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G1AG.DE - Q4 2023 GEA Group AG Earnings Call

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CORPORATE PARTICIPANTS

Oliver Luckenbach *GEA Group AG - Head of IR*

Stefan Klebert *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Bernd Brinker *GEA Group AG - CFO*

CONFERENCE CALL PARTICIPANTS

Akash Gupta *JPMorgan Chase & Co - Analyst*

Sebastian Growe *BNP Paribas - Analyst*

Sven Weier *UBS Investment Bank - Analyst*

Sebastian Kuenne *RBC Capital Markets - Analyst*

Christoph Dollescha *HSBC - Analyst*

Lars Vom-Cleff *Deutsche Bank AG - Analyst*

PRESENTATION

Oliver Luckenbach - *GEA Group AG - Head of IR*

Good afternoon, ladies and gentlemen, and thank you for joining us today for our full year and fourth quarter 2023 conference call. With me on the call are Stefan Klebert, our CEO; and Bernd Brinker, our CFO. Stefan will begin today's call with the highlights of fiscal year 2023. Bernd will then cover the business and financial review before Stefan takes over again for the outlook 2024.

Afterwards, we open up the call for the Q&A session. Please be aware of the cautionary language that is included in our safe harbor statement as in the material that we have distributed today. And with that, I hand over to Stefan.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Thank you, Oliver, and good afternoon, everybody. It's my pleasure again to welcome you to our conference call today. Last year was once again a year with major challenges for GEA. Not only the sudden death of our CFO, Marcus, although the global environment, the wars in the Ukraine and the Middle East, high inflation rates and rising interest rates were impacting industries and economies.

Despite these challenges, we were able to improve our key performance indicators again. We are very well on track to achieve the financial targets of our mission 26. Our achievements in '23 wouldn't have been possible without the dedication of our employees. Therefore, I would like to extend my utmost respect and gratitude to all GEA teams worldwide for the exceptional performance they deliver every single day.

In our last conference call, we told you that we expect a flattish organic order intake for the full year '23. And we finished the year slightly better than that. Order intake increased organically by 0.8% but declined on a reported basis by 3.7% to EUR 5.47 billion, mainly because of negative currency translation effects.

Sales rose by 4.0% to EUR5.37 billion, organic sales growth amounted to 8.4% in line with our guidance of more than 8% organic sales growth. The increase in sales also translated into higher EBITDA before restructuring expenses, which rose by 8.7% year-over-year to EUR 774 million.

The corresponding EBITDA margin increased again from 13.8% in '22 to 14.4% in '23, exceeding our guidance of at least 14%. Return on capital employed also improved beyond our expectation of more than 32% to 32.7%. In short, GEA delivered again. On the back of these strong results, we propose a dividend of EUR 1, again EUR 0.05 more than last year.

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As I just said '23 was a year with many challenges, but at the same time, it has been a year with many highlights for us. We started the year with a very exciting order in the new food space, a large order which encompasses the engineering of an industrial scale cell-based meat production facility in the United States. This underlines our leadership in the new food area.

There have been two highlights in May. First, we upgraded our full year guidance after a very strong first quarter. And second, we have installed our first carbon capture pilot plant at a German cement manufacturer. As some of you might know, GEA has a very strong expertise in exhaust gas cleaning systems.

And in the last years, we have extended this technology by an amine-based carbon capture solution. The installation of a pilot plant at a customer site was a very important milestone for our carbon capture team. At the moment, we are building up our team here in this area to be prepared for the markets coming up in the future.

In June, we launched our AddBetter label. AddBetter is our eco-label promoting GEA's sustainable solutions that are significantly more resource efficient than their predecessors. The efficiency improvements are validated by the TÜV Rheinland. This eco-label provides customers with maximum transparency as they can access the data behind each AddBetter label and empowers them to make smart decisions for a greener future.

There have been two highlights in November. Firstly, we announced the start of another share buyback program. This program amounts up to EUR 400 million and will run until 2025. The first launch of the program with a volume of EUR150 million started on November 9, and is supposed to run for six months. Until December 31, we already bought back 1.45 million shares worth in total EUR 50 million.

And secondly, we published our Q3 results with a strong EBITDA before restructuring margin of 15.3%. It was the first time that we achieved a quarterly margin above 15% since Q4 2017. Just a few weeks before year-end, we raised our ambitious climate targets and published our plan to give our shareholders a say on climate at the upcoming Annual General Meeting in April.

These raised targets and the corresponding climate transition plan 2040, which has been published today, will be presented to our shareholders with a request to vote on it. We are the first company in the whole DAX index family to put its climate transition plan to the vote. This underscores our role as a sustainability pioneer and leader.

Our strong push for sustainability and the corresponding performance has already been acknowledged by many ESG rating agencies. And in December, we received a very special recognition. Due to our very strong performance in the corporate sustainability assessment conducted by Standard & Poor Global, GEA was selected to become a member of the Dow Jones Sustainability World Index. We have been the only German company to be added to this index in 2023. This is a remarkable recognition of our achievements in this area.

As just highlighted, we have raised our climate targets in December last year, and we even set ourselves a short-term target for 2026. But let me give you more details on our pathway to net zero in 2040. The green line here depicts the decarbonization trajectory of our own operations, the so-called Scope 1 and 2 emissions.

Already by 2026, we target a 60% greenhouse gas emission reduction. And by 2030, we aim for a reduction of 80% in our own operations emissions. The light blue line shows the decarbonization pathway on product level, which is called scope 3. Here, we aim for a reduction of 27.5% by 2030.

In 2040, we aim to be net zero along the entire value chain, so in all three scopes. Our upgraded midterm targets, as well as our net zero targets, are validated by the science-based targets initiatives. The globally recognized organization confirmed that our climate targets are in line with the latest climate research findings and will make an effective contribution to limit global warming to 1.5 degrees Celsius.

Setting ambitions targets is one thing, delivering on them is another. And at GEA, we walk our talk. I can proudly tell you that in 2023, we have already achieved a 53% emission reduction in our own operations and a 22% reduction in Scope 3. Hence, we are ahead of our own decarbonization pathway and very well on track to reach our targets.

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Engineering for a better world is our purpose. We are working hard to develop resource-efficient solutions and products consuming less energy, water, and materials. Our sustainable solutions make an impact on the environment we are all living in. To quantify this impact, we have conducted an impact assessment for our AddBetter labeled products and products replacing systems that are responsible for customers' significantly higher greenhouse gas emissions or water consumption.

We call this disruptive solution Scope 4 products, as they avoid CO2 emissions or water usage by substituting another technology with the same function but with lower carbon or water intensity. In 2023, we sold AddBetter and Scope 4 products that will save over the lifetime 5 million tons of CO2 emissions and round about 16 million cubic meters of water at our customer's factories these are really huge numbers.

Let me give you a comparison to make it more tangible. 5 million tons of emissions are roughly equivalent to annual emissions of more than 600,000 people living in Germany. With the water savings, our clients could offset the annual water consumption of 360,000 people living in Germany.

Let me share with you an example of a solution that we are convinced is disruptive. Our industrial heat pumps provide energy for production processes for district heating applications. They remove the need for additional energy, which in turn reduces the overall greenhouse gas emissions.

In Malmö in Sweden, we work together with our customer {E.ON} on such a district heating project. Four ammonia heat pumps are turning the waste heat from the wastewater of a sewage treatment plant into heating for residential buildings. This helps to save around 50,000 tons of CO2 each year, equivalent to annual emissions of 6,250 people.

Also, our digital solutions like OptiPartner make a huge difference. This is a software for spray dryers and evaporators. It works like a digital autopilot on top of the existing control system. We use advanced algorithms to reduce variations and increase the productivity. By doing so, it saves up to 14% of energy.

This is a considerable saving in light of the high energy requirements of a spray drying system. This solution is belonging to our AddBetter Products portfolio. It is suitable for retrofitting purposes and is offered as a subscription service.

So far, I gave you examples how to avoid CO2 emissions, but our products are also making a positive impact on water usage. For instance, our EcoSpin technology for wet sterilization of when filling PET bottles reduces the water consumption. It enables shorter rinsing times with consistently high disinfection performance. It reduces water needs by up to 91% compared to its predecessor when installed on a new machine. This technology can save almost 100,000 cubic meters of water per annum.

With that, I hand over to Bernd.

Bernd Brinker - *GEA Group AG - CFO*

Yeah, thank you, Stefan. Ladies and gentlemen, good afternoon as well from my side. Similar to Q3, the top line of the last quarter of the year, and I'm talking about order intake and sales, was adversely impacted by translational effects. Order intake declined by 7.4% to EUR 1.26 billion, but was only slightly down by 1.7% when looking at it organically.

Two large orders with a total value of EUR 41 million were received in this quarter in comparison to seven large orders totaling EUR 147 million in Q4 '2022. A delta of more than EUR 100 million, which already explains the year-over-year decline. The business with base orders was very robust.

Q4 '2023 was another quarter of solid organic sales growth. Sales was up by 4.4% year-over-year on an organic basis, driven by strong organic service sales growth, while organic new machine sales growth has been rather muted. EBITDA before restructuring margin declined by 0.2 percentage-points to 14.5% because of the lower gross profit margin.

EBIT before restructuring expenses decreased stronger than EBITDA due to higher depreciation and amortization. Main reason for the higher amount is the revaluation of venture capital fund shares. In 2022, we have invested into a venture capital fund, which invested in new food. The

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investment has not only increased our insights into the new food market trends and technological developments but GEA acts as an industrial partner for these start-ups.

As you know, venture capital is risk capital, and the last two years were a challenging market environment, leading to negative performance of the fund and hence requiring the revaluation of the investment. ROCE improved further due to the increase in EBIT before restructuring expenses in the full year, overcompensating the higher capital employed.

Due to the strong cash generation in the quarter, our net liquidity increased year-over-year to EUR 371 million, even though we already had a EUR 50 million cash outflow on the first round of our new share buyback program in Q4 '2023. So, all in all, a very solid last quarter of the year.

Looking a bit deeper into the group performance, we have improved all our key performance indicators in 2023 and delivered again. But let me give you some more details on our performance in the last quarter of the year. Order intake was negatively impacted by a EUR 73 million translational FX effect, which explains most of the year-over-year decline.

In organic terms, the order intake declined by 1.7% year-over-year. A strong organic order intake growth at the Separation and Flow and Farm Technologies would not fully compensate the decline in Liquid and Powder and Food and Healthcare Technologies. From a customer industry perspective, pharma continues to grow. There have been various pockets of growth in other customer industries like distribution and storage, environmental applications, as well as climate control and energy.

Sales grew solidly by 4.4% in organic terms, driven by a strong organic service sales growth of 10.4% year-over-year. This is now the seventh consecutive quarter with double digit organic service sales growth. New machine sales, however, have been muted, growing organically only by 1.3% year-over-year in the quarter. The divisional performance has been a bit mixed here.

While the new machine business at Heating and Refrigeration Technologies has been growing nicely organically, Separation and Flow and Liquid and Powder Technologies were only showing some slight growth. In the other two divisions, Food and Healthcare and Farm tTchnologies reported a decline. The service sales share, because of the strong service sales growth was 36.3%, 2-percentage-points higher than last year.

EBITDA before restructuring expenses declined by EUR 4 million to EUR 204 million resulting in a corresponding year-over-year margin decline of 0.2-percentage-points to 14.5% profitability reduction was driven by a lower gross profit margin, mainly because of the significant gross profit reduction at Food and Healthcare Technologies. Operating costs, however, declined slightly year-over-year.

Now, let me continue with the figures for the division Separation and Flow Technologies, which had a very strong year and last quarter in terms of organic top line growth and profitability. Order intake increased organically by 18.4% year-over-year. Since Q4 '2020, this division has been growing its order intake organically in each single quarter, except for Q2 '2023. We are talking about almost 13 quarters in a row. An exceptional performance.

When looking at the order intake development on a reported basis, an adverse translational FX impact of EUR 34 million needs to be considered, lowering the order intake growth to 8.6%. This increase is driven by positive developments in almost all customer industries, but pharma was the strongest growth contributor. Organic sales grew by 6.3% year-over-year driven by strong performance in the service business and a solid growth rate in new machine sales.

The service sales share increased on a very high level further by 1.5-percentage-points to 48.8% in the quarter. EBITDA before restructuring expenses increased by EUR 3 million to EUR 100 million and the corresponding EBITDA margin improved on a high level even further by 0.8-percentage-points to 27.2%.

The high service sales share and lower operating costs overcompensated the gross profit decline, which resulted from lower capacity utilization and less favorable product mix in the new machine business.

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Let's move on to Liquid and Powder Technologies. Order intake for the quarter decreased by EUR 100 million from EUR 478 million in Q4 2022 to EUR 379 million in Q4 '2023. This decline is purely the result of EUR 106 million less in large orders. Liquid and powder technologies has won two large orders, totaling EUR 41 million this quarter versus seven large orders of EUR147 million in Q4 2022.

The two large orders were received from the customer industry's beverage and dairy processing. While the customer industry food showed a positive development this quarter, it was not enough to offset the decline in chemical, beverage, and dairy processing where orders have been delayed.

Sales increased organically by 4.9% year-over-year. While service sales continued its strong growth trajectory of the previous quarters with an outstanding 17.6% year-over-year organic growth rate, the organic new machine sales increased only slightly by 1.5%.

Longer project schedules and slower execution pace on the customer side explain the muted new machine sales generation. A moderate acceleration of organic sales growth is expected in fiscal year 2024, as indicated by our divisional guidance.

Due to the strong service sales growth, the service sales share increased by 2.4-percentage-points to 23.8% in the quarter. EBITDA before restructuring expenses increased by EUR12 million year-over-year to EUR 62 million resulting in a corresponding EBITDA margin of 13.3%, sharply up from 10.8% in Q4 '2022.

13.3% marks a new record level for Liquid and Powder Technologies in recent history. The strong year-over-year profitability improvement was driven by higher gross profit benefiting from the better service sales share and declining operating costs. Continuing with Food and Healthcare Technologies, order intake for the quarter was down organically by 9.9% compared to a strong prior year's quarter, mainly driven by a decline in orders above EUR 5 million.

In terms of customer industries, both major customer industries food and pharma were showing declines. Sales increased organically by 4.4% year-over-year on the back of a very strong service business. The service business has been growing organically by 17.2%, whereas new machine sales declined organically by 1%.

As a result, the service sales share increased by 3.6-percentage-points to 33% in the quarter. The profitability of Food and Healthcare technologies in Q3 had been impacted by the execution of insufficiently priced projects. And we stated during the presentation of our Q3 '2023 numbers that we do expect another hit on profitability also in the fourth quarter due to the ongoing execution of these projects.

And this is exactly what has happened in Q4. EBITDA before restructuring expenses decreased by EUR 17 million year-over-year and the respective margin dropped from 13.5% in Q4 '2022 to 7.2% in the quarter. Gross profit declined year-over-year due to the lower margin in the new machine business because of the execution of these older projects and capacity adjustment measures.

We have not only taken steps to address the ineffective pricing strategy and performance, but we have also taken measures to adjust capacities to decreasing order backlog and to create operational efficiency. Based on the measures we have taken so far, in those being implemented now, we are convinced that we bring the business back on track within the second half of 2024.

Moving to Farm Technologies. The last quarter of the year is showing strong order intake but weaker sales and profitability. However, closing order backlog levels are strong, providing tailwind for 2024. But let me give you some details on Q4. As you might remember, we have stated several times that the environment for our dairy farming business is quite mixed.

On the one hand, the farmers are facing higher financing costs. But on the other hand, there is this unbroken automatization and consolidation trend. After a slight organic order intake decline of 0.5% in the first nine months of 2023, Q4 showed a positive organic development of 6.9%. In reported terms, order intake has decreased by 3.1% year-over-year due to currency translation.

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In terms of products, Farm Technologies had strong growth in conventional milking systems, mainly driven by rotary orders, while automated milking systems have been on prior years level. Order backlog levels are still strong and have only a slight reduction to prior year when adjusting for the FX translation impact.

Sales decreased organically by 4.1% year-over-year on the back of a very strong prior year quarter. Organic new machine sales declined by 5.1%. And service sales by 2.8%. Keep in mind that especially the service business had an extremely strong prior year quarter with 21% year-over-year growth. Hence, the sales decline must be seen as a result of a very high comparison base and not as a weakening underlying business.

The service share increased by 1.4-percentage-points to 45.3%, leading to a slightly higher gross profit despite the decline in sales. The lower sales level resulted in lower cost absorption and an EBITDA decline of EUR 5 million to EUR 24 million. The corresponding EBITDA margin decreased from 13.4% in Q4 '2022 to now 12.2% in Q4 '2023.

Finally, let us turn to Heating and Refrigeration Technologies. This division delivered again a very solid set of results. After a pause in Q2, the division continued its growth trajectory and achieved after an organic order intake growth of 6.8% in Q3, now another 2.9% in Q4.

From a customer industry perspective, dairy processing and some other customer industries like distribution and storage, energy, and district heating showed positive developments. Good demand for energy efficient and sustainability related technologies continued, especially in heat pump solutions, including AddBetter solutions and district heating.

Organic sales increased strongly by 10.8% year-over-year. Not only the magnitude of the sales growth is impressive, but also the fact that this quarter marks the 10 quarter in a row with organic sales growth. The double digit growth rate in Q4 was driven by both a strong new machine and sales service growth. Since the service business was growing a bit stronger, the service sales share increased by 0.7-percentage-points to 37.8%.

EBITDA rose to EUR 17 million, and the according margin improved from 10.8% in Q4 '2022 to now 11.3% this quarter. Gross profit was up year-over-year due to better gross margins, which overcompensated the increase in operating costs. Closing the divisional chapter now with the overview on the EBITDA growth contribution.

On the left hand side, the EBITDA growth contribution for the full year 2023 is shown. I will focus my comments on the right hand side, which covers Q4 development. The divisional performance looks a bit mixed. While Liquid and Powder Technologies delivered an outstanding year-over-year EBITDA improvement of EUR 12 million it was not enough to completely offset the EBITDA reduction of Food and Healthcare and Farm Technologies.

Yes EBITDA of Farm Technologies declined in the single quarter of Q4 by EUR 5 million but achieved nevertheless on a full year basis the second strongest contribution of EUR 24 million. Translational FX also impacted the EBITDA of the last quarter of the year. It has lowered our EBITDA by EUR 7 million in the quarter. Excluding this FX effect, our EBITDA would have improved by EUR 3 million from EUR 208 million in Q4 '2022 to EUR 211 million in Q4 '2023.

Coming now to another important topic, which is net working capital. As you might remember, it was stated in the Q2 call that we are confident that the net working capital to sales ratio will be slightly below the guided corridor of 8% to 10% by year end. We already made progress toward this target in the third quarter with a ratio of 8.3%. And we have now achieved at year end, as promised, even more, down to 6.4%.

So we managed to bring this ratio well below the guided corridor. Net working capital has increased year over year by EUR 32 million to EUR 346 million. Higher trade receivables and lower trade payables have been the drivers, while inventories have remained almost stable and contract liabilities rose. It is not surprising to see receivables increasing year-over-year as we are facing a tougher economic environment for receivables management due to higher interest rates.

The sequential net working capital reduction in Q4 versus Q3 '2023 is mainly driven by lower inventories. Like in the previous year, cash generation has been really strong in the last quarter of the year. 126% of our EBITDA before restructuring expenses has been converted into free cash flow before restructuring expenses in this quarter.

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But let's have a look at the details. Operating cash flow was EUR 320 million, which is EUR 116 million higher than the EBITDA. The main driver was the significant net working capital inflow, which you have already seen on the slide before. The CapEx-related outflow of EUR 89 million is in line with our full year 2023 guidance of around EUR 240 million.

As a result, free cash flow stands at EUR 235 million, leading to a net cash flow of EUR 215 million after deducting lease payments and interest paid. Net cash, including lease liabilities, increased by almost EUR 140 million from EUR 233 million at the end of the third quarter to EUR 371 million at the end of 2023, despite EUR 50 million cash outflow for the new share buyback program.

As planned, our cash generation accelerated over the course of the year from a negative free cash flow in the first half of the year to EUR 337 million positive cash flow at the end of the financial year. This represents an increase of 14% year-over-year. The acceleration of the cash generation has already been visible in our free cash flow conversion ratio before restructuring, which is calculated over the last four quarters.

You might remember that this ratio has been as low as 34% in the second quarter and that we stated at that point of time that we do not expect to reach the lower end of our target corridor of 55% to 65% at year end. But we are confident that free cash flow generation will continue to improve over the course of the years.

This is exactly what has happened. We have subsequently improved our cash generation and achieved at year end a cash conversion ratio of 50%. It is, as expected, still below our target corridor of 55% to 65%, but clearly moved into the right direction.

As Stefan already mentioned at the beginning, we will propose a dividend per share of EUR 1, which is 5 cent higher than last year. This is in line with our policy of annual dividend per share hikes of EUR 0.05 and already a well-established practice since 2020. We are not only a constant and attractive dividend payer, but our shareholders are also benefiting from share buyback programs.

We finished our EUR 300 million buyback program at the end of 2022 and already started a new one with a volume of EUR 400 million in November 2023. With that, I hand back to Stefan for the outlook.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yes, thank you, Bernd. Let me now come to our outlook for the fiscal year '24. We finished the year '23 with an order backlog of EUR 3.1 billion, which is almost on prior year's level of EUR 3.2 billion. Of this EUR 3.1 billion, EUR 2.8 billion are to be invoiced in '24, the roughly 90% of our order backlog.

This backlog is still on an elevated level and lays a good foundation for our sales generation in '24. Our mission 26 is our key priority. It is clear that we want to show some progress towards the set targets in '24. Based on our order backlog, the strength of our business, and the expectation that we have seen the peak in interest rates, we guide for an organic growth of between 2% and 4%.

For EBITDA before restructuring expenses, we expect a further margin improvement to a level between 14.5% and 14.8% after 14.4% in '23. We expect return on capital employed to be in the range of 29% to 34%. Please note that we are no longer guiding for EBITDA before restructuring expenses at constant exchange rates in absolute terms. There are two main reasons for it.

Firstly, we have decided that an annual EBITDA margin guidance is better aligned with the financial targets of our mission 26. And secondly, it is more transparent as we no longer adjust for currency translation effects. Also, our ROC guidance is no longer adjusted for currency translation effect.

Let's have a closer look at the EBITDA margin bridge and its key components. Starting from the left, we are expecting further personnel increases of around 3% on our EUR 1.7 billion personnel cost bill. And as you know, we intend to at least offset the cost inflation we are facing by own price increases. We are expecting higher R&D for '24 to accelerate the development of disruptive innovation around sustainability and digitalization.

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We are already well on track with regard to operational excellence savings, and there will be further additional procurement and production savings in '24. In addition, there are several projects running to improve efficiency in various areas of the organization-- ranging from budget reductions to better project management.

Summing up, we are expecting a further improvement from last year's EBITDA margin before restructuring expenses of 14.4% to a figure ranging between 14.5% and 14.8%. For '24, there is at the end only one key priority, continue to accomplish our mission 26. And like you see, we are on a very good way here. That means also in '24, we want to make further progress towards the targets we have set ourselves for 26.

For 24, this translates into the following focus areas. First priority is to accelerate top-line growth, order intake growth, a push for innovation, and the further rollout of our AddBetter product portfolio. In addition, bringing back on track FHT is also on top of our agenda.

These strategic topics are supported by strict cost control. We are currently in uncertain times, as we all know, with high interest rates, several wars, and looming recession, which are impacting the investment appetite of our customers, despite we are looking quite optimistic in the future and seeing a good order pipeline.

In such an environment, we will not be able to reach the super strong order intake of last year's Q1. We have already taken measures and are still in the process of doing so to prepare ourselves for uncertain times. Strict cost control and the capacity adjustment are key in such an environment. And therefore, we already started to reduce our head count by almost 400 FTE, which will mainly happen through natural fluctuation throughout '24.

For further capacity adjustments beyond the natural fluctuation, provisions have already been built in '23. As I said, we are already executing this head count reduction, and it will be finalized latest until the end of '24. The next important date, which you can see on our roadmap here, will be in less than two months, our Annual General Meeting.

And on April 30, it will be once again a virtual AGM. And on May 8, we will be back with our Q1 numbers. Later in the year, on October 1 and October 2, we will hold our next Capital Markets Day. It is currently planned as a hybrid event. On the evening of October 1, we will invite you to an informal dinner, followed by a Capital Markets Day on the next day. More details will follow in due course, but we are already looking forward to seeing you there. This concludes my presentation, and I am back to Oliver for the Q&A.

Oliver Luckenbach - *GEA Group AG - Head of IR*

Yeah, thank you very much, Stefan and Bernd. And with that, I also hand the call over to you, Sharon. Please be so kind and open up the lines for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Akash Gupta from JP Morgan. Please go ahead.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Yes, hi. Good afternoon, everybody, and thanks for your time. I have two, and I will ask one by one. My first one is on margin guidance. So when I look at your group guidance, it's only 30 basis points wide. But your segment guidance is 200 basis points wide for each of the segments. So perhaps, could you please help explain why do you see such high uncertainty on segment level, but more resilient performance at group level? Thank you.

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Bernd Brinker - *GEA Group AG - CFO*

Hi, Akash, Bernd here. Thanks for your question. So I think what we want to make clear is that we give you a guidance for the group profitability where we are convinced that we can meet the expectation, while on the individual contribution of the businesses, we see a higher risk profile.

But in general, what we have in mind in terms of expectation for the current year, it fully underlines the guidance which we provide on group level. So therefore, quite a small and narrow range for group profitability. While, let's say, the confidence level or the risk buffer, which we have for the individual divisions, is a little bit bigger.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Thank you. And my second question is on the backlog slide. So first of all, thank you for sharing the phasing of backlog. That is quite helpful. When I look at the backlog, you have slightly lower backlog for this year. And you are guiding 2% to 4% organic sales growth. This would imply that you are expecting higher in for out orders. Could you be able to comment on have you seen this uptick in orders already to justify growth this year? Or you are expecting orders to improve in the course of the year?

Thank you.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Thank you, Akash. Very, very good question. And as you know, we are not guiding order intake. But like you perfectly did the math, if we want to grow, and if you look at the order backlog, there needs to happen something in between. And this is clear what we see and what we expect.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Thank you.

Operator

Thank you. We will now go to the next question. And your next question comes from the line of Sebastian Growe from BNP Paribas. Please go ahead.

Sebastian Growe - *BNP Paribas - Analyst*

Yes, good afternoon, everybody. Hope you can hear me well. And thanks for taking my question. The first one would be around the mission 26. And it's kind of a follow-up to Akash's question. So if I look at the upper bound of the fiscal '24 guidance, which is already close to your 15 or greater 15% margin target by 26, I'm curious how you view the trajectory from here, especially in wake of the fact that you have been growing the services business at 10% organic in both years '22 and '23, or higher than that even.

And you're also guiding for an envisaged margin improvement at FHG. And that alone would have the potential to lift the group margin by more than 100 basis points over time. So if you could just help us understand how we should really read the greater 15% after all what you have already by now achieved.

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Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yeah. I mean, we are all living in uncertain times. That might be the headline to that numbers. And it's always difficult, let's say--to judge what the future brings. But like you very well noted, we are very close already to what we want to achieve. That's also the reason why we want to make a capital market stay to tell you what comes beyond. And yeah, stay tuned.

You know that we so far always delivered what we have achieved. So far always delivered what we promise. And this is what I want to comment at the moment here.

Sebastian Growe - *BNP Paribas - Analyst*

Okay, and if I may just ask quickly then around sort of building blocks also for the '24 revenue growth. Akash touched upon the point around in for out orders. But if you labeled yourself the point around service growth so much, I think in your introductory statements, how should we think about service growth and isolation when it comes to 24? Can you be a bit more specific around that bucket, please?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

We expect that our service business is growing further. You also could see during the last year that we really made good progress here in all divisions actually. And we see further improvements potential here. You also know that service excellence is one of our pillars from the Mission 26. And yeah, that's a journey which will continue.

Sebastian Growe - *BNP Paribas - Analyst*

All right, and if I may, last final quick question that's more than ready to end. I was a bit surprised about the CapEx guidance of the EUR260 million. So if you could start just kind of walking us through what's behind that relatively big number and also how we should think about the trajectory from here in the coming years, that would be that.

Bernd Brinker - *GEA Group AG - CFO*

Yeah, sure. So thanks for that question. I think in terms of CapEx guidance for the current financial year, you have to bear in mind that we decided to invest into a large new pharma facility in Germany. This will drive our CapEx beyond normalized levels. And we continue to believe that overall, our CapEx will be in the magnitude of around EUR200 million going forward.

And I would like to close this loop by giving you also an indication on free cash flow generation, again, in line with our guidance which we gave earlier. So what we told you earlier is that we expect free cash flow generation in the years 2022 up to 2026 in the magnitude of EUR2 billion.

And we can reconfirm that this is still the case, even including this more significant CapEx element in the year 2024. And this goes along the lines of the very strong free cash flow generation improvement which we have experienced in 2023. And we believe that we can also identify certain pools of additional cash flow, especially in the area of inventories for the year 2024.

Sebastian Growe - *BNP Paribas - Analyst*

Okay. That's all. Encouraging. Thank you so much, both.

Operator

Thank you. We will now go to the next question. And your next question comes from the line of Sven Weier from UBS. Please go ahead.

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Sven Weier - *UBS Investment Bank - Analyst*

Yeah, good afternoon. Thanks for taking my question. The first one is just to follow up on your comments on FHT and the issues you had last year. And Bernd, I think you said you're looking for a second half improvement here. I was just wondering, if you look at your divisional margin guidance for FHT, the 9.5% to 11.5%, I think it's actually the only division where the lower end is above where you were in 2023, but 2% above.

I mean, to me, that sounds like there's already going to be an earlier improvement than the second half, a more steady one. So could you give us just a bit more color on that, and if you maybe have all the legacy of what has been delivered in Q4 already?

Thank you. That's the first one.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yeah, thank you, Sven.

Bernd Brinker - *GEA Group AG - CFO*

Thank you, Sven, for the question. You are right. And I think this goes along the lines which we told you in Q3 already, that due to POC accounting, we expect a weak Q4. And we only expect, and that is one piece of the answer already, we only expect a very minor contribution of those orders, of those order execution in Q1.

So there is already an in-built improvement. But this is not really something which we believe is sufficient to bring it back to the level before. So therefore, the restructuring efforts are ongoing. And we are-- again, in line with our, in general, cautious approach. We want to highlight that we expect this margin improvement back to former levels in the second half. So this is, again, let's say a little bit careful approach to the in-building expectation for the current financial year.

Sven Weier - *UBS Investment Bank - Analyst*

And there's nothing in the division where you would say, because we know that it's quite a combination of acquisitions in the past, and I just wondered if in the review process you maybe found a business unit that doesn't fit, or is it all a core, all the business units core in the division?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

I mean, like you say, Sven, I mean, FHT is a business where we have different markets. And of course, we are always looking at our portfolio. And there might be smaller adoptions, but nothing which will really change the situation in FHT from the portfolio point of view. That is not something you should expect here.

Sven Weier - *UBS Investment Bank - Analyst*

Understood. The second question I had was just, if I may, to follow up on your comments on the order pipeline. Because, I mean, I actually took comfort from the order intake development today that you showed in your short cycle businesses. So FHT obviously quite strong. You reckon that was just a bit of Q4 seasonality, but not the sign of a more sustainable improvement?

Because I just asked because we have seen something similar at Alfa Laval where the dairy orders improved, where prepared food orders improved in Q4, and they sounded like this was the start of a turnaround there after quite a number of soft quarters. So do you have a, because you sound a bit more reserved on the environment, so it didn't sound to me like you think that is already the beginning of recovery here.

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Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yeah, I mean, I'm wondering if recovery is the right word, because just want to remind you that also last year we had an organic growth. It's not that we are declining in order intake. Of course, we are not growing as fast as in the last one or two years, the order intake wise. But we have a very interesting project pipeline. It's also always very difficult, let's say, to predict quarters, because you know that we have a lot of larger projects which might be placed in one quarter or the other quarter.

But all in all, it's that we see a lot of interesting activities. And like I mentioned before, our growth rate, we guide also is depending, of course, of order intakes. And this is also something we are quite comfortable that we will see the order intakes, even if I have to say that we are beating against an extremely strong Q1. So we will not achieve the Q1 from last year. That's very clear, which was almost EUR1.6 billion. But as I said, a quarterly order intake number might also not be the right judgment for a business like ours.

Sven Weier - *UBS Investment Bank - Analyst*

But would you say it will be better than Q4? Sorry for asking.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

I know all your tricky questions. But let me stay with what I said.

Sven Weier - *UBS Investment Bank - Analyst*

Maybe just very finally, just on your EBITDA bridge that you've given, it's very useful and handy. I was just wondering, what about volume impact? Because I guess the 2% to 4% organic should be also some positive volume contribution to that.

Bernd Brinker - *GEA Group AG - CFO*

Yeah, but maybe not so significant that it was worth to put an extra bucket in here.

Sven Weier - *UBS Investment Bank - Analyst*

Understood. Thank you.

Operator

Thank you. (Operator Instructions) And your next question comes from the line of Sebastian Kuenne from RBC Capital Markets. Please go ahead.

Sebastian Kuenne - *RBC Capital Markets - Analyst*

Yeah, hello. Thank you for taking my questions. I have three questions. First, on the capacity adjustments in FHT, if we now look at LPT, we saw a similar drop in the order intake. And if we take our pricing, I would assume that volumes were maybe down 7%, 8% last year on the orders.

I was wondering, how big is the risk that you will need to adjust capacities also for LPT? Or what makes you confident that you should not adjust capacity? That's my first question. Thank you.

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Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

As I said, we are about reducing stuff. We take out 400 FTEs. We already started with that. And we do the adjustment wherever necessary. There are also some smaller sites or areas within LPT which are affected by this adjustment. I think we are very, very-- let's say, ahead of the curve here when it is about adjusting capacity. And if it would be necessary, we also would do more. It's very clear, but we feel very comfortable with that planning.

And you also have to remember that LPT is a business which takes not place in a factory, let's say. There is a lot of parts we source from outside. And it's a kind of big value is in the erection of the devices we install. And therefore, this is not such a big topic for capacity adjustment.

Sebastian Kuenne - *RBC Capital Markets - Analyst*

Okay. The second question is on FTE. I was quite impressed by the solid order intake here, given that the agriculture equipment indices in Europe are on the 20-year low now. And I read that USDA is expecting dairy farm income to drop by another 40% this year after halving last year.

So the mood in the market is very, very bad at the moment. So I was wondering what momentum you see for the farmers. I know you mentioned the automation drive. But if the farmers don't have money, they will not invest. So I was wondering what makes you so confident here. Thank you.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yeah, I think it's a mixture. I mean, first of all, milk price is picking up again during the last week. That's a very important issue, which also gives the farmers more money. And we see a continuous ongoing trend towards a consolidation of the farm. So it's not anymore the typical mom and pop shops. It's more professional dairy companies, let's say, or dairy producing companies, which are also following more professional investment patterns.

Then we also enlarge our product portfolio. We launched last year the automatic feeding system, which is a completely add-on product for a market we never been in before in that segment. So it's a mix of everything. And yeah, we are performing well here also.

Sebastian Kuenne - *RBC Capital Markets - Analyst*

Okay, understood. Last question, and I'll keep it brief. I noticed that your staff costs per employee have not risen at all in 2023, which surprised me. Can you explain that? And can you tell us what you expect for staff inflation for 2024? Thank you.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

For inflation. We haven't got the question right. It was not such a good voice quality. Can you maybe repeat the first part of your question?

Sebastian Kuenne - *RBC Capital Markets - Analyst*

Yeah. So I noticed that your staff costs per employee did not rise in 2023. There was no increase per head. Is that, can you confirm that? Is that maybe a regional development that was different last year? And what is then your expectation for per head staff cost increases in 2024? Thank you.

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Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

It might have something to do with the bonus payments. We also include here in the numbers. But as we said, the personnel increase which we see worldwide will be around 3% this year. And that will be balanced and compensated by price increases. No big movements are expected here.

Sebastian Kuenne - *RBC Capital Markets - Analyst*

Okay, thank you very much.

Operator

Thank you. We will now go to the next question. And your next question comes from the line of Christoph Dolleschal from HSBC. Please go ahead.

Christoph Dollescha - *HSBC - Analyst*

Yeah, thanks and good afternoon. Thanks for taking my questions. A couple of follow-ups on questions that were asked. The first one is on Sebastian's with the service business. Because in 2023, obviously, all growth came from service. And you said you expect growth, further growth in 2024. Does that mean you expect service to outgrow new machines or generally growth in both areas?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

We generally expect that we grow in both areas, despite we see a larger growth in sales. That's also what we guided for our Mission 26, where we said the growth in service will be larger and bigger compared to the new installation growth. And of course, the volatility of the growth rate in new installations is larger compared to service, because service is a more continuous flow once we have achieved the right things here. While, of course, new installation or intake and sales is also, depending on larger orders we get or we don't get.

Christoph Dollescha - *HSBC - Analyst*

Okay, thanks for that. The second is the housekeeping one on the restructuring expenses. Just to confirm, I think we had previously said it's like EUR20 million to EUR25 million in restructuring expenses expected to be expected for 2024. Is that still the case?

Bernd Brinker - *GEA Group AG - CFO*

So first of all, I think we guided for the year 2023 for restructuring expenses in the magnitude of EUR60 million, majority into the Q4. And that is exactly what has happened for the year 2024. We expect, and I think you just mentioned, EUR20 million, if I'm not mistaken, from your question. But what we expect is something in the magnitude of EUR40 million.

Christoph Dollescha - *HSBC - Analyst*

Okay. Okay. Because originally, it was a package that was supposed to run until 25. So that would mean that there is then little restructuring expense left for 2025, right?

Bernd Brinker - *GEA Group AG - CFO*

Exactly. So we have given an indication that we expect the restructuring expenses to go down significantly over time until including 2026. And I can reconfirm that this is still the case.

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Christoph Dollescha - *HSBC - Analyst*

Okay, thank you. Then two a bit broader ones on verticals. I mean, you said that you, or you indirectly said that you expect order intake to pick up during the year. So from which verticals would you expect that to primarily come? So which would be the best contributors, which the least?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Obviously, it's difficult to say. I mean, I don't want to give an answer here because it might be misleading or maybe difficult to judge as well. But take it as we said, we expect the growth. We are quite optimistic to be the organic growth in the area we guide.

And that is, like you said, order intake needs to pick up. We are quite optimistic because we have an interesting pipeline. We do a lot of activities in sales. But I cannot promise you or tell you exactly now on which division or which area it comes.

Christoph Dollescha - *HSBC - Analyst*

Okay. Then last but not least, a bit of a nasty one, I know. But because it was asked before as well, when we look at LPT, I mean, this is the business that basically comes closest to being a project business. And since you're focusing components, how often are you reviewing this?

And do you consider yourselves being the right owners for a business that is rather a project business than a component business, whereas all the other businesses are component driven?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yeah. I mean, I hope you see, and we could prove during the last years that we definitely can manage the project business. You know how the situation was five years ago when I started here in the so-called business area solutions. We made a lot of changes, a lot of changes, not only personnel changes. We introduced a very clear and tough project management organization.

By the way, we also use this organization at the moment to upgrade and introduce some of the very well-known and proven procedures now in our division FHT. And of course, the project business is always more risky than a component business. But we have, meanwhile, excellent procedures here in place. And we have large risk boards where we do the evaluation before we take the orders in.

There are many, many things established. And I'm quite optimistic and quite certain that we are really managing this business in a very professional way.

Christoph Dollescha - *HSBC - Analyst*

Okay, thank you for your answers. Thanks a lot.

Operator

Thank you. We'll now take the next question. And your next question comes from the line Lars Vom-Cleff Deutsche Bank. Please go ahead.

Lars Vom-Cleff - *Deutsche Bank AG - Analyst*

Thank you very much. Good afternoon. Two quick questions, if I may. Your G&A expenses rose by almost EUR30 million last year. I mean, admittedly, this only implies an increase of 8 basis points year on year to a ratio of 11.4% of sales.

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However, I would be interested in your view whether this is the new normal or whether also benefiting from the efficiency measures you're targeting and you're intending to implement, you could bring this ratio down to 11% again, as this was the case until 2020.

Bernd Brinker - *GEA Group AG - CFO*

You're right, Lars, with your analysis. With regards to our view on G&A, it should not be the new normal. We clearly believe that we have potential, but this will take some time to not only to identify, but to really realize that potential in the area of G&A.

This is closely linked to our efforts, which go through our entire company with regard to business transformation, including the global SAP project and legal entity consolidation, but this is nothing which will happen overnight. But clearly, this level is not the new normal. There is potential, and this will be communicated also more clearly in due course.

Lars Vom-Cleff - *Deutsche Bank AG - Analyst*

Perfect. Thank you. And then the second one, I saw your guiding for a financial result of minus EUR35 million for this year. I mean, it was EUR21 million last year. Not massive, I admit, but nevertheless an increase of more than 50%. Is that only because your refinancing has recently become more expensive?

Bernd Brinker - *GEA Group AG - CFO*

So just give me a second, Lars, for-- So basically, this is only the result of our investment in share buyback program. So on a net-net basis, we have to finance shortly some cash here and there in order to do the share buyback program. And as you rightfully said, it's not significant. It's only a change compared to prior year in absolute numbers. But we also believe that this is rather basically a same level, but only a smaller change.

Lars Vom-Cleff - *Deutsche Bank AG - Analyst*

Okay. Understood. Many thanks.

Operator

Thank you. We will now take our final question for today. And the final question for today comes from the line of Sebastian Kuenne from RBC Capital Markets. Please go ahead.

Sebastian Kuenne - *RBC Capital Markets - Analyst*

Yeah, thank you for taking my follow-up. It's two very short ones. On the venture capital write-downs, that's a business that is not part of your operational business. Are there other involvements, investments that you have that could in future result in write-downs or adjustments?

My second question is on pricing. You mentioned positive pricing for 2024 in your bridge. I couldn't hear exactly what you said. Is that several percent, 2% or 3%? And is it like new price rises or just flowing from 2023 into 2024? Thank you.

Bernd Brinker - *GEA Group AG - CFO*

I will take your first question. I will take your first question, Sebastian, with regard to the write-down in venture capital. So as a general statement, we are not a venture capital investor. What we do is we try to develop our business in the most efficient way.

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And therefore, in the area of new food, we decided also to go into a venture capital structure in order to be more part of the business community, to see deal flow and to benefit from that perspective. So that was clearly linked to our underlying business.

And I already commented during my presentation that during 2023, this entire environment did suffer. And therefore, we had to take also impairments on that in the magnitude of a high single digit million amount. But you should not expect surprises in other areas. And again, I can only reconfirm that this is always very closely linked to our underlying business. With regard to pricing

I think that's probably a good question. I think Stefan can--.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yeah. You know from the EBITDA bridge, which we showed that our clear intention is to minimum cover the personnel cost increases with pricing. I think I can also proudly say that we managed the pricing issue during the hyperinflation period very well, much better than many other companies with a very few exceptions we also had in our organization.

But all in all, I think we proved that GEA can manage pricing and that's also what will continue where we have a focus on. And therefore, I'm very optimistic that as I said, we will minimum balance the additional personnel costs by professional pricing.

Sebastian Kuenne - *RBC Capital Markets - Analyst*

Excellent. Thank you so much.

Operator

Thank you. I will now hand the call back to CEO Stefan Klebert for closing remarks.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, CEO & Labor Director*

Yeah, thank you very much. And I would like to thank all of you for your participation in our call for the final year, for the year's end results and Q4 results. And let me summarize it as follows. I think we could show that we delivered again in '23 and GEA is now really or should be well known since many years now to really deliver what we promise.

This is-- I think, a very, very clear statement. And this is auto intake, this is sales, this is organic growth, this is EBITDA and EBITDA margin. And that is also what we will continue to do in '24. We are very well on track to achieve our ambitious climate targets. We are definitely a front runner in sustainability. That's, I think, also a very interesting and important investment criteria. And we are cautiously optimistic that for '24, we expect further organic sales growth. We expect also further margin improvement. And we will deliver what we promise.

And as announced, we will have a capital markets day at the beginning of October, where is also our clear intention. How do we continue the journey also beyond the Mission 26? What's next? What's on top? And I think stay tuned and see what we deliver this year.

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