis points. This is on the back of the outperformance that we have in the region, in interiors, in lighting and also the first benefits of our actions in EU-FORWARD not only restructuring, but cost consciousness and reduction of external cost.

Americas is showing a strong organic growth. This is driven by interiors, but this has also reflected the seating and electronic development and key customer wins that we have been obtaining in this large and important market. But the margin improvement is notable, given that we had this sizable one-off extra costs that we mentioned in Mexico. It means that the improvement in the region is larger than the impact of the exit of Highland Park contract, it means better execution, better discipline in this region in many business groups. Finally, Asia is showing again a double-digit margin, even though we had headwinds on our customer mix in China as we already saw in Q1.

Let me highlight that in H1 '23, we recorded a very sizable outperformance in China to the tune of 14%. This outperformance is now mitigated in this first half with sales decline with BYD and also with the leading U.S. EV carmakers, which are not fully offsetting the acceleration, which is not fully offset by the acceleration of the diversification and the momentum that we have with new customers, Chery joint ventures, Li Auto development and others. But if we look on a two year basis, we continue to have enough performance in this market, thanks to our overall growing presence with Chinese OEMs that are getting shares in this market, clearly.

Let me go to net income below the operating margin. We are recording a breakeven net income. This is on the back of two opposite elements. We have, of course, an increase in the European restructuring costs coming from the strong start of the EU-FORWARD project that Patrick mentioned before. This is the main component of the EUR222 million of restructuring costs that we are posting. There is also a nonrecurring expense of EUR43 million, which is related to the supplier that Patrick mentioned at the very beginning of this meeting in interior in North America.

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However, we have been able to offset largely, those impacts with capital gains in our disposal activity. The main one, of course, being the EUR134 million that we are recording for the sale of the 50% stake in BHTC, held by FORVIA HELLA that has been sold to AUO back in April, which is kicking off the start, which was kicking off the start of our second disposal program. So breakeven in net income.

The cash flow is posting an increase again this semester. We are up 16% versus a year before. And this is despite the one-off that we mentioned before. And in fact, the one-offs are two-fold. You have the EUR47 million of cost mentioned in terms of extra costs on the launches, but there was also the cost related to Kamaplast, the supplier I mentioned. So a total actually of EUR80 million of negatives.

Even with this, we are posting an increase. We are at EUR201 million net cash flow in H1. This is showing, in particular, the growing effectiveness of our Manage by Cash program. CapEx were down EUR36 million in the period. Capitalized R&D are stable. Inventories have decreased finally by EUR119 million.

The financial expense in this context were high. I have to recognize. This is related to the high level activity that we had in the refinancing and in particular, the buyback of some bonds. But vice versa, we have been able to normalize the tax cash out with the reimbursement of the EUR68 million withholding tax related to the extraordinary dividend that was received last year from FORVIA HELLA, which is solidifying that this is a lag just of one year in our financials.

Let me highlight as a complement, the improvement and the enhanced quality of our net cash flow. You see on the graph at the bottom right of your slide, the net cash flow, excluding working capital, excluding factory. It has been EUR104 million in H1. It represents 50% of what we did in this period compared to only 7% in a year before. This is clearly showing that not only we are growing our net cash flow generation, but we are improving this quality, this sustainability, and you will see that continuing in the coming semesters.

Let me move to the evolution in our debt and in our -- in the leverage ratio, the central element of our financial performance. The net cash flow as well as the proceeds related to the two transactions being concluded, BHTC and Hug Engineering have been contributing to the reduction of our net debt even with the dividend of EUR0.50 per share that we paid in June to FORVIA shareholders and the abnormal level of new lease costs under the IFRS 16 line EUR125 million compared to EUR76 million a year before.

As a consequence, the leverage continued to decrease. Our net debt-to-EBITDA ratio now stands at 2.0 times at the end of June '24 compared to 2.5 times a year ago and 2.1 times at the end of '23, which is reflecting the clear commitment of the company towards our -- the reduction of our financial leverage towards normalcy.

Let me turn to the quality of our debt in complement. Patrick alluded to the topic, we have been very active on the market. We have been raising close to EUR2 billion of new financing coming from not only the eurobond market, but the return in big fashion to the [indiscernible] market for a total of EUR740 million in two transactions, EUR200 million at the beginning of the semester under FORVIA HELLA and EUR540 million under the FORVIA name.

We have been able also to extend for EUR650 million of bank loans to '27 and this is used to reduce our gross debt by EUR300 million at the end of July on a pro forma basis to have a clear benefit in our financial costs on a future basis. We have also repaid in advance our maturities. '24, '25 are mostly cleared and we did quite a lot on '26. As a consequence, we have improved our overall maturity to 3.6 years in -- by 0.7 years in 6 months.

Finally, let me highlight that our, of course, liquidity is solid, EUR6.2 billion, comprised of EUR4.3 billion in cash, plus close to EUR2 billion that we have in revolving credit facilities, combining FORVIA and FORVIA HELLA and they are, of course, not done. And we will -- and you can expect that we will continue to be active in the market to continue to diversify our sourcing financing to increase our flexibility and to continue to work on our maturity profile as well as the reduction of the gross debt itself.

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This concludes our H1 performance financial overview. I will now detail elements on our outlook for the remaining of the year, our full year guidance and also our financial vision for '25. Let me start with what can we expect in the second half of the year. The top line is expected to be boosted by more volume, the continued outperformance that we have enjoyed since the setup of FORVIA as well as a leveling of the currency and consolidation impact that I mentioned earlier.

As we expect -- as we stated earlier this year and consistently also to the previous year, we expect a strong sequential improvement of our group operating margin in H2 versus H1. On top of the volume, the elements are, in fact, related to three. You have inflation recovery in which we have additional elements in the second half. We have two self-help drivers, the end of the extra cost of interior in North America now that the case has been closed and operations returned to normalcy.

And second, the actions on cost. First, on the synergies with HELLA in order to reach the EUR80 million target that we have for the full year and the first benefit of EU-FORWARD as well as other action on cost in terms of external cost and strict utilization of our resources. That should lead to at least 6% operating margin in the second half. And this is, therefore, translating in our confirmation about our full year '24 guidance. This is, however, with specific precision on sales and operating margin.

We expect our sales and operating margin to be in the lower end of the initial ranges of between EUR25.5 billion and EUR28.5 billion and between 5.6% and 6.4% of sales, respectively. We confirm our net cash flow and net debt adjusted EBITDA targets. Let me remind those ones. Net cash flow at least at the level of last year, i.e., at least EUR649 million for the year and leverage ratio equal or less than 1.9 times.

Those elements are taken into account our H1 performance. The expected acceleration we mentioned for H2, in particular, on the cost. And we are taking into account the latest estimate related to production for '24 presented by Standard & Poor's and the latest update, of course, in terms of currency rates.

I will turn now for a short information on '25. We would like to remind you that our '25 sales ambition as it was presented in the Capital Markets Day back in November '22 was based, of course, on certain exchange rates, which were prevailing at that time. In the last 18 months, currencies have evolved negatively versus euro and impacted the top line that we can project by close to EUR1.5 billion. This impact is primarily due to the depreciation of U.S. dollar and RMB versus euro compared to this period, but also to the impact of hyperinflation in specific countries which are Argentina and Turkey where we operate.

Lastly, the evolution of market conditions could lead to another adjustment to the previous objective that should not exceed EUR500 million. As a consequence, taking those two factors into account, we are, therefore, reevaluating our '25 sales target to between EUR28 billion and EUR28.5 billion versus the initial ambition of circa EUR30 billion in revenues.

Arguably, those evolution in sales will have some impact on the progress of the operating margin and cash flow that we can generate. To give elements in this direction, the drop-through that we can expect on the translation impact is around 10%, which is concerning the EUR1.5 billion revenue. So the vast majority of what we are talking about. And on the more volume and mix uncertainties, this also will be more in the 15% to 20% range in operating margin.

Let me stress, however, that we expect strong increase in '25 versus '24 in both operating margin and net cash flow generation. We expect operating margin to be boosted by the continuous improvement of the profitability of the different business group. You have seen the progress in seating. You have seen the progress in Clean Mobility. You see the evolution in Lighting. We have only one topic that is lagging, which is interior and we are tackling this.

The continued synergies of the combination, we expect cumulative synergies of at least EUR350 million by '25 and sizable additional synergies will materialize in our numbers in '25. On top of this, our further actions on fixed cost reductions, not only in R&D, but also SG&A on the back of EU-FORWARD, artificial intelligence and digitalization have a clear impact.

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In complement, you have additional elements that will further improve the conversion in cash flow. The progress of the Manage by Cash program is now more and more visible. You have seen that we are getting traction on CapEx and inventories this will continue and will enlarge on the inventory topic. And this will be also the case in the R&D since if gross costs are improving, the capitalization will be lower. The reduction of our gross debt will also benefit from -- will also benefit our financial cost and will allow a gradual decrease of this value.

And last but not least, our tax charge will normalize, thanks to a better geographical mix of our profitability and, in particular, with a better performance in Europe as well as what you have seen on the withholding tax recovery on dividends from FORVIA HELLA to FORVIA. This enhanced net cash flow generation combined with the expected proceeds from the finalization of the second disposal program will both contribute to accelerate the reduction of the debt to accelerate the deleveraging of the group and hit our central POWER25 objective, which is to get below 1.5 times by the end of '25.

In this context, we are confirming the central objective of POWER25, and we are adjusting the sales evolution, taking into account this evolution, mostly of foreign currencies from EUR30 billion to EUR28 billion to EUR28.5 billion in revenues. We expect strong improvements and development of operating margin and net cash flow generation. We will further update the sales target when we will announce the results of '24 in February. Of course, at that time, we will also detail the targets on operating margin and net cash flow of '25. But those upcoming evolution will not have any impact on our POWER25 ambition. We will be below 1.5 times in net debt-to-EBITDA.

As stated by Patrick, our confidence to execute and close the second disposal program by the end of '25, combined with the growth of our cash flow generation and our cash flow performance led us to confirm this target, which is about rebalancing the financial structure of the company. And to highlight this, I would like to show you what we are talking about. We are talking about of returning by the end of '25 to the leverage that we had pre-acquisition, which was at 1.6.

We are talking about a reduction of EUR2 billion of the debt by the end of this year and to more than EUR3 billion in debt by the end of next year. This is not only the disposal. This is about our cost actions and of course, our conversion in cash, thanks to the Manage by Cash program. So we expect, in fact, to have a reduction of the debt, which is higher than what we committed during the Investor Day. The number that was mentioned was EUR6 billion. You see here that we are talking about reduction that is going further in order to have not only the reduction of the leverage, but also the reduction of the financial cost so that we have a full absorption of the acquisition of HELLA.

On this note, I hand back to Patrick for the conclusion.

Patrick Koller

Thank you, Olivier. This will be our last slide before going to Q&A. I would like to summarize the presentation of our performance for the first half. Starting with thanks, thanks to the commitment and hard work of our teams. We progressed on all our key financial metrics. We recorded a positive organic growth of 2.7% with a market outperformance of 290 basis points. 460 basis points excluding the geographical mix.

We gained new businesses aligned with industry megatrends. Our strong order intake includes significant steps with Chinese OEMs. In Asia, and in the rest of the world, we generated a solid net cash flow in amount and quality. We moved forward in the refinancing of the group with new important steps for our debt maturities. We made good progress with EU-FORWARD on track with our initial assumptions and develop new synergies with FORVIA HELLA.

Collectively, we stayed steady, focused and determined to achieve our deleveraging targets, which is the top priority of FORVIA. All these elements make us confident but our H2 performance will allow us to reach all our 2024 objectives as indicated during the presentation.

And now I'm happy to answer to your questions with Olivier, and we might start with the questions per phone.

Question-and-Answer Session

Operator

[Operator Instructions] We have the first question from Pierre-Yves Quemener of Stifel. Thank you. We move on to our next question from Sanjay Bhagwani of Citibank.

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Pierre Quemener

I think my line works.

Operator

Thank you.

Pierre Quemener

Sorry. Good morning to everyone, Patrick and Durand (ph). Just a quick follow-up on the adjustment for 2025 for the sales and thanks for providing the work versus -- between the previous and the new sales target for '25 ambition as you might put it. Is it fair to assume that given the drop-through that you also provided for the operating margin that the new margin ambitions for 2025 could be no longer 7% plus, but more likely 6.5% to 6.6% less. That would be my first question. I've got the second one.

Patrick Koller

So you understand what we did. We adjusted the ForEx to the reality we have today. And this is a mechanical calculation, which might change until next year. We did the same thing about the market assumptions. We have no clear picture today, and we made here again an assumption.

Olivier told you that on the ForEx, the fall-through might be calculated about around 10% and that on the market part between 15% and 20%. With these assumptions, it will be difficult to achieve 7% next year. But what we also tried to explain is that we will be above what might be expected in normal conditions in terms of fall through. And so we should be close to it.

Pierre Quemener

Okay. That's very clear. Turning back to H2 '24. I struggle to see the improvement. I understand that sequentially, we've got -- we might have more volumes in H2 than we have in H1, according to the latest IHS and S&P assumptions. But year-on-year, now S&P IHS assumes a decline of 4%. And I would suspect that we are not done yet in terms of revision for the LVP. So how could you have a better operating leverage if we exclude, of course, the one-offs that you suffered from in H1? Thank you.

Patrick Koller

That traditionally, we do a better second half than a first half. Why this? If I start with the part below the top line, and I will be back to the top line. We have the carryforward of our commercial actions plus the commercial actions in the second half. The same thing for purchasing productivities. We have to carry forward of H1 plus the new actions achieved, which will be achieved in the second half.

We have the one-off, which will not exist in the second half. We have cost reductions, and we have accelerated our cost reductions. We have taken very drastic measures. We have EU-FORWARD, which will start to -- from which we will start to benefit in the second half. And we have the synergies with HELLA. On the top line, we have some additional businesses versus H1, which are also related to our growth which we expect to be at least with an outperformance of 300 basis points. So we feel confident about our capability to deliver what we announced.

Pierre Quemener

Okay. Correct. So if I understand you correctly, Patrick, just my last comments. You still expect to get further price recovery or compensation from OEMs in H2, correct?

Patrick Koller

Correct.

Pierre Quemener

Thank you.

Operator

Our next question comes from…

Olivier Durand

And just to say that, of course, it contributes to top line but it contribute to bottom line.

Pierre Quemener

Thanks.

Operator

Our next question comes from Mr. Bhagwani of Citibank.

Sanjay Bhagwani

Hello. Thank you very much for taking my question also. I've got two questions as well. The first one is on the free cash flow ex-working capital and factoring. First of all, thank you for providing that as your focus point in the presentation. So when we think of the full year free cash flow ex-working capital and factoring, are you able to provide some color on this that, let's say, out of this net cash flow of EUR650 million, what you are targeting, is it roughly half is going to be ex-working capital or ex-factoring? And related to that, if I understand it correctly, last year, in total, you had maybe EUR120 million of one-off taxes. What I say is EUR-68 million is now already recovered? So the rest of them come in H2. That is my first question.

Olivier Durand

Good morning. So you can expect, indeed, the continuation of having positive net cash flow outside working capital and factoring will not be contributing because we will return strictly to the EUR1.3 billion that we have as a target. There was EUR20 million of last minute, but we will return to EUR1.3 billion for the year. I think it's close to half. I think we will be between 40% and 50%.

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In terms of tax normalization, so last year, we had inside the EUR120 million, we had mainly this aspect of withholding tax, but there were also some more smaller amounts that indeed are not fully -- are not fully there yet and will appear normally in H2. And this is one of the reasons why I'm saying that the tax cash out will be a more normal one in '24.

Going forward, what you can expect is in fact that this level will not increase that much, even if profitability will because one of the key driver of the improvement in profitability relates to Europe. And in Europe, our actual tax charge is low given the low profitability we have on top of tax losses that we have in France and Germany. So the average marginal tax increase will be much smaller than what we have faced on the base.

Sanjay Bhagwani

Thank you. That's very helpful. So if I understood it correctly, going forward, the cash taxes, the difference between the cash and the P&L tax narrows down. Is that correct interpretation?

Olivier Durand

Correct.

Sanjay Bhagwani

Thank you. And my second question -- yes, sorry. And my second question is on the automotive apps. I think just the bigger picture, you just highlighted here you are targeting 20% market share? Are you able to provide some color on what -- where we stand right now in terms of the market share? And how big is this opportunity? If you can provide some color on what this opportunity pertains to? Thank you.

Patrick Koller

What I can tell you is that the 25% for 2025 are almost booked. So we are very confident about achieving this 25% market share. We are speaking about equipped vehicles just to be clear. And the tendency is also very favorable. Why? Because we are much less demanding in terms of information or data ownership, data privacy, which is kept to the end user and to the OEM, when it comes to them. The other thing, which is a significant opportunity for them is that we are already able to display them -- apps possibilities as we want. So you might not recognize that this is coming from one of the key apps providers.

Sanjay Bhagwani

Thank you very much. That's very helpful.

Operator

Our next question comes from Christoph Laskawi of Deutsche Bank.

Christoph Laskawi

Hey, good morning. Thank you for taking my questions. Basically, follow-ups. The first one would be, sorry, if I missed it, but on the area of your business, You already target for the [Technical Difficulty] basically starting.

Patrick Koller

Sorry to interrupt you. We can't understand you. The line is very bad.

Christoph Laskawi

Is it now better?

Patrick Koller

Yes.

Christoph Laskawi

Sorry for that. The first question would be just on the interior business. And is the run rate that you target for the H2 margin already achieved? Or do you still need to improve in Q3 to get there? And then the second question would just be, if you're willing to share any assumption on '25 with regards to inflation. Should that basically be a net zero or have you factored anything in the update that you provided today? Thankyou.

Patrick Koller

We were very conservative on interiors North America for the second half. In fact, the objective in operating margin is below -- significantly below their budget while we believe that we will do better again because at the end of June, they were back to normal conditions. So we were prudent, but I think that in the current context, this was requested. So in other words, we feel confident that our teams in North America will at least deliver what they have currently in the forecast.

Christoph Laskawi

Thank you. That's very helpful. And then just on inflation?

Olivier Durand

So on inflation, we are -- we will see what happened is part of the elements that we will solidify at the time of giving our guidance in details for '25. But today, we are assuming a marginal inflation. So we are not counting yet on the dilution impact on this topic, which can be a positive, but this is to be confirmed.

Christoph Laskawi

Thanks, Durand.

Operator

Our next question comes from Mr. Thomas Besson of Kepler.

Thomas Besson

Can you hear me?

Olivier Durand

Now we can.

Thomas Besson

Great. Sorry, you had major technical difficulties to access any documents on this call today? I have a few questions that I also sent in working, because of these difficulties. The first question is, can you explain why you did not exclude the EUR47 million extraordinary costs in U.S. interior in H1? Why is it included in your figure?

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Olivier Durand

To be exact, the interior EBIT margin of 1.4% includes the one-off cost in terms of the launches that we mentioned, the EUR47 million. The Kamaplast litigation and resolution is under the operating margin for EUR34 million, and this is in the line of other expense. So the interior number includes the launch cost. If you exclude this one-off totally, you will get to a margin of interior in H1 above 3%.

Patrick Koller

But the operational costs related to Kamaplast are in the P&L also.

Olivier Durand

Yes, they are in the net income, absolutely below the line and they are in the cash flow, obviously.

Thomas Besson

Thank you. Can you explain Olivier why you have EUR12 million associate loss in H1 and what we should expect for the year? What is it related to last year?

Olivier Durand

So further to the evolution of consolidation, the main remaining associate company equity investment is actually Symbio. So it's mainly related to Symbio. You should expect a lower negative in the second half.

Thomas Besson

Okay. Thank you. Then another question as well. Basic. Can you explain why your tooling revenues jumped 45% in H1 remain this way?

Olivier Durand

The tooling revenues is to be associated with the number of launches that we had in H1. So the number has been particularly high in interiors in North America, which is the business that has the most tooling revenues. So this is one driver, but there was quite a lot of activity in interiors and growth in interior also in the other regions. So this is the reason. This is related to the number of new programs and new launches that we had in the period, the organic growth of interior.

Thomas Besson

Thank you very much. Last question, please. Can you guide us for full year '24 net interest and net restructuring expense please.

Olivier Durand

So on the financial costs. If I start by the cash, you should expect net-net a number close to last year even though the gross debt has decreased, the actions that we have taken to -- as you have seen, to work on the maturities and to buy back in some cases, some bonds have a one-off impact. So this is an element. Related to the P&L, you have capital gains in H1 related to the disposal. I'm not expecting anything major in the second half in terms of gain and loss on disposal. And the financial -- the net financial cost in the P&L should be below EUR500 million, including this capital gain.

Thomas Besson

Okay. Thank you. For restructuring expenses?

Olivier Durand

For the restructuring. So the first half, as we mentioned, has been quite high. This is related to the number of operations that have been announced. The second half should be lower. I think the restructuring cost for the year should be around EUR300 million, EUR300 million plus. And cash-wise, the translation of those actions in actual departure depend on the jurisdiction. So there is obviously a lag. There is also in the restructuring cost, some noncash items, i.e., write-off of assets primarily. And so the impact in terms of cash out in restructuring for the year should be around EUR200 million, slightly up year-on-year for the full year.

Thomas Besson

Thank you. That's all for me. Thank you.

Operator

Our next question comes from Michael Jacks from Bank of America.

Michael Jacks

Hi. Good morning, Patrick, Olivier. Thanks for taking my questions as well. My first question, customer mix was strongly negative for you and most other suppliers in the first half of the year. How robust do you believe your assumptions are here in the second half, particularly in relation to your D Three customers in the U.S. given their current high inventory levels. I'll stop there if it's okay and ask my subsequent questions after that.

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Olivier Durand

Especially in the U.S., given the level of inventories of the Detroit Three.

Patrick Koller

So we do not have -- by the way, we do not have the same level of inventories, all of them and I'm particularly having in mind GM, which has a very reasonable level of inventories. And we are not significantly dealing with the one which has the highest inventory level. But what we believe is that the market in North America is robust. We've seen it in the first half, and we are not really concerned about the volumes. We consider for the second half. The risks are more related to the European market and to the Chinese market. But in both cases, we also believe that there are elements which could boost the growth of these two markets.

Michael Jacks

Understood. Thank you, Patrick. Do you expect your European customers to increase their production already in the fourth quarter of this year in anticipation of meeting their 2025 CO2 emission targets or do you think this will likely just be delayed to 2025? And what is the content factor that you have on BEV programs as compared to ICE programs?

Patrick Koller

I try to explain that. When you consider the supplies which are directly related to a powertrain, we are -- we have about the same sales and profitability independently if it's on hybrid ICE or on BEV. So we are agnostic from this point of view. Where we might have an impact is when we have an ad-hoc development for a given car, and this car might be on BEV and this car might sell less well as forecasted. But this is the risks we always had independently from the powertrain. So our exposure to it is limited with the exception of some electronics subsystems.

Michael Jacks

I understand. And then maybe just one final accounting-related question for Olivier. How much of the P&L and cash financial expense related to premiums paid for these bond buybacks? Just want to get a sense for the underlying expense and cash outflow. Thank you.

Olivier Durand

I think we can say between EUR20 million and EUR30 million in H1.

Michael Jacks

Very clear. Okay. Thank you.

Operator

Our last question comes from José Asumendi of JPMorgan.

Jose Asumendi

Thank you very much. I have a couple of questions, please. Patrick, can you please address a little bit the profitability that the company is delivering in Europe and how the restructuring measures you're taking will accelerate the EBIT margin? It looks to me like at this stage, where we stand in terms of volumes post semiconductor and COVID crisis, you should be 1 percentage points to 2 percentage points higher at this stage. So can you please address a little bit the capacity decision of your plants and how the restructuring measures will lift the margins in Europe in the next 12 months?

And then second, can you talk a little bit about the proportion of order backlog or revenues in Asia from your Chinese OEMs and how the recent joint venture with Chery will accelerate this order backlog sustaining the profitability in China at a double-digit rate? Thank you.

Patrick Koller

The first one was related to... .

Olivier Durand

The first one is -- if I -- let me repeat the question and Jose will correct me if I'm wrong.

Jose Asumendi

Profitability in Europe and restructuring measures to improve margins in Europe.

Olivier Durand

So the impact of the restructuring and the EBIT margin evolution in Europe and utilizing -- level of utilization of capacity.

Patrick Koller

Okay. To give you an indication, we are -- in terms of payback of our restructuring costs, we are between two and three years. And for the first ones we have done, we are closer to two years. Of course, the benefit will happen when the people will have left the company. What we also haven't taken into account when we presented the plan are the savings, which are related to transfers from high-cost countries to low-cost countries related to the massification and the better absorption of fixed costs. So these savings will start in the second half, and they will be significant in 2025.

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About the backlog as you spoke in China, so yes, we expected SOPs earlier this year, especially with Chery and with Li Auto. These ones are now in the pipe. They will happen in the second half. They will be significant for us as -- especially for Chery, we have a scope, which is significantly higher than the average. What I also would like to say is that with BYD, we have signed in the last days very important and significant contract, which is dealing with the volumes, with the market share with BYD on a global scale.

Jose Asumendi

May I follow up on BYD. When you say on a global scale, can we think that which region will benefit the most? Is it South Asia? Is it Latin America? Or is it a bit of everything? Does it include Europe, if I may ask?

Patrick Koller

It is -- so we spoke about Thailand, which is done. We have now the award for Hungary. We will not have all of them. BYD, as you know, has also an in-house production [indiscernible] which will also get some of these programs. But they count on us to support them on their international deployment, which is not easy. And I think that the market share we will have in the deployment of BYD internationally will be superior to the one we have in China.

Jose Asumendi

Thank you, Patrick. Thank you.

Operator

That was our last question. Thank you very much.

Patrick Koller

We have one on the screen.

Olivier Durand

The question is from Peter [indiscernible]. Please explain the free cash flow ambition for '25, 4% of sales of roughly EUR1.1 billion versus the guidance for '24 better than 2.3% because it's free cash flow above EUR649 million. What will drive that improvement?

So first off, if we give a guidance on cash flow of at least EUR649 million, it means at least EUR649 million. The second point is that the strong improvement in operating margin will drive improvement of the EBITDA, which is a key element of the growth of the net cash flow. And then below the EBITDA is to ensure that the EBITDA growth is fully translated in cash, how to do that to continue to have a contribution from the working capital, not at all the type of value that you have seen in the past. .

But there will be continuing benefits on the inventories also in '25 as we streamline our operation and normalize it. And this is also an indirect benefit of the EU-FORWARD project. Besides the working capital, the most recurrent improvement is about CapEx and is about R&D capitalization, which are expected to go down in absolute terms next year and allow that the other lines which are related to restructuring and are able to be fully offset.

So increase in operating margin, translating an increase in EBITDA and this EBITDA improvement translating in net cash flow. The magnitude of which is, of course, will depend on a few factors, and we will give the detailed guidance about this, but you will have a strong increase of net cash flow next year. That will be a key factor of reduction of our debt on top of the disposals.

Patrick Koller

Thank you, Olivier. We have another question from Ross McDonald. Regarding the BYD strategic cooperation in Hungary, was this project included in the initial EU-FORWARD margin estimate of 7% for Europe by 2028. Do you expect the profitability of the BYD business in Europe to be significantly accretive to this 7% target. Patrick, you suggested the BEV slowdown is probably temporary in our opening remarks.

Can you comment on how the group is positioned should we see a push back to the 2035 BEV mandate in Europe. Would this be a net positive or negative for FORVIA overall based on your customer profile in the region. So the first question, No. The Hungary project of BYD was not included in EU-FORWARD and in the EU-FORWARD margin estimate.

Do we expect the profitability of the BYD business in Europe to be significantly accretive? It will be at the level of our target. You suggested the BEV slowdown is probably temporary. Yes, I do. I think that regulations will support an increase in battery electric vehicles. And I do believe that these vehicles are better than ICE vehicles on many aspects and that they will continue to develop. We were clear from day one. This cannot be a linear growth. We will have stop and goes. We will have slowdowns. We will have accelerations. But I think the trend is not put in question.

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I just said before that we are on both, we are -- we have a content per vehicle and the profitability, which is perfectly comparable for ICEs/hybrid ICEs and battery electric vehicles. So for us, this is neutral. And what we have to do is to be clear on what are the vehicles we believe in and where we want to invest and cooperate. I think this is the last one. I don't see any new questions.

Okay. So I would like to thank you very much for your attention. I also would like to conclude in telling you that you have -- in front of you FORVIA team, federated, fully committed to achieve the presented targets. Thank you very much.

Olivier Durand

Thank you.

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