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COMPANY EDITED TRANSCRIPT

Operator

Good morning, ladies and gentlemen, thank you for standing by, and welcome to today's HELLA Investor Call. (Operator Instructions) I must advise you that this webcast is being recorded today, Thursday, the 27th of September 2018.

Without any further ado, I would like to hand the webcast over to your presenter today, CEO, Dr. Rolf Breidenbach. Thank you. Please go ahead.

Rolf Breidenbach

Yes, thank you very much. Good morning to everybody. I would like to welcome you also on behalf of my colleague, Mr. Schäferbarthold, our CFO, to this investor call with regards to our Q1 results.

Although the automotive environment is currently characterized by a lot of uncertainties and disruptions, from our perspective, we had a quite successful start into our new fiscal year with a strong increase in sales and earnings. Our adjusted sales increased by 10.3% on the first 3 months. Also, our adjusted EBIT improved by around 12%, and that leads to adjusted EBIT margin on a level of 7.8%. And thus, despite increasing market insecurities, we simply are on a very good way to achieve our guidance for the fiscal year 2018/2019, although we do not expect any kind of tailwinds in this fiscal year.

Looking at Q1. With our growth rate of the first quarter, we again were able to clearly outperform the global automotive market, which only grew by 1.1%, and we could show especially a strong sales growth in Europe. On the one hand, of course, this has something to do with the pre-drawn effects of

the whole, let's say, WLTP topic. But on the other hand, we also had a lot of new launches, especially in Automotive, lighting launches, electronic launches, which supported this, yes, let's say, over-proportional growth in Europe.

In the first quarter, we were also able to compensate the increasing raw material prices as well increasing personnel expenses and, therefore, we were able to increase, on the one hand, our gross margin, but also our overall profitability level. This has a lot to do with the increase of the gross margin in Automotive. We were able, in the first quarter, to increase this margin from 24.2% to 25.5%. Behind this figure, a lot of activities were necessary to reach this margin, the cost redesign, the cost activities and others because the market tendency with regards to the material price is, of course, totally different. It was a challenge to compensate all this, but we were able to do it.

For the quarters to come, now of course, the question is what do we have to consider? From our perspective, one thing is clear: we have to – or we are facing a general market slowdown. For example, IHS downgraded the expected growth for the global light vehicle production from 2.1% in August now to 1.5% in September. So a clear negative change with regards to the overall market development.

And of course, especially in China, we see a dramatic decline in growth. When you look at the first quarter of our last fiscal year, '17/'18, in this quarter, the production in China grew by 7.5%. When we now look at Q1 '18/'19, we saw a decline of 0.7%, so a growth of minus 0.7%, which shows the dramatic change with regards to the growth perspective in China. And also, IHS expects for our fiscal year 2018/2019 only now a growth of 1.7%.

So as I said, for the quarters to come, no tailwind with regards to the market development. Of course, in Europe, we see a high volatility. I already mentioned this WLTP topic. Let's see. It could lead to certain demand shifts. Of course, we are observing this very seriously. And in addition, we expect more headwinds due to further increasing of raw material prices as well as increasing personnel expenses worldwide. And so here, also no, let's say, real support for our business.

What does it now mean for HELLA overall? Q2 will be potentially weaker with respect to growth. Also, due to a higher comparable basis in the last fiscal year, so we saw a very strong Q2 in '17/'18 with a growth of around 10.8%, so the basis is very high. What we clearly see and expect is an acceleration of demand and growth for the second half of our fiscal year.

In general, we are currently experiencing a demanding, very dynamic industry environment, which is also, of course, causing ongoing increases in uncertainty in the entire automotive industry. Although, and allow me to really point that out, our business is on track. Due to our strong strategic positioning, we would like to confirm our guidance, our forecasts that we have given 3 months ago.

Yes, having said that, allow me to shortly come to the highlights. As I mentioned, we are very satisfied with the starting point of our fiscal year.

We grew by 10.3%, now to EUR 1.8 billion. Also, the profitability is on a good level. And again, an increase in the gross margin for the overall group, up to 28%. Our adjusted EBIT is now at a level of EUR 140 million. And the adjusted margin, again, could be increased now to 7.8%.

The adjusted free cash flow increased by EUR 9 million, now to EUR 59 million. We are very satisfied with the general cash flow, let's say, generation ability of our company. Here, our CFO, from my perspective, did a great job in the recent months. And yes, we are very positive to reach our cash flow targets also for the whole fiscal year.

At Page 5, you can see the figures I already introduced to you. The adjustment of EUR 10 million due to FX effects leads to a growth rate of 9.7% for the first quarter and adjusted 10.3%. Of course, the driver of this growth is Automotive. We are very satisfied with the acceptance of the markets, subject to our lighting and electronic products. Also Aftermarket, with a growth of 6.8%, is really good and stable, considering the overall market dynamics. And when you look at Special Applications, of course, here, we show a limited growth rate of 0.8%. But perhaps you remember, we closed our activities in Australia. Therefore, on an adjusted basis, the growth rate of Special Applications is now at a level of 8.4%, which from our perspective is very solid.

Let's have a very quick look on the different markets. Globally, as I said, we outperformed the market by far, 10.7 points, which is, of course, very good. We are very satisfied also with the development in the different regions. When I look at Europe, the outperformance is at a level of 9.6 points; in North and South America, 6.4; and in China, 11.2.

So overall, a good growth and performance, also, let's say, supported by all regions and by all segments, yes, which from our perspective, shows the robustness of our business model, which, of course, we also can count on in the months to come.

Yes, having said that, allow me to hand over to our CFO, Mr. Schäferbarthold, who will give you more details about our financial performance.

Bernard Schäferbarthold

Thank you, Mr. Breidenbach. Good morning also from my side. Before jumping into this presentation, please allow me first to give you some more insights in the changes you see in the numbers, especially if you look at the necessity to the implication of some new IFRS accounting standards, especially 2 standards had a significant impact if it comes to revenue recognition and also leasing on the comparability of the line items within our profit and loss statement but also the balance sheet.

On top of that, the disposal or the sale of our wholesale business impacted the comparability also a little bit. So, I will explain or do some comments also when I run through the numbers. But again, I think we will also be, apart

from this call, open to answer questions if there will be some -- or the Investor Relations department but also, personally, please feel free so to drop us also questions or give us a call so if there are any questions outstanding.

But I think last comment to that, it's important, I think, to mention that if you look, on one hand side, top line but also bottom line EBIT and also free cash flow overall, there is no significant effect due to all these changes. I think that's important to note.

Last comment on wholesale. The closing was beginning of September so that still, the business is within our numbers. We have not stated wholesale now in the segment Aftermarket any longer, but it's still in the group numbers. The disposal of the assets will then be reflected from Q2 onwards due to the fact that, as I said, closing was early in our second quarter.

Running now through the slides of our presentation, so starting Page 8. Dr. Breidenbach mentioned the strong sale and demand we have seen in Q1. The outcome is a very positive development in gross profit with an increase of 11.9%, so EUR 53 million. What was even more positive is the improvement in our adjusted gross profit margin. The main contributor to that positive gross profit improvement is the Auto segment, certainly, on one hand side, connected to that higher sales, and by that, also the increased volumes we have certainly seeing positive effect. And what we also have then seen is what Mr. Breidenbach said is that the higher raw material cost, we start now also -- or we have started to see also in Q1 and also higher personnel expenses due to higher inflation have been compensated by that. So good development.

Also, our gross profit margin in Aftermarket was better. Special Applications was slightly lower, but that was impacted by the comparable first quarter in the previous year. We had some positive one-time effects in the year before. If you would take that out, so even Special Applications was better in gross profit margin.

So overall, good picture for Q1, as I said, supported by good demand. So if we look further down the year, certainly, we will continue to see material price increases, as we said, and also some personnel cost increases. We are working on all different measures also to try to compensate that as much as possible.

On demand, certainly, we had a very strong demand in Q1. We will, as Mr. Breidenbach said, see some changes and more volatility over the next quarters. And we expect then higher demand again in the second half of the year and volatility coming -- and more uncertainty coming from the WLTP topic and somehow also of lower market demand.

Last comment to also the outlook to the further quarters of the year, so taking into account now the closing of our wholesale business. If we look at gross margin, there will be a little dilution on gross profit margin also coming out of the disposal of our wholesale business. On EBIT level, there

will be no effect. But on gross profit margin, we will see some basis points of dilution.

R&D, on Page 9. Here, also, in conjunction with the changes in the IFRS accounting standard, especially revenue recognition, we reallocated expenses related to acquisition of projects and also the sale of samples, which now are reflected in cost of goods sold and also in the sales expenses, in total, EUR 20 million in the first quarter. In the presentation, you see the comparable years also restated so that all numbers are comparable.

Looking at the development, you see that we have invested EUR 21 million more. And again, as we said also in previous years, the vast majority of this R&D expenses is related to booked business and to the support of our continuous growth in the future. Also here, if you look now the next quarters with the disposal of our wholesale business then related to top line numbers, you will see slightly higher R&D ratios than in the next quarters due to a lower top line number. So overall, we expect then that the ratio should be over the year around 9.6%.

SG&A. There, the reallocation of the expenses related to acquisition projects are reflected here in the sales expenses. So also here, all numbers and comparables have been adapted. So if you look at the development, the ratio, it's slightly better. And again here, also, you see in absolute numbers, we invest. And here, as we also said, we tried to balance, on one hand side, investments in our future system landscape and processes, but on the other hand side, continuously work on efficiencies and cost-reduction measures where we also make good progress overall.

On EBIT, in Page 11, all comments are done, so good. I think we reached our internal targets even more than we planned internally due to also higher volumes we had not expected. So that is good. So a decent result overall and resulting in a slightly better EBIT profitability of 7.8%.

Looking bottom line, so we had a low restructuring cost, EUR 1 million. And taking into account then our net financial result and taxes, where our tax ratio is also a little better than previous year, we have 16% higher earnings for the period, which is at EUR 95 million overall.

On cash flow, a good improvement, 18% up. Cash conversion also improved to 42.4%, so which is good. Net CapEx is slightly lower. If you really look at also the reimbursements, which are not included in Q1 this year, so overall, I think a good development. So especially on our cash flow improvement program, I'm quite positive on the progress we have done. So, we see on a quarter-to-quarter base that we are improving here our free cash flow, what is good and are here on -- and meeting here also our internal targets.

If we look at the different segments, so especially the most important one, Auto, strong growth, as mentioned. Similar growth dynamics in Q1 in lighting and electronics. And what is good is also that well-balanced in all 3 regions. So, a good demand overall globally, a good improvement in our profitability, up to 16%, up to EUR 106 million, driven by a strong gross

profit, and on the other hand side, strong investments also into our future business.

One comment to our equity result, which was a little lower to previous year here, we still see weakness, especially in our South Korean joint ventures where still demand is at the low level.

Some comments also to Aftermarket and Special Applications. So, Aftermarket, as said, here shown without wholesale, so basically, our core business now going forward, which we see a good growth and also a good development in our margin. And again, you'll see here that without wholesale, there is no, basically, no dilution of the EBIT margin any longer. And a good improvement also if we see to comparable last quarter from 8.2% to 8.4%, which is good.

Special Applications, from our point of view, still on a good level. If we take out this effect from the closure of our production plant in Australia, which certainly was over-proportional last year, if I would take that out, then the core business of Special Applications was growing at 8%, which is good, and also EBIT margin was at a level of 12.9%. And certainly, the comparable last year was high with some positive one-time effects. So we are very well on track. Also, if I look at full year that at least we expect to reach the margin we had full year last year, and for sure, we try to be even a little better.

So that's from my side on comments to the financial, and I hand over back now to Mr. Breidenbach for the outlook.

Rolf Breidenbach

Yes, Mr. Schäferbarthold, thank you very much. I think many things are already said with regards to the market development. We expect this 1.5% worldwide growth according to the IHS forecast; NSA at 3.2%.; Europe, more or less unstable; and in China, this 1.7%, which is compared to other years, of course, very limited.

Coming to our guidance. Again, allow me to point out that although the market environment, the industry environment is very unstable for us, we confirm our guidance. So we expect sales growth, excluding exchange rate and portfolio effects, between 5% to 10%. The same is true for the adjusted EBIT growth. And we expect adjusted EBIT margin, excluding restructuring and portfolio effects, approximately at the level of our last fiscal year.

Yes. And now we are, of course, looking forward to answering your questions.

Q&A

Operator

And your first question comes from the line of Marc Tonn.

Marc-René Tonn

Q. First question would be regarding this very strong improvement in the gross margin we have seen in the Automotive business in the first quarter despite that when you had from increasing personnel costs and increasing raw material prices. You mentioned higher volumes as being a key driver. And if my calculation is correct, I think operating leverage and gross margin was between 35% and 40%. My question would be on how sustainable you would regard that figure for operating leverage? Is there still room in your facilities to increase volumes or should we expect this to come a bit down towards the next quarters? This would be the first question. Second question would be, is there also anything like a mix improvement we see in the products, which had been supportive here for this very positive development, which we have seen here? That will be my 2 questions.

Rolf Breidenbach

A. Yes, perhaps starting with the second question. On the one hand, again, a strong demand with regard to LED products. And not only headlamps, but also the interior lighting, there was a very positive development. And when we look at the electronic portfolio, our -- the demand for radar components and also components in the area of energy management, DC-DC converters, here, we saw a very strong demand. With regard to the Automotive gross margins, yes, these higher volumes were supportive. But as I said, we saw also a strong pressure from the cost side, therefore, we do not expect such a positive development in the quarters to come. We saw huge pressure on the gross margin. Of course, we will do everything we can to compensate that. But we, as a tendency, expect no such outperformance due to the comparable quarters last -- in the last fiscal year. And as you said, higher volumes, of course, were supportive, but also a lot of countermeasures in other fields.

Operator

And your next question comes from the line of Sascha Gommel.

Sascha Gommel

Q. The first question would actually be on your current trading. In the presentation, you showed 3% production growth in Europe. When I look at Germany in August alone, the market was down 31%. So I was just questioning how good the visibility is at the moment actually on an underlying production, maybe you can add some more color and also how you see September and October developing in terms of production in Europe? My second question would be on the financials. You had quite some significant provision swings in the balance sheet and the cash flow. I

was wondering if you can explain that a little bit more in detail. And then 2 quick ones. Can you update us on the disposal process of the remaining wholesale business that is still in the numbers? And then also, how your R&D capitalization developed in the first quarter?

Rolf Breidenbach

A. With regard to the production in Europe, this is a very difficult question because to get transparency in all these different effects in Europe is also very difficult for us. Therefore, the influence of this whole WLTP topic with regard, on the one hand, to production figures and to sales figures is not so easy. So in the end, we think we are seeing a lot of postponements effects, on the one hand, and pre-drawn effects on the other hand. When I talk about pre-drawn effects, I'm talking about the sales figures in Europe, especially in August. And now let's see how September, October will go on. The feedback we got from our customers are sometimes very volatile. They are changing from week to week. So, we here also see some uncertainties. But overall, we expect a kind of calming down of the situation from November on and -- but between now, let's say, end of September and beginning mid of November, it's for us very difficult to predict.

Bernard Schäferbarthold

A. On the provision side, mostly it's related to the closure of our production in Australia. There, we paid out a double-digit euro million amount on the closure and the people who left us. So that's why on P&L level, there is basically no impact. But on cash flow, we had to pay out basically severance packages because of the production closure. So that's the most important topic. And on the wholesale business, there are 2 aspects. One is that on Norway and our, let's say, smaller activities if it comes to e-commerce, especially in Poland, so we expect that decisions would be taken before end of this calendar year. So, I think we have progressed here. And then the second aspect is that despite this last, I would say, decisions, we have started a program to the reorganization of our overall Aftermarket business. And this restructuring is ongoing and is basically now in execution. So, we expect now this certainly will take now a period of 6 to 12 months within the implementation. And we'll certainly have some cost impacts also. We assumed around EUR 8 million, so EUR 8 million to EUR 10 million, which will certainly affect then in this period now to come because of that program.

Sascha Gommel

Q. I see. Can I just follow up on the market? When you look at the different months kind of June, July, August, September, do you see material difference over the months that kind of August, September is the trough and then you expect an improvement in October? Or how should we look at that?

Rolf Breidenbach

A. Well, I think that when you're talking about the European market, as I said, we think we know we will have a lot of difficult influences in end of September, October until mid of November, and then we think the market will again come to a stable development. Of course, quite different to China where it's very difficult to predict how the market will develop. Currently, the whole mood in the market is not so good. And due to this, let's say, trade topic, especially between China and the U.S., from our perspective, the confidence of the Chinese end consumers is not so strong. And therefore, the whole market development is, from our perspective, very difficult to predict. So Europe, we -- it will go down -- it will come back again to a stable development, as I said, mid of November, starting of December, late of January. China, let's see how this will go on.

Operator

And next question comes from the line of Kai Mueller.

Kai Alexander Mueller

Q. First one, on that market development, I think just to follow up from Sascha as well. You've seen obviously a very strong outperformance in Europe in your fiscal quarter 1 again. Is that really related to product ramp-ups? Or -- and in what effect is that also due to market share gains possibly? Which rolls into the second question is, you mentioned WLTP is sort of a limited impact. You've seen some changes, but you don't see dramatic moves that I think some other market participants have been flagging, especially on the lighting side. Do you think you might be better off because you have been gaining market shares from peers such as maybe a Valeo or Osram, et cetera, on the LED side?

Rolf Breidenbach

A. Of course, we, as I said, we had a significant number of launches in Europe in the last month. But we also, as I also said, we saw this pre-drawn effect. So -- and as I also tried to explain, our second quarter, especially also in Automotive, was very strong. So this total outperformance of the market, especially in the second quarter, we do not see. But overall, in the third and fourth quarter, we think we will, again, accelerate our outperformance of the market. So Q2, a lot of uncertainty, , as I tried to explain.

Kai Alexander Mueller

Q. And maybe to follow up on that new uncertainty. Into what extent is that reflected on how you operate your business? Is it just that production call-offs change on a very much weekly basis and it's very hard to predict what the customers are ultimately producing? Or is it just the orders are coming in a lot lower than you had initially anticipated?

Rolf Breidenbach

A. It's more the first topic you mentioned, this high volatility of volumes, which are booked into our systems and from one moment to the other going out. So, a lot of volatility, fluctuation in the demand with a slight tendency of reduction. And this, of course, also does not help to run a very stable and efficient production. And this we expect to continue, as I said, at least in the next, let's say, 6 weeks. Let's see how long this will go on.

Kai Alexander Mueller

Q. Okay. Which sort of gets you into the end of October and then you believe sort of in November, December, it looks somewhat more stable?

Rolf Breidenbach

A. Yes, this is our expectation. But of course, very difficult to predict because in the end, it also depends on how fast this WLTP topic can be solved at all our customers.

Kai Alexander Mueller

Q. Okay. And then maybe just in terms of China, what has been your latest in terms of the market development? Your people on the ground, have they seen stuff being done on the government side to support the sales or nothing at all at the moment?

Rolf Breidenbach

A. Of course, this is also, for me, very difficult to assess. But when I talk to the people in China, they only talk when such a program will come, not whether it will come.

Kai Alexander Mueller

Q. Okay, okay. But the question is whether it would be this financial or calendar year, before the end of this year or following into next?

Rolf Breidenbach

A. For example, yes, this is -- as I said, nobody knows when it will come. But many of at least our people said in the end when the market is developing in the way it's currently developing, there will be a point of time when such a program will be launched. But difficult to predict. It's more a crystal ball in which I'm currently looking.

Kai Alexander Mueller

Q. And what could that be? Do they have tax breaks, et cetera? Or...

Rolf Breidenbach

A. I don't know. There are different models currently discussed. Tax relief is one topic, some specific incentive programs for e-vehicles, other models which are currently, let's say, unofficially discussed. But from our point of view, nothing is decided, neither the kind of program nor the point of time when it will be launched.

Operator

And next question comes from the line of Christoph Laskawi.

Christoph Laskawi

Q. Christoph Laskawi, Deutsche. Sorry to come back to the market again. But -- and I appreciate the environment is very volatile right now, so it's tough to make a detailed statement. But the question will be, how good is visibility really? You said you expect a lot of volatility in the near term and then it could be November, December, January for improvement. Is that based on order discussions that you have with your customers? Or is it more an expectation based on market forecasts that you currently see? Because we get statements of some OEMs that there might be spillover into Q1 and that would be an indication that volatility could persist into next year's first quarter. There will be more for Europe and on China. Could you remind us on your exposure, is it more mass market or premium OEMs in that market? That's my first set of questions.

Rolf Breidenbach

A. Yes, starting with your second question, it's both. So we have a strong footprint in, of course, the European market, but also especially in the market of the local Chinese OEMs, which very often is linked to the mass market. And when you here look at the current development, it's also, let's say, very -- there is no clear pattern behind. There are local OEMs which are performing in an outstanding way and others are stopping product lines. So also, not so easy to predict. But as I said, our -- we are leveraged in both the mass market and premium market. And Europe, our understanding when we talk to our customers, they really see, let's say, improvement of the situation, the volatility in the weeks to come. And as I said, perhaps in 6 weeks, in 8 weeks, in the end, I do not know. I only can listen to our customers. But from our perspective, Q2 -- our Q2 will be affected with regard to the volatility, fast-changing demands, reduction of demand. So here, I'm talking about Q2. But when we talk to the customers, our, let's say, Q3 and starting in December, there, this influence should be limited. This is the feedback we are getting.

Christoph Laskawi

Q. Okay. I would have another question on your comments around the EBIT margin, the impact of the disposal. In theory, since you disposed a business which is below the group margin, technically, the margin should go up.

Could you just give us the key drivers that weigh on the underlying margin, which I expected to keep it flattish over the year? Is it just raw materials and personnel expenses or anything else we need to have in mind?

Bernard Schäferbarthold

A. In general, that is it. So actually, you are right in theory. So if you would basically do the math and we are around, I would say, 1, 1.5 percentage points -- there's 1, 1.5 percentage point difference between the wholesale business and basically our EBIT margin. There is an impact. Basically, what is accounted in, as you said, is some kind of uncertainty also about increases in prices and basically also with the all other uncertainties we have in the business. So that's why we said around basically the margin we had last year because it's very hard to predict, I would say, all effects, how they will at the end impact us end of May next year. But you are right and you have seen that also in Q1 already.

Operator

And your next question comes from the line of Christian Ludwig.

Christian Ludwig

Q. Christian Ludwig, Bankhaus Lampe. Yes, I've just got one question left. You mentioned the cash conversion ratio, which increased to, I think, 22.3%. Is there an internal target you have, what kind of cash conversion ratio you want to have over the long term and what will that be?

Bernard Schäferbarthold

A. Internally, there is one. But I think now it's, I would say, not the moment now to comment on that or to give that target now, I would say, to the market yet. I think we stick basically to what we said, the continuous improvement in our working capital and overall continuous improvement in our cash flow on a year-on-year matter. But I would not now state basically, actually, what is now the target we want to reach in the next year.

Christian Ludwig

Q. But is it fair to assume that you're not satisfied with the current ratio?

Bernard Schäferbarthold

A. The current ratio is basically on what basically we have set as our target. There, we are, I would say, we are at this point in time satisfied with what we have reached. But as I have stated, we said 3% we want to reach as a working capital improvement. So that goal is still not met. If also if I look into the future and I look also which potential still we are working on, so -- and so as you translate that into how we know at the level which basically is it now, certainly, we want to further improve.

Operator

And next question comes from the line of Julian Radlinger.

Julian Radlinger

Q. Julian Radlinger, UBS. Just 3 quick questions from me. So, the first one, very quick one on free cash flow. Typically, if I go back through your results, Q1 is usually seasonally the lowest free cash flow quarter as far as I can see. Just wondering, does that also hold this year? Second question, on the EBIT margin and its relation to WLTP, how should we think about this? Do you assume that the EBIT margin -- or did you assume that the EBIT margin would probably be impacted negatively in Q2 due to the production disruptions from WLTP and then see that effect reverse to the positive in Q3 when there's a stabilization or maybe even a catch-up production? Or did you, in your full year EBIT margin guidance, assume that there might be an incrementally full year negative impact from WLTP and the volatility that, that brings? And then the third question is just on the acceleration of growth that you've now mentioned several times in this call that you expect in H2 this year. I assume that's still going to be driven by, I think, 1 or 2 of the remaining 6, 7 plant openings that you have planned currently. Is that right? Or is there another reason why we're going to see an acceleration of growth in H2?

Rolf Breidenbach

A. Okay. Allow me to start with the -- answering your second question with regard to the EBIT. We expect a pressure on our EBIT margin in the second quarter compared to the level we reached in the second quarter last fiscal year. This is correct, but we do not expect a negative influence of WLTP then in the quarters to come, so third quarter and fourth quarter. Yes. And free cash flow?

Bernard Schäferbarthold

A. On free cash flow, you mentioned the seasonality. So Q2 also is not, I would say, often the strongest quarter. So we -- what we actually see is that although we see, I would say, some kind of pressure, as Mr. Breidenbach mentioned on EBIT level to the comparable number, our cash flow should show improvements against last year. So there, we are quite confident that we can continuously improve on a year-on-year comparison.

Rolf Breidenbach

A. And with regard to your third question, yes, we expect, of course, additional launches in the second half of our fiscal year and step-by-step on some of our new plants and our fields. We just opened our plant in Lithuania, for example, which, of course, will then help to accelerate the growth.

Julian Radlinger

Q. Okay, great. Maybe just a quick follow-up on the EBIT margin question. I think there was a slight misunderstanding. So I think it's very obvious that in Q2, the EBIT margin will be under pressure. My question was, do you expect an EBIT -- a positive EBIT margin or a positive impact on the EBIT margin in Q2 as production catches up what was lost in Q2? So the effect, the EBIT -- do you think the EBIT margin which will go down in Q2 now might -- that effect might reverse and you might actually have a positive impact in Q3 or H2? Or do you just assume this year EBIT margin run rate but then in Q2 negatively impacted? I hope that's clear.

Rolf Breidenbach

A. Yes, the guidance with regard to our EBIT margin is unchanged. Q2, the EBIT margin will be negatively affected. And of course, we will have -- and we expect a positive influence of EBIT margin in the second half, Q3 and Q4.

Operator

And next question comes from the line of Gungun Verma.

Gungun Verma

Q. This is Gungun from Goldman Sachs. I have 2 questions remaining, please. On China, I understand that the visibility is limited. But if you could just talk about take rates that you're seeing in September versus August and then October versus September, is there an improvement? Are you seeing a significant deceleration there? And sorry if I didn't understand the previous question or previous answer on the Europe WLTP. So the demand loss in the second quarter for HELLA because of production decline in Europe, does that come back in the third quarter and so you see aspiration in margin? Or do you not assume that, that demand is going to come back what's lost in the second quarter? And then one on Special Applications, please. So you mentioned in the slides that construction activity and agricultural demand is strong. If you look into the remaining quarters, there is a concern that construction activity is moderating mainly in France and then there's also a sentiment in agro turning a little bit south. Are you seeing such a trend in demand from customers?

Rolf Breidenbach

A. Starting with your third question, we do not see this decrease in demand currently. Currently, the volumes are very stable. Of course, when we talk about Special Applications, let's say, the transparency with regard to our demand in 2 or 3 months, of course, is limited compared to Automotive. But currently, we see no weakness in the market. With regards to WLTP, as I said, we see a negative impact in the second quarter of HELLA's fiscal year. But we think this will be compensated in the third and fourth quarter. We do

not -- and this is what I got as -- or we got as information from our customers, that there is a postponement of demand but no loss of vehicles when we talk about half year or more. And with regard to China, it's now difficult for me to assess months, September, October, I cannot do this. But overall, as I said, we see this tendency that the demand is going down, that the whole confidence of the end consumer is negatively affected and, therefore, we are a little bit concerned about the development in China.

Operator

And next question comes from the line of Akshat Kacker.

Akshat Kacker

Q. Akshat from JPMorgan. I just have one remaining. Sorry to come back on profitability. Is it fair to say that the first half margins on an EBIT level will be a little bit difficult to be flat year-on-year for core auto? And just a quick follow-up on that. So what major customers are you seeing disruption with? And because Dr. Rolf, you said on the call that Q2 will be substantially weaker, I'm expecting a much better margin than the second half.

Bernard Schäferbarthold

A. Still, I would say second quarter is running, so it's too early now to give up on margin targets. Basically, what you -- give you is kind of a sense where we say uncertainty is there. We see also that the changes on demand are happening so that basically, there is an impact. On the other hand side, we are used basically to react as quick as possible and try best as possible also to compensate. And it's now too early really to give an exact outcome on Q2. So that again, to your question, will it be lower? Full -- I would say, first half, we had a very good start in Q1 and have been better. So still, I would not give up to be at least at the same level. Again, too early now really to give you exact number.

Rolf Breidenbach

A. And actually, we started already in April huge improvement programs having foreseen this pressure on our margins with regard to the cost level and also this, let's say, challenge for our customers with regards to WLTP. Therefore, huge cost-reduction programs in the area of material costs, but the same is true for our SG&A area have been started. So currently, first quite encouraging results. And as Mr. Schäferbarthold said, the pressure from the market is there. But we are fighting, and we are quite confident to reach also quite satisfying EBIT margins in the second quarter. I didn't catch your second question, I have to admit. Can you repeat that?

Akshat Kacker

Q. It was just on the major customers from which you are facing disruption in Europe.

Rolf Breidenbach

A. As we said, we -- 50% of our business, we are doing with the German OEMs and the rest is spread into China, Japan and NSA.

Operator

And your next question comes from the line of Florian Treisch.

Florian Treisch

Q. Florian Treisch from MainFirst Bank. Just one -- or a question how to read your cautious statement on Q2. If you only look at Automotive and reading your kind of cautiousness and compare that to other quarterly calls, it would probably mean negative organic growth rate and down quarter-on-quarter. So against the typical seasonality in Automotive that Q2 is stronger than Q1, is that a fair way to read your cautiousness and then hoping for, as you said, a growth acceleration in H2 again?

Rolf Breidenbach

A. This is now difficult to comment on because you have to remember what we have said, we do not change our guidance with regards to our growth expectation and also our profitability. On the other hand, and this I think is also always said by Mr. Schäferbarthold and myself, our strategy is to grow and to outperform the market. And of course, we have the order book to do this. The only question is what is the basic demand of the market. And therefore, I think it's a question of fairness to inform you that we see this market volatility and for us the difficulty to really predict the market in the second quarter. Of course, we are talking to our customers and try to find that out and to be also to you as transparent as possible. But here, we really see uncertainty and, therefore, we try to transfer this and to inform you about this. But let's say, assuming that there are no market disruptions and put WLTP out, our general, let's say, ability to grow and to outperform the market is there due to our order book.

Florian Treisch

Q. So in general, I would not ask you a fiscal year question. I would question your fiscal year target. As indeed, if you grow 10% organic and only 0 in Q2, you're still at 5%, so very much in line. It's simply my intention is at least to get better feeling that the market will not be surprised heavily negative. As you said, your product portfolio, order pipe, everything is good for an outperformance. But I believe better tell market ahead of it and say it will be a no-growth quarter instead of getting a negative surprise you have to report in.

Operator

And no further questions at this time. Please continue.

Rolf Breidenbach

A. Okay, then I think we are through. Again, thank you very much for your time, for your questions, for your general support. Have a good day. Thanks. Bye.

Operator

Thank you. And that does conclude our webcast for today. Thank you for participating. You may all disconnect. Speakers, please stay on the line. Thank you.

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