Company Name: Georg Fischer
Company Ticker: FI/N SW
Date: 2013-07-17
Event Description: Q2 2013 Earnings Call

Market Cap: 1,921.27
Current PX: 468.5
YTD Change($): +113.86
YTD Change(%): +32.105

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 36.913
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 3653.000

Q2 2013 Earnings Call

Company Participants

- Yves Serra
- Roland Abt

Other Participants

- Christoph Ladner
- Tobias Fahrenholz
- Thomas Baumann
- Armin Rechberger
- Torsten Wyss
- Fabian Häcki

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning. Welcome to the presentation of the Mid-Year Results of Georg Fischer Ltd. I'm Selena, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. [Operator Instructions]

At this time it's my pleasure to hand over to Mr. Yves Serra, CEO. Please go ahead, sir.

Yves Serra

Ladies and gentlemen welcome and thank you for participating to our mid-year conference. Present on our side today are Roland Abt, CFO; Daniel Bösiger, Head of Investor Relations, Beat Römer, Head of Corporate Communications, and myself, Yves Serra.

I'm happy to present results today, which despite deteriorating market conditions in Europe, show several improvements compared to last year. Regarding sales, slide two. Georg Fischer kept during the first half of 2013 its turnover at CHF 1,837 million. This is the same level as in the first semester of 2012 at least on a like-for-like basis that is excluding acquisitions, divestments and currency effects. The main reason has to do with strong sales in Asia and America, but also with market share gains which compensated the soft demand situation in several European countries.

Now, if you look at the figures in our report, you will see that the 2013 turnover stands 2% below previous year. The difference stems mainly from the two GF Automotive aluminum sand-casting plants, which were divested at the end of 2012 and accounted for about CHF 68 million of turnover during the first semester of 2012.

The operating result itself stands 3% above previous year at CHF 118 million, and cash flow before acquisitions has been clearly improved by CHF 68 million. Also, all three divisions generated value with return on invested capital, ROIC, well beyond the cost of capital. Finally, further steps have been taken towards the implementation of our strategy, namely the signing of an important acquisition in Turkey for GF Piping Systems.

Regarding market share increases, slide three. Let's have a look for example at the truck market of GF Automotive. There, the production in Europe went down 11%, I mean, the portion of trucks in Europe went down 11% in the first half year, but GF Automotive managed to limit its sales drop to 2% on account of large orders for the new Euro 6 generation of trucks.

Also, GF AgieCharmilles, slide four, compared to competitors in Germany and in Japan, the division grew 5% against an average drop of 10%, respectively 20%. Several large orders related to the production of electronic devices in Asia but also in the aeronautics sector worldwide were certainly key ingredients behind this positive development.

The expansion of Georg Fischer in Asia and in America, slide five, continued in accordance with our strategy to reduce our dependence on Europe and achieve a better balanced presence worldwide. Slide five shows the steady progress in that respect, with Asia now accounting for 22% and America for 14% of total sales. By 2015, it is our goal to bring our sales outside of Europe to 50% of total against almost 60% today.

Also, slide six, steady progress is being made towards a better balanced portfolio with proportionally more GF Piping Systems in the turnover of Georg Fischer. As you can see on the slide, in the first half of 2013, GF Piping Systems accounted for 36% of total against 33% in 2011. This share will continue to grow.

Turning now to the three divisions of Georg Fischer and starting slide seven with GF Piping Systems. The unusually long and cold winter conditions did affect construction and infrastructure, especially in Europe and parts of the U.S.

GF Piping Systems had therefore a rather weak first quarter, but was able to make up for it in May and June as delayed projects started to be implemented. Also, the semiconductor related investments began to pickup and the building technology markets of GF Piping Systems did perform rather well. The major growth drivers remained, however, America and Asia, which is now together account for 55% of the turnover of the division.

All in all, GF Piping Systems has increased its top line by 3% to CHF 665 million free from acquisitions and currency related effects. The turnover remained basically at last year's level. On the operational profit side, GF Piping Systems also stood at previous year level despite the low plant utilization in Europe, especially in the first quarter.

The acquisitions done in the U.S. in 2012 have now been fully integrated and the new one signed in Turkey in May of this year was closing, happened yesterday. The new acquisition Hakan Plastik not only allows GF Piping Systems a major entry into the Turkish market, but also brings a whole array of complementary products to be sold by GF Piping Systems in other countries, for example, in Eastern Europe, Middle East or India.

Turning now to GF Automotive, slide eight. GF Automotive sold last November two aluminum sand-casting plants with a combined annual turnover of CHF 130 million. If we exclude this divestment from the figures, one ends up in the first half of 2013 with a similar turnover as in the same period of 2012. Higher production levels in China certainly helped to maintain the overall sales figure of GF Automotive at previous year's level.

The operational results was also similar to previous year despite provisions made for the ongoing cost reduction plan. Looking forward, major contracts have been booked, both in the car and truck segments, which should in the next months and years, significantly contribute to the top and bottom line of GF Automotive.

The common denominator behind being the ability of GF Automotive to offer its customers solutions to reduce the weight of their vehicles in a significant manner, 20% to 50%, either through the use of new materials or thanks to the application of new designs as shown on this slide for a well-known European car manufacturer.

Finally, turning to GF AgieCharmilles, slide nine. GF AgieCharmilles has, during this first half year, clearly increased its order intake and sales by 5%. The strategy of serving few business segments like the production of electronic devices for the aeronautic sector with more dedicated products and sales personnel starts to pay off. Indeed, the sales increase has been obtained; thanks to high growth in those segments, especially in America and in Asia, and despite an otherwise generally subdued demand as shown earlier.

Also, the overall dependence on Europe has now been reduced to circa 45%. GF AgieCharmilles will show during the EMO 2013, the major machine tool exhibition, several novelties addressing the needs of our customers in the less cyclical business sectors we are aiming at that is the medical and aeronautic sectors, as well as information and communication technology. The operational profit of GF AgieCharmilles also went up by almost 30% as plants of the divisions were better loaded.

I'll now turn over to our CFO, Roland Abt, for a detailed look at the first half figures.

Roland Abt

Thank you, Yves. Good morning, ladies and gentlemen. It's a pleasure for me to present to you the details of the financial statements for the half year closing 2013. As you know, this is the first closing based on Swiss GAAP FER since we have changed our accounting standard as from January 1, 2013. I will show you the effect of this change. But first, let's start with the income statement on slide 11.

Sales, overall, came in a little bit lower than previous year. The difference is CHF 30 million or 2%. The net effect from acquisitions and divestments amounts to minus CHF 50 million, mainly due to the divestment of the two aluminum sand-casting foundries in Friedrichshafen and Garching.

Together with a positive currency impact of CHF 27 million, it results an organic change of minus CHF 7 million, which is less than 0.5%. Gross value added is down 1% more or less in parallel with sales. Personnel expenses are down by CHF 11 million to CHF 459 million. The difference comes on the one side from divestments on the other side we had salary increases especially in Germany, Austria and China.

EBITDA results CHF 2 million better at CHF 181 million. Depreciation are lower at CHF 63 million, leading to an improvement of the EBIT of CHF 3 million to CHF 118 million. Financial result is slightly lower at CHF 15 million. Income taxes have increased in percent more in profit before taxes to CHF 21 million. Tax rate has grown 2 percentage points to 20%, mainly due to the consumption of tax loss carry forwards in the U.S. Tax rate should remain on that level till the end of the year. Net profit rose by CHF 2 million to CHF 83 million. Earnings per share are up CHF 1 to CHF 20.

On slide 12, we come now to the changes we had due to the changeover to Swiss GAAP FER. I'd like to point out that the most important reason for the change to Swiss GAAP FER was that we can continue to consolidate 50% of our big China joint venture, Chinaust.

The main changes from IFRS to Swiss GAAP FER can be summarized as follows: All the figures presented in the financial statements for the half year closing are according to Swiss GAAP FER. 2012 has been reconsolidated using the new standard. The effect on the half year EBIT 2012 is CHF 2 million positive. This positive impact comes from the elimination of some acquisition related purchase price allocation effects. This overall difference of CHF 2 million on EBIT level and just CHF 1 million on net profit level can be considered as minimal. The effect on the equity was a reduction of CHF 262 million as of January 1, 2012, mainly on account of the goodwill elimination.

At the bottom of the slide, you can see the main differences of the change. The first one, the proportionate consolidation I've already mentioned. We have eliminated goodwill against equity. Some PPA effects were eliminated from the profit and loss statement. Pension fund liabilities and costs are calculated based on local standards.

We have put the provision in the restatement as of January 1, 2012, in cases we consider discount rates too high. Regarding divestments, we have to reintegrate a Friedrichshafen and Garching in the full year accounts of 2012 since Swiss GAAP FER does not know discontinued operations.

We go to slide 13, sales by division. The breakdown of sales per division shows that GF Piping Systems could increase sales by 3% to CHF 645 million. The growth stems from the acquisition of IPP. Organically, it results a reduction of less than 1%.

GF Automotive reports a decline in sales of CHF 72 million, down to CHF 752 million, mainly due to the divestment of the aluminum sand-casting units. On a like-for-like basis, sales are down by 2%. GF AgieCharmilles continued steadily its growth by 6%. The corporation shows a reduction of CHF 30 million or 2%. Organically, this is just stable.

On slide 14, the EBIT and the return on sales by division. In general, we can say that the currency impact was quite moderate, only AgieCharmilles could take advantage of it. EBIT of Piping Systems is at CHF 68 million, the same figure as last year. This corresponds to an EBIT margin of 10.1%. GF Automotive reached CHF 35 million, minus CHF 2 million less than last year. EBIT margin improved by 0.2 percentage points to 4.7% since the reduction of sales was relatively higher than the reduction of the EBIT.

GF AgieCharmilles could clearly raise its EBIT by about 30% to CHF 22 million. EBIT margin was improved by almost 1 percentage point to 5.2%, thereof half of it comes from the currency. EBIT of the corporation overall amounts to CHF 118 million, up CHF 3 million. EBIT margin grew by 0.2%, percentage points to 6.4%.

On slide 15, the free cash flow statement. Free cash flow could be strongly augmented. The changes in net working capital disclose a big improvement. Due to the usual seasonality, net working capital has absorbed cash in the amount of CHF 118 million. Compared to previous year, this is CHF 55 million less. Cash flow from operating activities has therefore developed positively to CHF 42 million.

CapEx were relatively low in the first half of 2013 at CHF 32 million. This leads finally to a free cash flow of plus CHF 7 million. Even if we deduct the aspect of the acquisitions last year, there remains an improvement of CHF 68 million.

Slide 16, here you can see the development of the free cash flow before acquisitions in the first six months over the last couple years. Normally, it's negative as you can see, hence the plus CHF 7 million free cash flow in the first half 2013 are quite a good achievement. Net debt is at CHF 400 million. This is CHF 111 million below June 2012. Net debt ratio is at a low level of 1.1x.

Finally on slide 17, the overview of the key figures. Sales are down 2%. Organically, they're on the same level as previous year. EBIT margin has slightly improved to 6.4%. The ROIC is lower than 2012. The calculation of the ROIC is based on the NOPAT, the net operating profit after taxes. The reason for the lower ROIC lies in the higher current tax. Return on the equity is at 17%, same level as last year. Equity ratio, now, according to Swiss GAAP FER, is at solid 36%, up 2 percentage points. Earnings per share are up CHF 1 to CHF 20. And finally the number of employees was reduced by about 440 persons, down to a head count of 13,400.

Now, I hand over again to Yves Serra for the outlook.

Yves Serra

Thank you, Roland. Now, what do we expect for the next – for the rest of the year? Slide 19. The second half here is traditionally a bit weaker than the first half, especially at GF Piping Systems and GF Automotive. It has mainly to do with destocking and planned holidays at customers at year-end. However, we are confident that this year several elements are coming into play which would at least partly change this pattern.

Projects, delayed by bad weather during the first half year, are now coming up at GF Piping Systems. At GF Automotive, we see a slight increase of truck production in Europe during the second half year and also increases in China. Together, these effects would at least partly compensate the downturn in the European car market.

The backlog of GF AgieCharmilles is high ensuring good sales at least for the next three months. Also, the cost reductions, which all have been implemented during the first six months, are now starting to be effective. And the new acquisition in Turkey will also bring additional volume and profit. All in all, we are confident for the second half year to achieve a similar result as in the first.

For the mid-term, slide 20, we reconfirm our objectives of 8% return on sales and 15% return on invested capital. For the return on invested capital, we will certainly revise the objective approach following the switch to Swiss GAAP FER. On the return on sales level, it has no meaningful effect.

We also reconfirm the key measures to achieve our objectives. A higher share of GF Piping Systems in the turnover of Georg Fischer to at least 40% to 45%, continue to optimize productivity in Europe by GF Automotive, and expand significantly the division in China, and finally to focus GF AgieCharmilles on less cyclical market segments.

Thank you very much. We'll now take your questions.

Q&A

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Mr. Christoph Ladner from Kepler Cheuvreux. Please go ahead, sir.

<Q - Christoph Ladner>: Yes. Good morning, gentlemen. I have a couple of questions. The first is on the restructuring provision. You gave a figure on page 16 of the half year report for CHF 3 million. Is that the restructuring provision? And if yes, how does that split between the segments? That's the first question.

Then second on the cost savings of CHF 25 million, how much of that will we see in EBIT or it's just all eaten up by pricing pressure, for example?

Then the third maybe just a little more technical question. It's on page 14 of the half-year report under the title adjustments for net profit. Could you please explain the largest item there, adjustments, discontinued operations, FX translation difference of CHF 10 million? I don't understand this one.

And then the fourth question would be, sorry, as seen in the past, your account receivables and inventories are up quite significantly in the half year when we compare end June to end December. Is this just due to that special moment of reporting date or can you confirm that there's nothing abnormal of that as seen on sheet – on slide 16 of the presentation, so everything normal?

And maybe a fifth question would be the average utilization rate you said particularly for Piping Systems in Q1 was relatively low. How was it in the first half of the year on average and how would you see that in the second half of the year? That have been all the questions. Thank you.

<A - Yves Serra>: Okay. I think there are five questions. I will answer question two and five, and Roland Abt the question one, three and four.

If I start with the last question, utilization rate, basically at Piping Systems it's true that we had the weak first quarter in Europe and therefore the plants in Europe were not well loaded. This was much better in the second half year, but overall during the first semester, we probably had a utilization rate of 85% at GF Piping Systems in Europe. And we see, looking – going forward an improvement in the second – the momentum in the second quarter was quite good, so probably to 90%.

Second question was the repartition of the distribution of the CHF 25 million savings. Just a point about this remark. Since we have implemented all the measures, we expect for 2014 the full effect of the CHF 25 million. But during the second half of the year, probably, half of this effect since many of the reduction of head count will only happen -- let's put it this way -- after August and September.

So, overall, this impact, I mean, this CHF 25 million affect GF Automotive first since this is division which has the, let's say, the major presence in Europe. So it would about two-thirds affect GF Automotive and the, one-third affect GF AgieCharmilles and GF Piping Systems.

<Q - Christoph Ladner>: But do you see that effect really on EBIT?

<A - Yves Serra>: We see this effect on EBIT. Not all in the second half because of the head counts do not [indiscernible] (28:13) three to six months period to make sure that everyone – every contract is respected. So this year probably, let's say, half of it, right?

<Q - Christoph Ladner>: Okay.

<A - Roland Abt>: Then the question regarding the adjustments for the discontinued operations, you said that we have an improvement of CHF 10 million on the net profit for 2012. The reason therefor is that the accumulated currency losses were part of the loss we have shown in the discontinued operations according to IFRS.

Now, changing to Swiss GAAP FER, all the currency – the accumulated currency losses were eliminated at the time of the restatement, so that means these CHF10 million, which only have been recycled as old currency losses, are not necessary to do that according to Swiss GAAP FER since they were eliminated in the restatement. So therefore we have an improvement of these CHF 10 million because we did not have to recycle these currency losses.

Then, the next question is regarding the net working capital, the growth of the accounts receivables and stocks. This is the normal seasonality. And if you look at slide 15 and 16 or especially the slide 16, you see that normally, the first six months, they have a negative free cash flow, and that's exactly why I wanted to show this slide in order to show that despite the growth in the net working capital we had in the first six months, that this is quite a good achievement what we achieved in 2013 if you compare that with the first six months of the previous years.

So for the full year, of course, we hope that we will have no growth in the net working capital at all. But we have really a quite an accentuated seasonality. That means in the half year, we always have quite a negative impact from the net working capital.

<Q - Christoph Ladner>: Okay. Thank you. That was clear. And maybe on the last question, the restructuring provision, how does that split?

<A - Roland Abt>: You mean the split of the restructuring provision between the three divisions?

<Q - Christoph Ladner>: Exactly.

<A - Roland Abt>: So the biggest part – I mean, it's altogether, it's CHF 3 million to CHF 4 million and the biggest part is certainly Automotive. This is maybe two-thirds, and the rest is more or less equal between AgieCharmilles and Piping Systems.

<Q - Christoph Ladner>: Okay. Thank you very much.

Operator

The next question comes from Mr. Tobias Fahrenholz from MainFirst Bank. Please go ahead, sir.

<Q - Tobias Fahrenholz>: Yes. Hello, gentlemen. Hi. Follow-up maybe on the previous question again on the cost savings. You're speaking about CHF 25 million in total. I would assume a company always have some kind of cost savings. Would you say that is really – you had hardly anything here in the last year and that then CHF 25 million higher, or did you have normal cost savings at the level of, I don't know, CHF 10 million, CHF 15 million, something like this? Maybe give us a better feeling here.

And then on this working capital, I think this big improvement mainly came from the trade payables. So did you have here some good luck just with the timing and could you give us your free cash flow guidance for the whole year?

And then one – two final ones regarding the important China region. Are you seeing any changes here, any cooling or something like this?

And the last one related to trucks. Are you seeing any pre-buying effect for the old trucks, for the old Euro 5 trucks in the second half? So what have you looked at in your planning?

<A - Yves Serra>: Thank you very much for the questions. I will answer question number one, three and four, and Roland Abt will answer the question on payables.

Basically, the CHF 25 million are new cost savings. They're independent of whatever we did in the previous year. Now, I would like to make a comment on cost savings. We are not only doing cost savings, we are also insisting on innovations bringing new product to the markets on developing new market as well. So what we say on cost savings on part of the equation, but this CHF 25 million, yes, they are new cost savings.

Regarding China, I mean, we are active in three sectors in three divisions in China. We see for the time being overall a let's say a positive picture despite whatever news we may have about financing restrictions. In the car business, we see continuing growth. We have quite a lot of new contracts, which bode well for the next years to come.

In the Piping Systems business, I mean, we are in the infrastructure business, we are in the building technology business. Then one could infer from the present situation and the construction business would be affected. But in fact, we are attacking new market segments. We are just at the high end. Now we are on high and middle range segments. So we still grow quite nicely.

And the infrastructure business basically the water we use, [indiscernible] (34:50), the transport of water from a point to the other is and remains a big business in China. As you know, there is a major plan to ship or to bring water from the major rivers to the north. And of course Chinaust, our joint venture, which is the number one company in this business, is profiting from it. And in the machine tool business, so far, we have not seen any major effect, major customers being all basically geared toward exports.

Regarding trucks, we see, yes, a pre-buying of Euro 5 trucks, but it's quite different from a truck manufacturer to the other. And we shall see at some of the truck manufacturers quite a strong increase in the production of the new Euro 6 trucks. So both effects are coming into play.

Roland?

<A - Roland Abt>: Yeah. Regarding the working capital, I mean, we, at least, managed that we could stop the growth of the net working capital since we had – over the last two years, we had a growth or a significant growth of the net working capital. So since we were able to stop that, we have, of course, quite a big improvement. And then if you compare in our balance sheet, at the end of June previous year and now, it's correct what you said, mainly the trade accounts payables, they have improved.

But overall, we can say we had basically, if you adjust for seasonality, we had no real growth. We just had a seasonality of about CHF 100 million – CHF 110 million, we always have, from December to June and no real additional growth. So, of course, we believe that this will be reduced towards the end of the year, again, down to the level where we have started the year. So for the full year, free cash flow before acquisitions, we estimate that we should be, at least, in the level of CHF 100 million to CHF 150 million.

<Q - Tobias Fahrenholz>: Okay. Thank you.

Operator

The next question comes from Mr. Thomas Baumann from Mirabaud Securities. Please go ahead, sir.

<Q - Thomas Baumann>: Yeah. Good afternoon, gentlemen. I have two questions with regard to end markets. First of all, to AgieCharmilles, I mean, the division is quite nicely diversified when it comes to end markets. Can you give us an update there with regard to the state of the single end markets? Where do you see particular strength in these markets and possibly where are the weak spots, that is for AgieCharmilles?

And then secondly for Automotive, how – I mean, being a mutual line now, I think you should have a pretty clear picture with regard to the holiday schedule, summer holiday schedule, of your customers. Can you give some color there? How does that compare to summer 2012? Are the breaks, the summer breaks, bigger or smaller or shorter than last year? Thank you.

<A - Yves Serra>: Thank you very much. On AgieCharmilles, I think, we've seen a stable growth in the smartphone business, for example, or smartphone-related business, also in medical, goods in aeronautics. We see also a new growth in the semiconductor-related equipment. On the other hand, in the car business, at least in Europe, we see a decrease.

So overall, there is an increase but of course it's different from a sector to the other.

And if you look geographically, I think we see the same pattern as for the other businesses, growth in Asia, growth in America and a subdued situation in Europe, but we didn't see a decline in Europe for AgieCharmilles at least.

For GF Automotive, the question was about the holiday schedule. Yes, some of our customers have announced no closure of the plants or let's say a shorter closure this time but not all of them. I mean, it was published in the last few weeks. So, overall, we think that the – yes, it will be a shorter closure and therefore, we are, we have been already in June and will in July also pre-produce because we need to stop our plants for two weeks in August for maintenance.

<**Q - Thomas Baumann**>: Thank you.

Operator

[Operator Instructions] The next question comes from Mr. Armin Rechberger from Zürcher Kantonalbank. Please go ahead, sir.

<**Q - Armin Rechberger**>: Yes. Almost all my questions are answered already, only two questions. First of all, what do you see for the CapEx in the second year? I estimated for the whole year CHF 130 million. You managed to spend only CHF 32 million in the first half year. So what you predict there then?

Regarding utilization of your foundries in Europe, can you elaborate a little bit there? How is the utilization rates, especially in Europe, and the development? I mean, in regards of that, you sold now Garching and Friedrichshafen. How does the utilization rate looks like now?

<**A - Yves Serra**>: Thank you very much. I answer second question and Roland Abt will answer the first. The foundry utilization situation in Europe is as follows: In the light nickel business, aluminum, magnesium, we have a utilization rate of about 90%. In the iron foundries, we have had a utilization rate of about 75% so far. In China, we have had a utilization rate of 100%.

<**A - Roland Abt**>: Regarding the CapEx, we really have an extraordinarily low figure in the first half with CHF 32 million. I mean, basically, we still estimate that we should spend around CHF 130 million as you said for the full year. Now with the very low figure in the first six months, I have also my doubts, I must admit.

Maybe the [indiscernible] (41:55) figure, we also got bottom up from our companies or they still believe they will invest CHF 130 million. So there are certain delays in some projects, but I have no better figure than still the CHF 130 million. Maybe it will be a little bit lower, maybe it will be CHF 120 million. But, yes, basically, we still believe – or the projects that are going on, that it's on a – should be in a range of CHF 130 million.

<**Q - Armin Rechberger**>: Thank you. I have an additional question if I may. Do you hear me?

<**A - Yves Serra**>: Yeah, yeah. Sure. Please.

<**Q - Armin Rechberger**>: Regarding China, you said utilization rate is 100% and you want to invest there for Automotive. I'm talking about the foundry. Which kind of foundries – what are you planning to do in China now, iron or aluminum foundries, or what are your plans there?

<**A - Yves Serra**>: Yes. Our plans are to increase capacity by 50% in those areas. We have the land already, so we can increase capacity. We already started with the buildings and so we plan for 2015 to have this 50% capacity increase in place at both foundries.

<**Q - Armin Rechberger**>: Okay. Thank you very much.

Operator

The next question comes from Mr. Torsten Wyss from UBS. Please go ahead, sir.

<Q - Torsten Wyss>: Yes. Good morning. Thanks. I just had a few basically clarification questions -- I'm sorry -- to get your answers correctly. So first, I mean, the provisions we have seen in H1, you don't plan or you don't see further provisions in H2, I guess. Is this correct?

And second question would be on the effects you stated to see mostly the positive cost saving effects after August, September. I guess, you speak about 2013, not 2014. That's just clarification. And – well, perhaps briefly those two first.

<A - Yves Serra>: I'll answer the second question, Roland will answer the first. Yes, you are right. The effects will come I'd say after August, September this year.

<A - Roland Abt>: Regarding the provisions, yes, this should be – we should not need any further provisions in the second half, so this CHF 3 million to CHF 4 million should be enough for the whole restructure – or for the whole cost saving program.

<Q - Torsten Wyss>: Okay. Thanks. So on the cost savings of CHF 25 million, you said the split might be 50/50 for 2013, 2014. I would rather have expected a bit more savings in 2014 or in other words, less in 2013. Are you – I mean, is this still – I mean, is this indication – did I get this correct, the 50% split of the savings?

<A - Yves Serra>: No, no. In 2014, we have the 100% effect. In 20 – in the second half of the year, we have only half of the effect, right? Because a lot of the head counts, which basically is leaving the company, leaves after a period of three to six months. In 2014, we'll have the full effect of the CHF 25 million. In 2013, we'll have half of the effect of half a year, basically.

<Q - Torsten Wyss>: Hold on. The total cost saving is CHF 25 million accumulated, right?

<A - Yves Serra>: Accumulated, yes.

<Q - Torsten Wyss>: So that...

<A - Yves Serra>: [ph] That percent (45:43) for 2014, yes.

<Q - Torsten Wyss>: So that means whatever, CHF 5 million to CHF 10 million this year and the remaining next year.

<A - Yves Serra>: Yes, that's probably good as far as a guess is concerned. Yes.

<Q - Torsten Wyss>: Sure. Thanks. And then on the piping sales and basically target, you speak about 40% to 45% of piping sales as a target. In the past you spoke about 40% to 50%, I don't want to get too much into details, but is this coincidence or did you really slightly reduce your expectations on how much increase piping exposure?

<A - Yves Serra>: No. Actually, we said at least 40% to 45%, at least 40% to 45%.

<Q - Torsten Wyss>: Okay. And continuing with piping, the margins, which to me have been a bit disappointing, I have to say, I mean, I still expect the synergies out of the acquisitions, but I might have to give up here. I mean, I understand the underutilization problem, obviously weather effect, whatever, we've got economical problems out there. But still let's put the question in another way. I mean, the target you have 11% to 13% EBIT margin, what sales level would you need in order to really reach 13% EBIT margin for piping?

<A - Yves Serra>: Well, I think that Piping Systems, basically we have had in the first quarter a rather low utilization especially in Switzerland [indiscernible] (47:12) second half and what we are doing in Piping Systems is of course to increase sales, that's first point, but also to review all items of cost and efficiency; purchasing, supply chain, stocks.

Also, we are basically switching some of the products, which are lower value added to other countries, and introducing in Sweden our Swiss plant innovative products at least this year and next year to change the pattern of the type of products we produce in Switzerland.

We are attacking new market segments which bring additional revenue and margins like for example cooling. So I think we'll do everything at Piping Systems to make sure that our margins are in the 11% to 13% range. Now, so far we have had a margin which is a bit lower, one point lower, but we think that the 11% to 13% margin is realistic even if there is not a huge growth in the market or a huge growth organically.

<Q - Torsten Wyss>: Okay. And the last question on trucks. I mean, speaking to the OEMs, the truck producers, we do get indications that they see a pre-buying as we have discussed in this call before pre-buying effect in Q4, potentially followed as a consequence with a lack of sales in Q1 2014. Now, listening to you, it doesn't seem as if you see such hiccups. Is it due to the effect that you are supplying the OEMs and hence have a smoother development or do you also see some, whatever, like hiccup effect going into Q4 and into Q1 2014 speaking about your trucks business?

<A - Yves Serra>: I think the main effect we have had so far are market share gains. In other words, we have had quite a lot of contracts for the new trucks, which, of course, helped us already to increase sales a bit. And going forward, we think this will help even more because the more market share we gain even if the market is a bit soft, should go in the right direction.

So, yes, we see a pre-buying in Q4, but not at all manufacturers of trucks, because not every Euro 6 truck is configured the same way. So some – will gain – some of our customers will gain market share against some others.

Overall, I think that if we continue in that way to increase market share, soon the offer that we have in orders to reduce the weight of the trucks or to help our customers to reduce the weight of the trucks, I think, will be in rather good shape, in my view. And this is very important for us because the truck business is about 50% of the business we have in the iron foundries. And this is exactly where the utilization, so far, has been behind.

<Q - Torsten Wyss>: Yes. So you have huge leverage there on the EBIT level.

<A - Yves Serra>: Yes.

<Q - Torsten Wyss>: Okay. Thanks a lot. Very helpful.

Operator

The next question comes from Mr. Fabian Häcki from Bank Vontobel. Please go ahead, sir.

<Q - Fabian Häcki>: Yes. Good morning, gentlemen. A question on your piping business, the Hakan Plastik acquisition. Does this business has a lower EBIT margin or any line or above that of the piping division that we expect for the second half any acquisition costs or kind of integration provisions?

Then the second question is could you provide us any color on your customer split in your Automotive division, particularly for the passenger car business? And yeah, basically that's it. Thank you.

<A - Yves Serra>: Thank you very much. Hakan Plastik has a slightly lower EBIT margin, yes, as GF Piping Systems so far. But I mean, the name of the game for us, like for all the other acquisitions, is to integrate Hakan Plastik into our network and to increase this margin. I mean that they're not too far right away -- and right now from the margin of Piping Systems, so it should be feasible within the next few years.

Regarding the customer splits of GF Automotive, I mean, GF Automotive depends on about 30, 35 customers worldwide, so customer split is Germany about 80%, or our German customers about 80% including all the names, all the well-known names in Germany in truck and cars, and then the rest is split in between Japanese, Korean, French, and Chinese manufacturers of cars. Not to mention the Swedish manufacturers of cars and trucks.

For the third question, I'll leave Roland Abt to answer. The third question was about the – if I remember well...

<Q - Fabian Häcki>: Any integration costs you expect to have.

<A - Yves Serra>: Integration costs in the second half, right?

<Q - Fabian Häcki>: Yeah.

<A - Roland Abt>: Well, there should not be significant integration costs. Of course, when the integration starts, we will have certain costs, but Hakan Plastik is really a company of its own. We had no activities in Turkey so far. So there is no overlap. So there is no, let's say, we don't have to merge two companies to restructure our activities down there, but we take over a standalone activity in Turkey without big changes. So the cost should be minimum.

<A - Yves Serra>: Yeah. Maybe a further comment on this. For us, what is important is the products of Hakan Plastik are fully complementary with our own. In other words, we will, right away never to sell these products together with our own products in countries like Middle East, Eastern Europe, Russia, India. That's why one of the reasons we bought Hakan Plastik, because products are complementary.

<Q - Fabian Häcki>: Okay. Thank you.

Operator

Gentlemen, there are no more questions at this time.

Yves Serra

Okay. If there are no more questions, I would like to thank you very much for participating and thank you very much for all the questions and I wish you a good day. Thank you.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Good bye.