

# **NV Bekaert SA (BEKSF) Q1 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

May 11, 2024 Saturday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 5695 words

**Byline:** SA Transcripts

**Body**

NV Bekaert SA (BEKSF)

Q1 2024 Earnings Conference Call

May 8, 2024 03:00 AM ET

Company Participants

Guy Marks - Investor Relations

Yves Kerstens - Chief Executive Officer

Taoufiq Boussaid - Chief Financial Officer

Conference Call Participants

Frank Claassen - Degroof Petercam

Alexander Craeymeersch - Kepler

Presentation

Guy Marks

But good morning, everyone. Thank you so much for joining today's Q1 2024 trading update. I'll hand over very shortly to Yves and Taoufiq. But just before that, it's important to take you through the safe harbor statement.

Just to remind, this presentation may contain forward-looking statements. Such statements reflect the current views of management regarding future events and involve known and unknown risks uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Bekaert is providing the information in this presentation as of its date and does not undertake any obligation to update any forward-looking statements contained in it in light of new information, future events or otherwise. Bekaert disclaims any liability for statements made or published by third parties and does not undertake any obligation to correct inaccurate data, information, conclusions or opinions published by third parties in relation to this or any other publication issued by Bekaert.

With that clear, I'd like to hand over to Yves. Thank you.

Yves Kerstens

So welcome on the trading day '24. So the year started solid for us with performance in line with our full year expectation. And today, myself and Taoufiq will give you some further color on this performance. So on the first quarter top line sales, we shipped €1.025 billion. This is compared to a very strong Q1 '23 down top line sales of 14%.

As you remember, Q1 '23 was the last quarter of very high, let's say, input materials, raw materials and energy costs, which we passed through to the market in Q1 as well as pre-stocking and customer stocking both in China and in some other regions of the world. If you make the evolution of quarter 4 of '23, that spot this year, we have a top line reasons [indiscernible]. So in that context environment, we continue to focus on delivering on our strategy and preparing for the upcoming year and years. First of all, by further ramping up our growth businesses, we keep the pricing discipline in the core businesses and be very selective in the business we are in. We continue to focus on our cost efficiency and optimize our working capital management, and we continue to work on further margin improvement and strong cash flow generation.

As mentioned, Q1 performance for us remains in line with our full year expectations, and we are confident as management to deliver on our full year 2021 guidance and midterm Davis, as explained in the Capital Market Day. So some highlights in Q1 on proof points of our strategic evolution in the different business segments we are active in. First of all, in our tire reinforcement where we gained momentum and traction together with one of our premium customers, good year on bringing a product to the market with 90% or tariff with 90% recycled materials, including the Bekaert recycled steel court. In the BBRG area, we have a morning solution for largest offshore floating solar plant and synthetic mooring expertise for tailwind floating offshore all project. So happy to be part of this demonstrated product projects for the future. In the area of energy transition, records qualification of the Solar Impulse foundation for the current product as a solution, which is contributing to sustainability.

On the telecommunication in the U.S., we've been qualified and certified as set by in America, which gives us further opportunities for growth in energy utilities, the upcoming among years in the U.S. and then also progressing on how we handle steel circularity in the value chain with our suppliers and our customers. So we continue working on driving our performance while also improving and increasing, let's say, our portfolio towards more sustainable products. And last year, we received a 42% of our full product portfolio in the sustainable category, continue our trying to make it 50-50 in the future by bringing products to the markets, which influence the way we live and move. Having said that, I pass now to Taoufiq for more insights in the performance on the top line of our different businesses.

Taoufiq Boussaid

Thank you very much, Yves, and good morning, everyone. So I will just start this part with an overview of the total consolidated sales for Bekaert. So as you see in Q1 '24, the consolidated sales topped €1.25 billion, roughly contracting by 14% compared to Q1 of last year. In the overall context, we are dealing with market conditions, which have remained mixed. This is leading to a consolidated organic volume decrease of 5%.

I think it's important to put volume decrease of 5% in the context of the overall 14% contraction that we are reporting. Specifically about these contractions, they are part of a broader industry challenge, which is reflecting a subdued demand in certain sectors. But the important element there is that we have been dealing with the normalization of some of the input costs from -- as compared to last year, and the reduction that we see this year is actually a reduction of the pass-on inflation, which contributed to a €70 million decrease in sales. So again, the change is largely due to the normalization of costs as we're seeing a stabilization from the previously high energy and raw material prices. These 2 elements were particularly pronounced last year in rubber reinforcement and steel wire solutions.

And you might remember that, for instance, we have benefited in 2023 from so-called energy surcharges, which have increased our top line but didn't have any impact in terms of margin. So despite these challenges, the sales figures are in line with our expectations. So we are not dealing with a surprising situation so to speak. And again, considering the high base of Q1 2023, which included this significant one-off contribution we kind of anticipated this situation. So we remain actively focused on addressing this dynamic.

So we have the right strategic initiatives in place to help us improve the operational efficiency and adapt to this specific, hopefully, control market conditions. And in 2024, we will remain focused on navigating these challenges and be, again, as usual, we're very opportunistic in terms of enhancing our overall performance. Now if we look at the dynamics within the specific business units and starting with R, so we're reporting a decrease of the top line of 17% compared to the same quarter of last year. But I think it's important to mention that if this quarter compared to Q1 last year, we're reporting a drop of volume of 6%. This evolution corresponds to an increase of 6% versus Q4 of last year.

Subscribe to Seeking Alpha for more content like this

So the volumes, again, are picking up compared to the last proof point of Q4. Regionally, we see sales volume dropping in China by 5%, 3% in EMEA, but it's also very important to mention that we are seeing a significant boost of the top line by almost 20% in the Southeast region. So again, a dynamic which is primarily driven by the phaseout of some of the energy surcharges from early '23 and stabilization of the wire rod prices. Moving to Steel Wire Solutions, a 14% contraction in sales versus Q1 of last year. 2 main contributors, volume for 5% and a similar decrease in the past on wirerod prices, a contraction as well in the range of 4.5% in terms of price and mix.

We did see a very strong start in January. However, the segment didn't really show a crystallization of this trend for the balance of the quarter. And we did see as well a demand, which is remaining weak in some of our more commoditized areas. Compared to Q4, there is a 5% increase in volume and a 10% increase in revenue. So it's picking up again versus the end of '23.

Regionally, the region which has suffered the most is the north of Latin America with a 19% reduction, mainly compounded by the situation in Ecuador with all the political situation that the country is dealing with North America and EMEA declining, but a smaller percentage and China, a significant growth of almost 7%. Then moving to Specialty business, a 5% decrease in consolidated sales, mainly impacted by the pricing pressure that we had to deal with in some specific segments, including construction, but construction did see a volume pickup of almost 7%, primarily in Europe, which has been benefiting from more business at a lower average sales price. So it's helping in terms of absorption and allowing us to crystallize the strategy that we have established in terms of gaining market share. And we see the adoption of the steel fiber reinforced concrete in grow to market is progressing with some significant project wins across the world and the share of our high-end application, the Dramix 4D and 5D is increasing from 46% last year to 51% this year, which is really a very strong performance. Fiber technology within specialty business there as well, we have a top line increase, almost 5% in terms of sales.

Then moving to BBRG. Sales were 15% lower, primarily driven by almost 20% in decrease. However, we did see a strong positive price and mix effect, which has partially mitigated some of these deviations I have referred to. The issues that we had to deal with are mainly related to punctual phasing of projects in Europe and as well as some production challenges in the U.S. in terms of production output. So we continue to benefit from a good momentum in the significant main projects, which are ongoing. And it's clearly something which is enhancing our positioning in the renewable energy solutions for the company.

With that, I hand it over to Yves for the outlook.

Yves Kerstens

Thanks, Taoufiq. So for the full year of '24, we will continue to fit on our plans and our strategy. So we expect a modest growth, as I mentioned in the previous outlook, modest growth for 2024. And basically, the performance in terms of margins in line with previous year and slightly above. So having that, I hand over to Guy for opening the Q&A.

Question-And-Answer Session

A - Guy Marks

Yes. Super. Many thanks, Yves, and Taoufiq. We have [indiscernible] our first.

Unidentified Analyst

Yes. A couple of questions from my side. Can you maybe comment a bit on the rubber reinforcement business and the profitability gap between China and the rest of the world, it seems that the efforts you've taken in China are helping to reduce the gap, but I would like to have some color on that. Also, with respect to the rubber enforcement momentum, can you maybe elaborate on the difference in momentum between truck and car segments? That would also be interesting.

And then another question would be on Dramix. Can you comment a bit more on the order books for that business? And also diving into the pricing. You seem to indicate that there is some pricing pressure in Europe, at least. But can you maybe elaborate whether that's now fully in the books where you see additional pressure in Q2 and the coming quarters on that. So those were the questions.

Yves Kerstens

Okay. Thanks [indiscernible] for the question. I will start with the construction question, and then Taoufiq will give you a perspective on RR. So first of all, on the dynamics. So as you know, as we discussed tactically, this is a conversion game from steel bar and mesh, correct?

And so this is also one of our growth platforms, which we take a multiyear approach. And for 2024, we have a clear approach by market, by country, by region on gaining share, not share the fibers, but share in conversion from steel and rebar reinforcement to fibers. So what we see here, and mentioned by Taoufiq is what we planned, but being a little bit more aggressive on some of the projects. But again, it demonstrated on one hand, the growth that we are capturing with 7% more increase in the volume side. And of course, we -- and we'll continue to do the full year with that approach.

Taoufiq Boussaid

Okay. So taking the question on China and some of the evolutions that we see. So first of all, in terms of macro related to the automotive sector. So EV market in China continues to remain strong. So it's clearly supported by promotions, subsidies, incentives and so on.

Subscribe to Seeking Alpha for more content like this

The truck market is rather stable. In the replacement transportation, the passenger market is positive, while the truck is impacted by lower construction in industry. So what -- so this is for the environment. As far as Bekaert is concerned, and I think that we mentioned it in one of the previous exchanges. Our plants are running at full capacity in China.

So it's clearly a positive. But it's happening in a context where we needed to do some tactical concessions in terms of pricing. But we are benefiting from the fixed cost absorption. We have an overabsorption as we speak, because of the situation. So it's clearly a very good momentum that we see in China.

At the same time, we see that the share of our premium constructions is increasing. So it's above almost topping 50% as we speak. So very good momentum as far as China is concerned. The other regions and starting with EMEA. EMEA is a bit subdued. Demand is clearly not crystallizing.

And on top of that, we see an inflow of imported goods primarily from China. So this is creating some tensions in terms of pricing in a context where, as I mentioned, demand is not there. Then if we move to the U.S., very good momentum, well, hopefully a very good momentum, which will be confirmed in the next quarters. But why I'm positive about the U.S., it's primarily because we do see a pickup environment and the demand has been rather flattish in the past. You know that in the U.S., we have trading business and local production, our trading business, which is mainly imports from overseas is performing at very good margins.

The margins with our local production is on the profitability standpoint, a bit more under pressure. So I mean, labor is expensive in the U.S. local supply of steel is also expensive. But when you balance out our trading business, with our local production, we are ending up with a very decent performance. So then the follow-up question was trucks and car segments.

I think I mentioned very quickly some of the evolutions that we see. So again, car is especially -- there is a clear catalyst which is the EV plus all the different incentives, which are in place. When you look at the truck, which is roughly 50% of our business, there is a more direct correlation with the GDP evolution and since industry construction and so on are not at their best. We do see some pressure on the truck business.

Frank Claassen

Three questions, please. First of all, on the wire rod prices, what is your, let's say, main assumption for the rest of the year on the wire price developments and what do you see in the different regions? That's my first question. Then secondly, on the hydrogen, you indicated in the press release some rephasing of demand. What do you exactly mean with that?

And can you elaborate whether you still see, let's say, the doubling potential of revenues for the hydrogen part? And then finally, working capital, what kind of swings have you seen in Q1? Is it in line with your expectation? And what do you expect for working capital for this year?

Yves Kerstens

Taoufiq do you want to start?

Taoufiq Boussaid

Yes, I'll start, Frank, with hydrogen. So let me give some context. So if you look at the projects that were planned for installing of electrolyzers installation and equipment. So we've seen recently last couple of months some delays in some of these projects due to funding regulations, approvals, but also, of course, the increase due to the inflation increased CapEx for these projects. Now what is the impact? So if you look at the long term [indiscernible] 2030 the upcoming years, we see there a delay of around of some of the projects that demand 18 months to 2 years. Now what it means for us in our business, first of all, we see an opposite trend is that our customers are ordering our PTLs earlier in the total project time phase, that means that we expect versus our plans a delay of 1 year. Now that's from the demand side for the PTL. On the other side is the progress we are making in being expecting and qualified where we are making really good progress. And other element in the equation is that the balance between, let's say, AWE technology and the bank technology.

And if you remember, we are in the PAM technology, we see more wins and also successes for some of the PAM technologies projects. So all in all, netting that out, there is some slight delay, but not impacting our business plan. So we are still targeting doubling the sales every year, slightly to be slightly below doubling, but still nice scales in scaling up. And in parallel, we continue to work, as explained on our MEA strategy to expand our offering and bringing MEA product to the market the upcoming year. So we follow the market very closely on what's happening with the market information but also to our customers. We adopt our scaling of our capacity. But strategically, we continue to -- on our investment journey because the outlook remains on the mid and the long term, the same for us.

Subscribe to Seeking Alpha for more content like this

Yves Kerstens

We'll take the next two questions. So as far as the wire rod is concerned. So first of all, in terms of demand, it continues to be rather low. So suppliers are reducing capacities in different regions. Obviously, the situation might change depending on China and the stimulus policies, which could be implemented, then the dynamic could obviously change.

As far as Bekaert is concerned in terms of pricing, the prices do remain low, so -- which is, again, a positive for us in terms of cash conversion. There could be a minor functional increases in some regions like U.S. and China, but translated in other words, we are not expecting major inventory revaluation impacts coming out of wire rod in 2024. But again, I mean, putting this aside, I think it's again important to insist on the fact that the impact on margins are anyway rather low because wire rod is going through a pass-through effect. And this is also the reason why we have netted the inventory valuation amount from the price and mix impact in the context where, I mean, we do think that it should be embedded into this category. Then the next question is related to working capital.

So when you look at the patterns that Bekaert usually had, I mean, Q1 is typically used to be typically a quarter where we do working capital buildup, especially inventories. I mean, mainly driven by the fact that in some of our segments like construction, for instance, we prepare for the high season. We are being very cautious with that. I mean I think that a couple of times the question has been asked to me whether we have low-hanging fruits in terms of working capital. I said, yes, I'm giving the same answer. Working capital is under control. For the moment, it's trending rather positively, and we don't see any reason for any specific deviation for the balance of the year.

Unidentified Analyst

Hi. Can I go ahead.

Guy Marks

Yes. Can you hear us? Go ahead.

Unidentified Analyst

Yes. Okay. Great. I have a couple of questions. Maybe firstly, just looking at capital allocation. So obviously, in the last quarter, you announced the pause of the share buyback scheme, and you said the reasoning behind that was to basically provide optionality for either inorganic or organic growth opportunities. And I'm just curious on how you're looking at that now? Is there still a pipeline for acquisitions? Or have you identified other organic growth opportunities? Just any sort of color on your capital allocations for the remainder of 2024, please?

Taoufiq Boussaid

Yes. So the positioning of our narrative on capital allocation, I mean, we mentioned it and we referred to it for the year 2024. We are just at the first quarter. And what I can say is that the narrative is not changing. So we still want to give ourselves optionality as you rightly pointed out. And we are actively working on that more to follow in the next coming months and quarters.

Unidentified Analyst

Okay. Great. Then my second question, you've obviously spoken quite a lot about your repositioning in SWS towards more energy and utilities markets given the sort of the positive mix effects you can see there and the growth potential there. I believe that full year '23, you recorded that about 23% of SWS was exposed to energy and utilities. Could you give us an indication as to how that's changed or what sort of the level in terms of exposure that's at now?

Taoufiq Boussaid

Yes. On a full year basis, we're expecting the percentage and the exposure to sustainability, energy transition and so on to slightly increase. We will have a quarter-to-quarter difference because of the ordering patterns and so on from some of our key customers in the U.S. But the ambition, the plan and the prospect to grow that segment within SWS is as valid as ever. I mean, you know that we are enjoying very nice margins from that business. It's meant to continue for the foreseeable future.

Unidentified Analyst

Okay. Only a small year-on-year increase this year in terms of...

Taoufiq Boussaid

Yes. Exactly.

Unidentified Analyst

Okay. And then just one final question from my side. Looking at the Specialty businesses segment, obviously, you've spoken that the market environment for the combustion tech and the hosting comparable business is still quite weak and is largely offsetting the positive developments in example, Dramix or hydrogen. Is there -- do you see a light at the end of the tunnel for these end markets, see any sort of positive indicators there for the remainder of 2024? Or do you expect that to really remain negative or subdued for the coming year?

Yves Kerstens

I can understand because line was not to but was a question more on the sub-segments in specialty business combustion technology as well at the wholesale Yes... So on the combustion technology, we explained the demand reset last year, correct? The good news is that this year, our top line is in line with our expectations, correct. So we see a stable environment there. And we also adjusted our full capacity footprint to that adjusted demand and sales. So there's a pretty stable environment for this year. We keep on monitoring in the energy transition, what will happen towards next year, but stable there. On hosting conveyable, I think we also have a stable situation, correct? The demand has stabilized. So basically in line with what we expected for this year. So no further decline, but stable situation in these 2 segments, but not showing growth, of course, in these 2 segments of specialty business.

Guy Marks

And [indiscernible] and starting.

Unidentified Analyst

Yes. Can you hear me because I have a bit of a technical difficulty with this call.

Subscribe to Seeking Alpha for more content like this

Taoufiq Boussaid

Very clear.

Unidentified Analyst

Okay. Perfect. So my first question is on -- actually on the sales guidance. What level of confidence do you have in reaching this ambition of modest sales growth? Because if my math is correct, you need 5% sales growth for the remainder of the year to be flat year-over-year. But the wirerod isn't exactly helping, I learned from the previous question. And the Q2 comp doesn't strike me as necessarily that much easier either. So can you help me understand the building blocks of that sales uplift that you expect over the next 9 months? That's my first question.

Taoufiq Boussaid

Yes. So in order to keep a flat sales or slightly increasing as per the guidance that we gave, that means that we need to do roughly €1.1 billion of sales per quarter. We closed Q1 which is typically one of -- or the second lowest quarter of the year at €1.25 billion. So you can do the average. We need to do €1.1 for the balance of the year, knowing that Q2 is typically the strongest quarter. So -- which we should hopefully -- where we should hopefully deliver a level of sales higher than what we have done in Q1. So I mean, in terms of calendarization, I think that the narrative is clear and it's compounded by the previous trends. As far as the wire rod impact and the steel prices are concerned, we mentioned that we are not expecting major deviations in terms of wire rod. It's meant to be flat. So we will not see a negative impact in terms of wire rod pass-throughs and so on, impacting our top line as far as this year is concerned. So these are, I think, the 2 key elements to answer your question.

Unidentified Analyst

Okay. Can you -- maybe to go further on that, you expect a better Q2 versus Q1. Wirerod, which was a drag in the Q1 bridge will no longer be a drag in the bridges going forward? Is that a good interpretation?

Taoufiq Boussaid

That's the right interpretation.

Unidentified Analyst

Okay. And then you mentioned Q-over-Q volume increase in Q1 versus Q4. But this are partly due to a typical season uplift you see there. As you mentioned, Q4 is typically the month quarter and then Q1, so 6%, how much is seasonal and how much is actually a pickup in underlying demand?

Taoufiq Boussaid

I think that most of it from Q4 to Q1 is seasonal. You have some demand pickup primarily coming in some regions like China with the situation we're facing with a very strong demand and plant occupation that we have. We have also the significant volume increases that we are reporting in applications like construction, where we're reporting a volume increase by 7%. So again, you will need to look at it segment by segment, then when you compound all these pluses and minuses, I mean we will be definitely topping a top line, which is in the range of €1.2 billion, €1.1 billion in -- between €€1.1 billion and €1.2 billion in Q2. We will have the phasing impact with some of the delayed projects which have negatively impacted us in Q1, especially in BBRG coming back online in the balance of the year, hopefully, between Q2 and Q3.

So this should also drive the sales up. And this is also the other elements which are explaining why we remain confident on our ability to deliver at least €4.3 billion of sales for the full year.

Unidentified Analyst

Okay. So you wouldn't see a typical seasonally weaker Q4 than is the end outcome of this exercise?

Taoufiq Boussaid

Yes. I mean we always have a typical low Q4 for 2 main reasons. The first one is that while it's the winter and it's the low construction season. So typically, we see a contraction in the construction applications. And by nature, it's also a short quarter with all the vacations, so we have lower production output.

Having said that, and last year probably was another example of that, you do see sometimes some punctual events happening, which distorts these historical patterns. And we did see last year in Q4 some significant restocking happening in China. And we are not immune of any of these specific events if they again happen in Q4. But if we -- I rely only on what we know and the usual patterns, Q4 is typically a low month, a low quarter. So we might expect a level of sales, which will be a bit below the €1.1 billion that I have referred to.

But we have ahead of us, 2 strong quarters, which are Q2 and Q3, long quarters where we usually have the highest level of demand in some of our key markets like construction. I referred to and Chase has asked the question on the situation with the Energy & Utilities business in the U.S. We did see some delays in Q1, which might come back in terms of order intake in Q2 and Q3, and this would further consolidate the expectation that we have in terms of sales for the 2 next quarters.

Subscribe to Seeking Alpha for more content like this

Unidentified Analyst

Okay. Understood. Final question, and apologies because maybe I mean misunderstood because the line dropped a bit. But on hydrogen, you mentioned you still expect in the long term, the business to double every year. But in '24, it will probably be somewhat less. Is that what I heard correctly or...

Taoufiq Boussaid

Yes. So it's close to doubling, correct? So it's not 100% doubling what we expect, but almost close. So I think there is no change versus what we...

Unidentified Analyst

Can you remind me the '23 base?

Taoufiq Boussaid

€30 million in revenue.

Guy Marks

Alexander, you're next.

Alexander Craeymeersch

Two questions on my side. So one was on the Rubbering reinforcement segment. You -- I'm sorry, I forgot to put on my camera. So you mentioned that yes, you mentioned that rubber reinforce continues to drive margins. And I was just wondering what the difference is between -- in margin between low Tencel and high Tencel because I think if you take the implied guidance, which was €400 million in EBIT, I think probably you're expecting an EBIT margin of 11% in the Rubber reinforcement segment.

Whilst your midterm target is 9%, and I was just wondering if that 11% that you're seeing is sustainable considering actually that the EV trends are positive, et cetera? And then my second question would be on the cost optimization at Bekaert, which you mentioned and which has already been mentioned in quite some press releases in the past. So yes, I know cost optimization is a constant of Bekaert, but I'm just wondering how much is available there still.

Taoufiq Boussaid

Okay. I will start with the second part. So cash conversion and the cost reduction. I mean when we speak about cash conversion optimization, I mean it's not that we're doing restructurings or anything like that. It's just that we're doing what any company should do is being cost-conscious, flexing the cost wherever we can making sure that what we spend on our operation is meant for production going after the waste and doing continuous improvement.

I mean, again, I'm not saying that this is an exercise which has a start and end, it will continue. We have some significant programs on which we're working in terms of cash conversion costs, it ranges anywhere from optimizing the energy intensity of our machines to making sure that we simplify the scope of our steel ordering to benefit from higher discounts from our suppliers through a focus on engineering, simplification and things like that. So this is something which is constant, which will continue to have an impact on our cash conversion costs and we will accelerate the activities on that. It has nothing to do with punctual or a restructuring or anything like that. And it's something that we like that we're proud of and on which we are stretching our people.

The first question, Alex, was on, yes, rubber reinforcement. So indeed, I mean, we do see a good momentum in terms of the STUT construction. So I mean we have a nice progression of the volumes associated with these constructions. So I think that I mentioned that it's roughly about 50% of our business in currently. The key catalyst is clearly EV.

We didn't disclose and we will not disclose the margin spread between the standard construction and this premium constructions. However, I mean, if you try to reconcile with the level of margin that we have guided for and the statement that I have just made, I think it's important to take into consideration as well the impact of the regional mix. So I think that in a normalized environment where Europe is doing well. North a America is doing well. These are the 2 regions where we have the highest margin contribution.

Yes, we can expect the margin to be at 10%, between 10% and 11%. This is not the case. We do see the situation in Europe continuing to be subdued. The regions where the business is picking up significantly is China and Southeast Asia, including India. And these are typically regions where the margins are a bit lower or lower than what we usually deliver in Europe and North America. Hence, explaining some of the reasons why we're guiding for a more prudent margin delivery for for the time being.

Alexander Craeymeersch

Okay. All right. That's clear. Then maybe just a last question. It was on the energy surcharges. And you mentioned that the energy surcharges are now not applicable. I was just wondering, does that mean that they're not embedded in the contract anymore with the clients? And if you could just remind us how much you profited from the surcharges last year.

Subscribe to Seeking Alpha for more content like this

Taoufiq Boussaid

Yes. I mean the energy surcharges closed are embedded in the contracts and basically the kickoff when energy prices are above a certain threshold. Now this price -- energy prices are normalizing. Electricity prices are normalizing. We're still benefiting still marginally from them depending on the region where some of the supplies are scarce, but they are embedded in the contracts.

They are there to stay. The only thing is that they are triggered when we see deviation versus a preagreed level of energy. I don't recall if we isolated from 2023 results, the specific impact from it, checking with the team, it's not the case. So unfortunately, I will not be able to state a precise figure on that.

Alexander Craeymeersch

But you did profits...

Taoufiq Boussaid

Obviously. And I think that we explained it when we refer to all this push through of inflation cost, which has generated sales which didn't deliver margin. Out of memory, it was -- I mean the impact on top line was around €800 million in 2022. If you remember, and we said that these sales didn't generate any margin because it was primarily push-through of cost inflation.

Alexander Craeymeersch

And then maybe just as a simple question, but you're still confident with the implied guidance of €400 million in EBIT for 2024.

Taoufiq Boussaid

We are definitely comfortable and we are confirming this guidance.

Guy Marks

Yes. Thanks for attending.

Taoufiq Boussaid

Thank you very much.

Guy Marks

Bye.

**Load-Date:** May 11, 2024

**End of Document**