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CORPORATE PARTICIPANTS

Michel Alain Maurice Favre *Faurecia S.E. - Executive VP & Group CFO*

CONFERENCE CALL PARTICIPANTS

Maxime Mallet *Deutsche Bank AG, Research Division - Research Analyst*

PRESENTATION

Maxime Mallet - *Deutsche Bank AG, Research Division - Research Analyst*

Good morning, afternoon, all. I'm Maxime Mallet from the DB European auto team. Thanks, everybody, for being with us today. It is my pleasure to be joined today by Michel Favre, CFO of Faurecia for this session. The format is a fireside chat for about 35 minutes. I will ask some prepared questions. And also, any questions you can ask those questions using the box you'll find on the webcast page. Only I will see your question, but I will be able to pass it on and ask Michel about it.

QUESTIONS AND ANSWERS

Maxime Mallet - *Deutsche Bank AG, Research Division - Research Analyst*

So with this, now we can start our chat. So Michel, to start with a big picture question. May you begin by sharing your view of the market, the shape of demand and recovery that you're seeing in the different geographies? What you are hearing from your clients regarding the production ramp-up? And also how much visibility that you have currently under your plans.

Michel Alain Maurice Favre - *Faurecia S.E. - Executive VP & Group CFO*

Thank you, Maxime. Good morning or good afternoon, according to your observation, to everybody, and thank you for your attendance. So it's a very good question because we see a relative, very contrasted. China, we think that inventories are limited. We have seen in the current period since January that production is in line with the retail sales, which is good. We see figures confirm, which means that when I made a structure -- first week of April, I was giving a clear highlight on the fact that we'll be at budget, even in fact better in June. And I fully confirm the figures at the medium term in a positive order I will say, difference. So clearly, China, we have a better and better view. I will say we have a 2-month view. So July will be in line with June. But after that, we'll see if figures continue to improve and if we can speak of a real recovery of China. When I say real recovery because when we see the figures precrisis, postcrisis, we are still at minus 20% on volumes of the market with respect to '17.

Moving to North America. North America car makers have continued to sell during the crisis. So there are a lot of orders to deliver. So today, we can say that for them, inventories are limited. So this means steady calls for June and July. And of course, afterwards, it will depend on the success of the retail sales of June. So this I would say pattern is positive. Apparent in this conference, some, I would say, carmaker managers have confirmed that. We have positive messages that we receive from our core, I would say, customers, which is I can only confirm that, of course, they have a better view than myself.

Europe is much more contracted. We're surprised to see that between carmakers and dealers, a lot of inventories probably there are 700 -- 500,000 to 700,000 cars additional to the normal level of inventories. Probably car makers faced some cancellation of orders probably on sector like rental cars have concerned some others. So this has a material impact. So this is driving, for the moment, a smooth recovery. When I say smooth, that means that May, for instance, was only a 30% normal month. June is better, but will be between 72% to 74%. And for our view of July, with the calls we have, will be of the same magnitude. We see a higher volatility of the cost programs than in other regions. So Europe has still to be stabilized and probably will need September to see more stable programs, et cetera, figures for the future.



If I speak about the picture for the second half, you know that IHS has put a minus 10%, 11% even. Probably there are to be risk, I think, for China, even for North America. Europe could be on the opposite, I will say, too optimistic. It is our view as far as today.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

And maybe you're mentioning Europe and the fact that you have some inventories, some other inventories, notably [at German] OEMs. We have seen different governments laying out incentive plans in the past weeks in order to revive a bit the industry. Do you believe that this could trigger an acceleration potentially of the ramp-up, fixing the inventory, the order inventory that we are seeing in the industry? Or do you think that it's not enough?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Yes. It was the clear goal of the French government. It is why the French government has defined the level of 200,000 cars. So the French contribution nobody should be to absorb 200,000 cars of other inventory, which is a specific contribution in respect to the figures I gave before.

German government was more focused on being this hybrid for the reasons that the ecologist party. So they were unable to make the same kind of incentive than the French one. On the opposite, it is important that they have reduced the ability by 2% because this will help probably the demand by the end of the year. When it happened in China, it was quite impressive. So probably, this will help the profession in Germany in the last month of the year.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. And with regard to your clients and OEMs, did this crisis change some of the plan, meaning delayed some of their production plan or even cancel some of their production plans? What I'm going with that is that you mentioned initially that with regard to the outperformance and the pipeline of orders that you have, you were expecting a bit less outperformance in 2020 initially before a ramp-up and an acceleration from 2021 on. Is that still the case? And did you see any meaningful change in the plan that your customers have? How we should get to the ramp-up of some productions?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

It's a good question. We see average because, of course, you have some exceptions, et cetera, a 2 months event. To launch a new car, it's a very big deal for the carmakers with the lockdown period. They prefer to delay by 2 months. That is what today we experience as an average. So this will have some impacts, manageable, but this will have some impact for us because we are gaining market share. But to be honest, it's not material. So I can confirm today we have performance expectations for the full year that we are targeting.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. And with regard to some of the order suppliers and maybe smaller suppliers, we're hearing some of them are actually struggling. You're talking about a 2-month delay. Are you seeing in some specific cases, some more bottlenecks within the supply chain due to some order suppliers that would be struggling to ramp up again? I mean it's maybe a bit harder by the crisis the past few months, which could trigger some disruption within the supply chain in the current environment or in the coming months.

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

You know that it is a sense of your question that's it is a very important integration of order supply chain. We have managed that at the eve of lockdown. We have made even 2 supplier conventions to communicate with them, to give them a clear highlight of what is happening, when is it

to restart. We have, of course, agreed to manage what are the risky suppliers and mainly risky suppliers, the main risk is financing, to be clear. So we have renegotiated with banks to be sure that banks will be able to give, I would say, the restructuring if the supplier asks for it. So this will be the easiest way for suppliers to be financed in case of struggling. So we think -- and we are manage -- we continue to manage that. We think that on a Faurecia basis, we have limited risk. We don't say no risk, but in very limited risk. I cannot speak for carmakers. Of course, some carmakers have identified as well some difficulties, but I cannot speak for them.

For the moment, what has been the restart? Of course the restarted as -- the model for the SAS restarted. So we don't see for the moment struggling in the chain. Probably a carmaker have made what is necessary, some advance payments, et cetera, to secure that.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. Given the situation that you've mentioned in the different geographies, maybe you maybe go through the current utilization rate that you're seeing at your defense plans. And when you expect that you will be back to a more normalized level?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

I can be positive?

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Of course.

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

We were on the basis of 91 million car production worldwide 2017. Last year was 85 million. This year, according to our view, we'll be between 62 million and 64 million. Next year, we are making our assumption on the basis of 72 million. 2022, probably 82 million, so we'll recover the 2018 figures only in 2023. So I am speaking unfortunately of low utilization rate for Faurecia, and we are making our own work with some additional restructuring. But unfortunately, we speak of something like 60%, which means that many plants, I have at least 1 shift reserved to make additional production. So this problem of capacity in the automotive sector is a reality. So we need carmakers. We'll probably have to close some plants. And I can ensure you that we will do our work on this. And yes, some restructuring plan. So as a guidance, I can tell you that instead of EUR 100 million of restructuring this year, we'll more than double this figure in 2022. 2022.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. And that leads me to my next question, which was actually with regard to your cost saving plan that you already had in place for 2020. You already assume some annual savings going into the year. If you could go through a bit the different measures that you've implemented seems to face well in terms of crisis and the temporary measures that you've implemented during the crisis. And also the measures that you've implemented on a more sustainable level, that will also benefit the coming years even after the COVID crisis is fading away?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Yes. We have -- and we will be talkative on that in July. We have to differentiate what is short term and what is structural. Short term means that we have dismissed the temporary people. We have frozen a lot of recruitments. We have stopped a lot of the major part of subcontracting. We have no call centers. We are using downtime subsidized by government, et cetera. But this is a big part of the savings of the first half. On top of that, we have some structural savings that is we have simplified. We have the product lines. We have made some restructurings. We have implemented SAP, et cetera. So this more or less, I will say, we will make something like EUR 500 million cost-cutting program in first half to third half. Short term,

1/3 is structural. When we'll go to the second half, it's clear that the short-term will be much less because volumes are coming back and structural will be increased. So I have given you a first figure for the structural. You can anticipate that it will be much more in the second half. And of course, this will continue to be amplified next year because we are increasing the restructuring program.

So our target is to reduce, of course, the breakeven point. Our target is to confirm our 2022 ambitions but with lower volumes than before. We were today, we have a guidance of 8% operating margin, 4% cash flow on the basis of a worldwide volume of 87 million vehicles. We want to repeat the guidance, but with a lower volume of probably 5% lower worldwide volumes. So it is our ambition. It is -- on this side, we are working. Now if you allow me, I will be more precise probably in July on these topics.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. And maybe to stay on this topic, you've mentioned that it's actually thanks to the measures that you've implemented, you've been able to reduce the pass-through -- the volume pass-through to 25%. Thanks to all the cost savings temporary and the sustainable one that you are implementing. As we move -- well, are you confirming this figure? And as we move into H2, you will have less volume pressure for sure, but some of this temporary measure will actually fade away and disappears. So could you maybe go through what kind of volume pass-through that would imply for H1, but also going into H2?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Thank you for the question. Firstly, the pass-through what you just called, that's what I thought which is the right word in English. But I take your expression. We have a margin of variable cost of 27%, so to make only 25% means a lot of improvements and a lot of flex and cost-cutting of the fixed cost, which is -- which was, sorry, last year, 19% of our sales. So I confirm the 25% pass-through for the first half. Our target is, of course, because we will have an impact on the second half and because probably June in the first quarter, at least, will be lower than a normal quarter due to Europe. And we see for the last quarter. I confirm that we will do better in the second half.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Okay. Okay. So maybe closer to a 15%, 20% kind of level would be unachievable is the value you think going into H2.

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

We have to think on our budget. So I cannot commit today to 20%. But anyway, 20% is the target that we have inside on the additional volumes. So when I speak of figures going back to 72 million, 82 million, we are clearly targeting a pass-through, as you say, of 15% to 20% increase of margins on these additional figures.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. And in the Q1 sales call, I think you mentioned that the cash burn for the H1 could be reaching close to EUR 1 billion. I just wonder now that you have a bit more visibility on this topic, if you think that's still the relevant figure to think about. And also what kind of expectation you have going into the second part of the year with working capital, well, recovering and notably with June benefiting -- well, starting to benefit from incentive. How fast do you think you can offset the cash burn you've seen so far, thanks to a recovery of orders?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

It's a good question because when I was making this disclose of the first quarter, I was thinking to EUR 3 billion of sales drop or loss, as you want, and due to the COVID. Now we are more at EUR 3.3 billion because Europe is a smooth recovery. So on this basis of EUR 3.3 billion, which has a

direct impact on the factoring. So which means on a factoring of receivables, which will drop probably to EUR 600 million, we are more today thinking to EUR 1.2 billion. So clearly, a significant cash burden on this first half mainly due to, I would say, the working capital evolution was a lag between suppliers and customers, and we have a 20-day difference. Second, which is the EUR 700 million; and second, with this drop of factoring. Taking our assumption, we will recover normally major part or total part of the working capital lag. We will recover a big part of the factoring. It depends on the cost of sales of the last quarter. So this EUR 1.1 billion, normally will be recovered in the second half. What will impact my cash in the second half would be mainly the lack of EBITDA and mainly the lack of EBITDA of the second quarter, which will impact my cash flow of the first quarter. We have always, as you know, a lag of this kind of impact.

So altogether, I will say my guidance will be to have the net cash flow burden. So EUR 1.2 billion in the first half, probably full year, EUR 500 million to EUR 600 million negative. It is my view today of what will happen to Faurecia. So this crisis will have a very significant impact on Faurecia and I think on the sector. This is taking into account a big drop of CapEx, more than 30%. A drop of R&D, mainly the gross R&D, which means the R&D activation by something like at least EUR 100 million and an increase of restructuring cash-out of minimum EUR 75 million.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

And if I'm looking beyond 2020, notably the drop of CapEx you're mentioning here and the drop notably on the parts. Does that mean that we could have a catch-up next year on some of those aspects? And that would offset working capital recovery? Or that's mostly, well, delay in terms of program that you've mentioned earlier that's covered by this, and we won't see a catch-up at some point from this?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Clearly, on the working capital, normally, we'll have cleaned the situation by the end of the year. So I don't expect a big impact next year. We will have a growth next year, normally. So because, effectively, if we had to take [82], it will be more run rate with respect to the last quarter. So no big impact on the working capital. We have rebuilt a spike in EBITDA next year. We will continue to reduce CapEx because with this kind of volumes, of course, we don't need capacity. So CapEx will be limited probably EUR 500 million and we optimized the R&D. So my target today is not again -- still a guidance that I hope it will become the guidance, will be to reach EUR 500 million net cash flow, which was, if you remember our tax record, which is important because I think cash generation in this kind of period is key. Margin-wise on this base of 82 million, we should be able to restore an operating margin between 6% to 7%.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Already in 2021?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Yes.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. And maybe can you go through a bit the perimeter effect that you are seeing this year, notably, Clarion, SAS, that was supposed to provide some support on your margin improvements for the year? So can you elaborate if that's still going to see an improvement this year? And how the restructuring is going notably at Clarion? Has there been any change there due to the current situation? Have you accelerated some plans notably on that part?



Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

SAS is mainly European. So unfortunately, and we open in many of a second. So SAS has been clearly impacted by the lockdown. We are today restarting SAS with a very good activity for Tesla. I can mention that Tesla is making its plan in China, which is good for us. And the next year, it's going to be Europe. We have a huge exposure as interiors and cockpit for Tesla.

Clarion, of course, is impacted by Asia in the top of that by Nissan. So Clarion is significantly impacted. So I think with respect to the guidance, perimeter will be more EUR 550 million, EUR 600 million, I think, something like that for the full year. So much less, unfortunately, than expected. With a contribution, which will be normally slightly positive, which is not bad, respect to what is happening. Clarion itself, we have made the restructuring. We are adding restructuring with respect to the situation of Nissan. We are simplifying as well the number of product lines. So we are further going in depth in the cost base. We are, as well, we have a big plan to reduce the electronic cost. So all of this must contribute well with the new models to confirm the 6% operating margin expectation we have for Clarion for 2022.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. I also had a question with regards to COVID-19. I was wondering if you could elaborate a bit on -- if you think there will be a lasting impact from the COVID-19 on how you or the supply chain work? How you and your clients work together? Or how you plan for project developments going forward? How you think it was a temporary effect on your activity and there won't be many change in how the industry works beyond that?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

I think it depends on the customers. But I think that integration between the industry has improved. Digital tools have improved. So communication was key in this period, but it has worked. And clearly, there was the need for everybody to massify, so to reduce the number of suppliers to interface. Starting with Faurecia, but not only, it's my conviction. So this presents the trend to massification, standardization, simplification, digitization will be accelerated. This will be a definitive change of, I would say, the way to work in this activity. Probably due to the cost strength, financial et cetera, it will be a fantastic opportunity to reduce the complexity of the models, powertrain options, whatever. And we will have and we have some situations to make with customers. They need to make savings, and we can propose some savings. So things which were impossible before on the way to work with them or on the technical productivities, we hope that it will be much easier to drive this proposal to customers in the next future.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

Understood. And with regards to the trend and going toward a massification, that leads me to my next question, which is, do you expect this will accelerate the trend of consolidation within the industry? Do you see notably some smaller suppliers that are struggling a bit being -- well, becoming attractive target for you or some of your peers? And if there is accelerated consolidations, will Faurecia be part of it in the near future?

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Firstly, consolidation will happen. I think it was low. It is low in this industry. And every crisis is accelerating this trend. So it will happen. Second question, will we buy or not some companies? Today, we are focused to restore our business. The level of debts has been increased, we'll be at a level, I would say, leverage above 2%. So we say it's not my priority. Well, and I think anyway, it's not a short term, I would say, short-term 2020 concern. If I take this story, we were participating to consolidation but under the request of customers, which is a clear asset. We made 3 acquisitions after the crisis of 2009, driven by customers. So if it will happen, it will be probably the same case. And the picture was it was a very low price at that time. I can give an instance, we were buying (inaudible) as the exterior, I would say, player under the request of a very famous German carmaker and for a price close to 0, and we are reselling that in 2014, '15 to particularly with a nice price. So it could be very accretive, but any way to be seen. And we are not in a hurry at all.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

That's very clear. I think that I've reached the last question I had on my list. So maybe you can maybe have some closing remarks with regard to the current trends that you're seeing in case someone is asking me another question for you. And I leave the floor to you for some closing remarks, and I'll get back after if I get some additional question to ask you.

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Maxime, thank you for your questions. As you have understood, we are focused, first, to limit the impact of this crisis. Second, to secure the rebuilding of our financial figures and clearly, to be able to confirm all our guidances for 2022. In a period where, if I take the previous, I would say, cycles of crisis, clearly probably the sector will take advantage from 2021 onwards on a quick, I would say, recovery on volumes.

Maxime Mallet - Deutsche Bank AG, Research Division - Research Analyst

That's very clear. Thanks a lot, Michel, for participating to our conference. After this, for everybody on the call, you will have Veoneer and Yandex presentation that will be starting in a few minutes. So stay around. So Michel, thanks again for this, and everybody, have a nice day.

Michel Alain Maurice Favre - Faurecia S.E. - Executive VP & Group CFO

Thank you very much. See you soon. Bye-bye.

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