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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the GEA Group AG Full Year 2022 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker today, Oliver Luckenbach, Head of IR. Please go ahead, sir.

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

Thank you very much, Sharon. And good afternoon, ladies and gentlemen, and thank you for joining us today for our full year and fourth quarter 2022 earnings conference call. With me on the call are, Stefan Klebert, our CEO; Marcus Ketter, our CFO; and also Johannes Giloth, our COO.

Stefan will begin today's call with the highlights of fiscal year 2022. Marcus will then cover the business and financial review. And afterwards, Johannes will continue with an update on operational excellence before Stefan takes over again for the outlook 2023. Afterwards, we open up the call for the Q&A session.

As always, I would like to start by drawing your attention to 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.

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

Thank you very much, Oliver, and good afternoon, everybody. It's my pleasure to welcome you to our conference call today. Let me start with a review of what we have achieved in 2022. Last year was once again a demanding one for us. We faced the major challenge of tackling multiple

interconnected crisis, the horrible war in Ukraine, rising inflation and the ongoing supply chain uncertainties, all put our capabilities to the test. The restrictions and other negative effects related to COVID-19 could also still be felt. This makes our success in 2022, all the more remarkable.

Despite the adverse circumstances, we were actually able to slightly exceed the upgraded forecast following the strong third quarter and again bring the fiscal year to a very successful close. Our achievements in 2022 would have been inconceivable 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 on a daily basis.

The trend for all key performance indicators also remain clearly in positive territory in 2022. Order intake increased by 8.7% to EUR 5.68 billion. The order backlog amounted to EUR 3.19 billion and was thus 14.6% up on the prior-year figure at year-end, laying a good foundation for 2023.

Revenue rose by 9.8% to EUR 5.16 billion. Organic revenue growth amounted to 8.9%. The increase in revenue also translated to higher EBITDA before restructuring expenses, which rose by 14% year-over-year to EUR 712 million. The EBITDA margin increased to 13.8%. Return on capital employed also improved significantly to 31.8%. In short, GEA delivered again.

On the back of these strong results, we proposed a dividend of EUR 0.95, EUR 0.05 more than last year. And as you can see on Chart 5, GEA provided its reliability and resilience even in tough times. We exceeded the 2022 targets we set back in 2019 before the pandemic or the war in Ukraine. The EBITDA margin before restructuring expenses is particularly notable at 13.8%, thereby exceeding the original range of 11.5% to 13.5%. This margin overachievement was broad-based, 4 out of 5 division exceeded the original range and Farm Technology was very close to the upper end of its margin corridor.

Summing it up, we managed the period 2019 to 2022 very well. We walked our talk and set with a fantastic financial year '22 a very good base for our Mission '26. Our continued positive performance also bolstered the capital market trust in GEA. This is not last, these demonstrated by the title of Investors' Darling '22 awarded to GEA by Manager Magazin. We are very delighted with this achievement.

Let me now give you an update on the first achievement of our Mission '26 levers, starting with sustainability. Our continued efforts in the field of sustainability were also recognized externally, as you can see on Chart 8. In November '22, GEA received an ESG risk rating of 18.3% from Sustainalytics and was assessed to be at low risk. In addition, the Sustainalytics also recognized our company as an ESG industry top-rated company at the beginning of '23. In December '22, GEA became a constituent of the Dow Jones Sustainability Europe Index. And in January '23, GEA was upgraded from AA to AAA in the MSCI ESG rating assessment. We are very delighted by these achievements, which, at the same time, motivate us to further improve our ESG efforts, including additional disclosures on climate-related aspects.

A further sustainability highlights can be seen on Slide 9, the manure enricher for dairy farmers. This manure management system converts slurry from livestock farming into an environmental-friendly nitrogen-enriched fertilizer. By using plasma technology, the manure is enriched with nitrogen from the air. At the same time, the PH is lowered within adding chemicals, reducing 95% of ammonia and 99% of methane emission from manure storage and spreading.

The end product provides farmers with cost-effective, sustainable fertilizer, increasing the average yield of the crop by 40%. An additional benefit of that, the process eliminates the typical odor of manure. Built into a 20-foot container, the system operates automatically, can be monitored remotely and can be easily integrated into the farms existing infrastructure. Overall, the solution promote circular economy and reduces air pollution by 50% in farms total greenhouse gas emission by up to 30%.

Let me now come to our second lever, innovation and digitization on Chart 10. Also here, we made good progress by the share of sales from products less than 5 year old for which we are targeting 30% by '26, increased from 10% to 14% in '22. We launched several new products, such as AddCool, our solution makes our spray dryers more climate-friendly. Spray dryers are used to transform fluids into powder, for example, milk into milk powder. This is a highly energy-intensive process. AddCool incorporates a heat pump specifically designed for operation in spray dryers and made by GEA. This reduces the need for fossil fuels and allows operators to lower their carbon footprint and energy consumption by up to 50%.

Second, an automatic feeding robot for farmers, helping them to reduce their labor costs over time; and third, the so-called NexGen Press for the pharma industry. This next generation of modular tablet press makes machine selection easier, facilitates fast product changeovers and delivers price performance leadership.

Let's get me to new food on Chart 11, driven by the very large order from Novozymes in '21, the new food sales share was around 2% in '22. At the Anuga FoodTec in April '22, we presented our mobile test center for new food, which provides our customers with an excellent opportunity to test their innovative new food product ideas in reality. Because typically, customers in that industry are in an early stage of scaling and are starting with pilot plans or even with paid trials in our test center after the larger jobs get projected.

Another highlight is a large order we received recently, which encompasses the engineering of the first cell-based meat production facility in the United States. Here, you can see a few more highlights about this order. It is really large scale with a capacity to produce 10,000 metric tons of cultivated meat. This demonstrates how GEA helps to transform Applied Sciences into a large-scale industrial application. Among others, we supply liquid processing, filtration and bioreactors. As you can imagine, we are glad to have received this order. It underlines our leadership in the new field -- new food field, which we have also recently underlined by releasing our new food report.

This brings me to our third excellent levers, starting with sales excellence on Chart 13. We grew our organic new machine sales by 7.4% in '22, ahead of the expected CAGR of 4% to 5% for the period '22 to '26. In addition, we defined more than 600 country-specific initiatives across all divisions to further drive sales. And furthermore, we redefined the route to market for selected business units to leverage the existing direct sales and service organization.

On the service excellence side, as you can see on Chart 14, we even managed to increase organic sales by 11.9%, well ahead of the communicated CAGR of 5% to 6% for the period '22 to '26. This strong growth led not only to an improvement of the service share from 34.2% in '21 to 34.9% in '22, but also helped our gross margin.

This gets me to operational excellence on Chart 15. Yes, I do not want to get into details because Johannes will elaborate on that topic in a few minutes. Just so much, Johannes did a great job with his team and the divisions in mitigating supply chain shortages and market headwinds in the very challenging environment last year.

Coming to the last lever, acquisitions on Slide 16. We are still very actively screening all relevant M&A opportunities that would further strengthen our product portfolio, our regional preference and our margins. Unfortunately, good companies come at a price. And so far, we were not able to find the right target at the right price, but we continue to screen the market further.

That concludes my first part of the presentation, and I hand over to Marcus.

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**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Thank you, Stefan, and also a warm welcome from my side. As Stefan has already told you, fiscal year 2022 was again a very strong year for GEA despite all the headwinds we were facing. But also the single quarter of Q4 has been very solid. Order intake increased organically by 4.6% year-over-year. Seven large orders with a total value of EUR 147 million were received in the quarter in comparison to 3 large orders totaling EUR 74 million in Q4 2021.

Q4 2022 was another quarter of strong organic sales growth. Sales was up by 9.7% year-over-year on an organic basis, driven by both strong service and new machine sales growth. EBITDA before restructuring margin reached 14.7% and was driven by an improved gross margin in the service and new machine business. Operating costs increased due to higher expenses for selling and administration. Our fee [ROCE] (added by company after the call) improved further due to the strong improvement in EBIT before structuring expenses overcompensating the increasing capital employed.

Our net liquidity declined from EUR 500 million to EUR 346 million, mainly because of our share buyback program, which we finished at year-end. In fiscal year 2022, we bought back own shares for a total EUR 206 million. These shares are held as treasury shares. So all in all, a very successful quarter.

Looking a bit deeper into the group performance. Order intake grew to EUR 1.36 billion, a 4.6% year-over-year increase on an organic basis. All 5 divisions grew their order intake organically with 1 division Farm technologies, even growing at a double-digit percentage year-over-year. So from that perspective, it shouldn't come as a surprise that from a customer industry perspective, dairy farming has been a strong growth contributor but also beverage, pharma, chemicals as well as other industries like marine and oil and gas. As I said a minute ago, this quarter has seen several large orders, but also orders ranging from EUR 5 million to EUR 15 million (corrected by company after the call), have seen a significant increase year-over-year.

Sales continued its growth trend over the prior quarters and exceeded for the first time since the disposal of heat exchangers on a quarterly basis, to EUR 1.4 billion mark. Service sales grew organically by an outstanding 11% year-over-year, driven by healthy organic service sales growth of all divisions. Also, new machine sales have been strong, growing by 9% year-over-year. Again, all divisions contributed to this significant organic improvement, the service sales share was 34.4%, slightly higher than last year. The higher sales combined with an increase in gross margin overcompensated higher operating expenses, resulting in an EBITDA of EUR 208 million and EUR 28 million improvement versus Q4 2021.

When looking at the EBITDA margin, we are talking about a healthy year-over-year improvement of 0.6 percentage points.

Now let me continue with the figures of the division Separation & Flow Technologies, which had again a very strong year. Order intake grew organically by 7.6% year-over-year. Demand was strong in the customer industries, dairy processing, beverage as well as marine. From sales perspective, especially the orders below EUR 1 million and larger orders between EUR 5 million and EUR 15 million (corrected by company after the call) were the growth driver behind the year-over-year improvement. The order pipeline looks overall positive due to continued good demand in nearly all regions and customer industries. Dairy processing, pharma and chemical looked particularly strong, but also new food and dedicated projects for sustainability are becoming more active.

Organic sales grew by a stellar 10.8% year-over-year, with service growing by 16.3% and new machines growing by 6.3%. The service sales share, while being already on a high level, increased further to a record level of 47.3% in the quarter. EBITDA increased strongly by EUR 14 million to EUR 97 million and the EBITDA margin improved by 0.8 percentage points to 26.4%. This development was once again driven by better service and new machine gross margins and better capacity utilization. Gross profit was significantly higher and overcompensated increased operating costs.

Let's move on to Liquid & Powder Technologies. Order intake increased organically by 2.6% year-over-year. This development was driven by several large orders of, in total, EUR 147 million versus 3 large orders totaling EUR 74 million in Q4 2021. These large orders were received from the following customer industries: 3 in dairy processing, 2 in chemical and beverage respectively.

As we also received questions about the healthiness of the order pipeline, let me address this topic proactively. We do see an ongoing good demand in all markets, in chemicals for battery materials. In beverage, along with a recovery of the brewery sector and in dairy with an ongoing robust activity level. New food showed some small but important pilot projects last year, where we are expecting subsequent larger orders this year.

Sales increased organically by 6.7%, mostly driven by strong organic new machine sales growth of 8.4% year-over-year. Because of the strong new machine sales, the service sales share declined by 1.3 points year-over-year to 21.4% in the quarter. The order backlog is some EUR 150 million higher compensated to last year, which supports well our sales generation in 2023. EBITDA before restructuring expenses increased by EUR 3 million year-over-year to EUR 50 million, but the EBITDA margin declined from 11.0% in Q4 '21 to 10.8%. While gross profit rose due to the higher sales volume, operating costs were impacted from the buildup of the new food organization.

Continuing with Food & Healthcare Technologies, order intake was slightly up by 0.2% organically year-over-year. While the pharma business was growing strongly in the quarter due to a number of large orders in Western Europe, some of the food-related businesses saw the opposite with large orders in prior year quarter. Organic sales growth was 8.1% year-over-year, driven by both strong new machine and service sales growth. The

service sales share increased by 0.4 points year-over-year to 29.4% in the quarter. Demand remains healthy in both food and pharma, resulting in an order backlog, which is 10% above last year's level, indicating further sales growth momentum.

EBITDA increased by EUR 6 million year-over-year and the respective margin improved strongly to 13.5% from 12.4%. Gross profit increased year-over-year due to healthy organic sales growth, while operating costs were impacted from higher selling and administrative expenses.

Moving to Farm Technologies. Q4 has been the fourth quarter in a row with significant year-over-year organic order intake growth, solid demand for automated milking equipment and services is driving the 11.0% organic order intake growth. However, we are expecting some farmers to delay decisions for a couple of months as a reaction to the recent rise of interest rates and the slight contraction of milk prices in some regions. The order backlog is substantially up by 35.3% year-over-year to EUR 291 million, which lays a good foundation for sales growth in 2023.

Sales increased organically by a stellar 14.2% year-over-year. This is very satisfactory development was driven by an organic new machine sales being up by 9.4% year-on-year and service sales growth accelerating from 19.6% in Q3 to even 21.0% in Q4. The service sales ratio, while being already on a high level, increased further by 2.2 percentage points to 43.9%. The EBITDA increased strongly by EUR 7 million, and the according margin improved to 13.4% from 12.2% in Q4 '21. Gross profit has been significantly above prior year's level due to the strong organic sales growth and better gross margins, which overcompensated the increase in operating costs from higher overheads.

Finally, let us turn to Heating & Refrigeration Technologies. Order intake increased organically by 8.9% year-over-year. Please note that the decline of the reported figure is due to the disposal of the contracting business in Italy, Spain and France. From a customer industry perspective, beverage, oil and gas, distribution and storage centers as well as marine have shown good growth in the quarter. The trading environment remains positive. The decarbonization of processes is a strong growth driver, which is reflected in demand for heat pumps. Almost all regions with a good outlook, and the U.S. in particular, looks interesting.

Organic sales increased by 6.0% year-over-year and was driven by new machines growing by 7.4%. Service sales grew organically by 4.0% year-over-year, and its sales share declined by 2 percentage points to 37.1%. While the absolute EBITDA remained virtually unchanged year-over-year due to the divestments, the EBITDA margin improved from 9.9% in Q4 '21 to 10.8%. Gross profit slightly up year-over-year due to significantly higher gross margin, while operating costs have been flat.

Closing the divisional chapter now with the overview and as you can see, all 5 divisions contributed to the EBITDA improvement. On a reported basis, only the division Heating & Refrigeration Technologies had a year-over-year sales decline, due to the negative M&A effects. All divisions increased their gross profit by stronger magnitude than the corresponding operating cost so that the EBITDA of each division improved year-over-year.

In total, EBITDA before restructuring increased to EUR 208 million from EUR 180 million. Translational FX has improved our EBITDA by EUR 3 million. Excluding this FX effect, as we have defined it in our full year guidance, our EBITDA would have improved by EUR 25 million to EUR 205 million.

Coming now to still of one of my favorite topics on net working capital. During the first 9 months of 2022, net working capital has been on an upward trajectory due to higher inventories because of the supply chain challenges and higher trade receivables. At the end of September, net working capital stood at 8.9%. I've always told you that the increase in net working capital is not a real concern for me as it will improve as soon as supply chain bottlenecks will fade.

And now look at Q4. We have managed to bring net working capital down from 8.9% in Q3 to 6.1% at the end of December. The quarter-on-quarter reduction is driven by a reduction in inventories by EUR 71 million and net contract assets of EUR 48 million. Thanks to this achievement in Q4, we are now below the guided corridor of 8% to 10% again.

Coming now to another important topic, cash generation. Operating cash flow was EUR 288 million, which is slightly above last year's figure of EUR 282 million, driven by higher EBITDA and stronger net working capital inflow, partly offset by lower contribution from provisions, which are mainly related to noncash accruals. (Step-up in) CapEx related outflow of EUR 26 million year-over-year to EUR 89 million is in line with the fiscal year '22 guidance of up to EUR 230 million. In the end, we had EUR 204 million of CapEx this year versus EUR 130 million in fiscal year 2021. As a result, free cash flow is EUR 209 million, only slightly lower than last year's EUR 214 million (corrected by company after the call).

Our free cash flow conversion ratio before restructuring, which is calculated of the last 4 quarters, has been below the target corridor of 55% to 65% with only 47% of EBITDA which was converted into free cash flow. Main reason for the lower cash generation has been the net working capital outflow of EUR 80 million over the course of 2022.

Net cash, including lease liabilities improved from EUR 235 million at the end of the third quarter to EUR 346 million (corrected by company after the call), driven by strong net cash flow of EUR 190 million. That includes EUR 55 million outflow for our share buyback program in Q4 only. In total, we had a cash outflow of EUR 206 million for the buyback of our own shares in 2022.

Let me now talk about our financial headroom. On the left, you see our available cash credit lines as well as their respective utilization and maturity structure as per end of 2022. As per December 31, EUR 5 million out of the EUR 65 million evergreen credit lines were drawn. The EUR 100 million due this year constitute a fixed rate borrowers note loan, which was repaid on February 27. And other fixed rate borrowers note loan will be due in 2025. As part of our sufficient financial leeway, the syndicated loan is an additional undrawn liquidity backup facility for us and was supplemented by defined sustainability KPIs within 2022.

Continuing now on the right side of the slide. Equity improved because of the higher net profit, resulting in an equity ratio of 38.5% after 35.3% at the end of last year. The decline in net liquidity is due to the increase in CapEx as well as the share buyback program mentioned earlier. Adjusted for the buyback, the net liquidity, including lease liabilities would amount to EUR 552 million.

Going to the next slide. As we do often receive a question how much of our order backlog is invoiceable each year, we have prepared this overview for you. Our order backlog increased by 14.6% year-over-year with EUR 3.2 billion. Of this EUR 3.2 billion, EUR 2.9 billion are to be invoiced in 2023 and only EUR 0.3 billion after to be invoiced after '23.

Compared to the previous 2 years, there's a significant increase in the invoiceable backlog for the current year. Roughly 74% of our expected new machine sales in 2023 are already secured through the new machine order backlog invoiceable in '23. In fiscal year '22, this ratio has been 66%. This is a great basis for the sales development in '23.

With that, I hand it over to Johannes, who will give you an update on our operational excellence initiatives.

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**Johannes Giloth** - *GEA Group Aktiengesellschaft - COO & Member of the Executive Board*

Thank you, Marcus, and welcome from my side. Starting with the input cost increase. In 2022, the global impact of input cost increases was around EUR 170 million. And when I talk about input cost increases, I mean cost inflation for direct spend categories like electrical components and steel-related parts, but also for indirect categories like logistics, energy, travel or IT.

Through 2022, inflation was felt across all spend categories. Our procurement team made a tremendous effort to keep the input cost increases as low as possible, for instance, by leveraging frame contracts, shifting volumes across our supplier base as well as changing specifications with cross-functional teams. Over and all, I think I did a -- we did a great job. While commodities like stainless steel increased significantly, we managed to limit the cost inflation.

While up to and including 2021, input cost increases have been mitigated and digested fully by the procurement organization, this approach has changed in 2022. The input cost increases were minimized to the greatest possible extent by my teams but then passed on to the sales organization to compensate for it by sales price increases.

We had a very strong collaboration with the sales organization during the course of 2022, so that they were able and always aware of the latest cost headwinds in order to probably include it into their service product and project price calculations. At the same time, the procurement organization continued to work on the procurement excellence program, which we have presented to you at the Capital Market Day in 2021.

Thanks to the continued renegotiation, supply base consolidation, demand management, claims management and more commercial and technical levers, we have managed to generate a remarkable amount of procurement savings, out of which net savings hit -- EUR 28 million net savings hit



our P&L, not even considering project savings pass-throughs and cost avoidance. We are very well on track to achieve our target of P&L relevant savings of up to EUR 90 million in 2026.

Since local inflation and wage increases are generating significant headwinds in labor intensive content and services, energy prices being still higher than in 2022 and logistics are still impacted across all transportation modes from supply chain challenges, we do expect another roughly up to EUR 140 million impact cost headwinds for 2023.

Again, these cost increases will be compensated by sales price increases by our sales organization and obviously by procurement savings. They have been discussed and included as part of the budgeted process in 2023. So they are all well aware of this headwind and prepared themselves for further sales price increases accordingly.

Let me go to the next slide on production. Let me show you -- as you know, we are targeting EUR 60 million of savings from the organization of our manufacturing footprint by 2026. In 2022, we achieved EUR 8 million. And for 2023, we are targeting an accumulated amount of EUR 22 million. All measures are in place to be well -- to be well on track to achieve our Mission '26 targets. Our first factory of the future, Koszalin in Poland has been set up on time and in budget. Production has started there in quarter 2 last year and we are currently in the process of shifting production hours from selected sites, including Bodenheim site in Mainz, Germany to Poland. This relocation of production hours and the corresponding site closure in Germany should be done by the end of '22 -- 2024 as planned.

Several other footprint optimization projects have been implemented as planned leading to a reduction in the number of (production sites. We had more than 60 production sites in 2019 and are now at 46 factories. Let me give you a brief overview of what we have done: We consolidated our footprint in Asia-Pacific from 5 to 2 sites, we rightsized and transformed our factory in Vadodara in India, sold one of our factories in Russia and) are now in the process of consolidating and transforming our (Italian) production landscape. In addition, we have achieved significant volume shift to multipurpose sites through the before-mentioned consolidation, but also due to localization.

The decarbonization of our own operations is one of our other key priorities under Mission '26, and we are also making progress here. In 2022, 4 production sites have been already been CO2 neutral. Improving productivity in our production is another important pillar of our Production Excellence program.

Program aims to deliver efficiency and spending via unified standardized work processes across all gas production sites, end-to-end process optimization with strong, (lean mindset) and continuous improvement culture across the workforce. And here, we are making good progress with a lot of measures also implement -- be implemented towards the EUR 60 million target.

With this, I hand over back to Stefan with the outlook.

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

Thank you very much, Johannes. Let me now come to our outlook for the fiscal year '23. Our high order backlog is a great foundation for growth in the current fiscal year and indicates further organic sales growth ahead. Therefore, we guide for an organic sales growth of more than 5%.

For EBITDA before restructuring expenses, we expect the range of EUR 730 million to EUR 790 million, exactly EUR 100 million higher than last year. At the same time, we are targeting a further improvement of the corresponding EBITDA margin. That means a value of more than 13.8%. For return on capital employed, we are expecting a figure of at least 29%. Please bear in mind that the guidance for EBITDA in ROCE is based on constant exchange rates.

Let's have a closer look at the EBITDA bridge and its key components. Starting from the left, we are expecting further input cost increases that Johannes gave you, already our expectation of a headwind of around EUR 140 million in '23. Against this, we expect further additional procurement savings of around EUR 12 million. Personnel costs will clearly higher -- will be clearly higher than in the prior years. We forecast an increase of our EUR 1.6 billion personnel cost bill of about 5%.



If you look at the rectangle of this chart, you can see that we intend to at least offset the higher costs by own price increases. In order to do so, we need price increases of 3% to 4% and we have seen last year that this is possible in our industry. Next to pricing, we will also benefit from additional production savings in the area of EUR 14 million as well as positive leverage due to the expected organic sales growth of 5% or more.

Summing up, we are expecting a further clear improvement from last year's EBITDA before restructuring expenses of EUR 712 million to add figure ranging between EUR 730 million and EUR 790 million. At the same time, we want to achieve an EBITDA margin of more than 13.8%. For 2023, there is, at the end, only one key priority, our Mission '26. That means also in '23, we want to achieve further improvements in all 7 levers in order to get again a step closer to the targets we have set ourselves for '26.

And finally, our road map for '23. The next important debt will be in less than 2 months our Annual General Meeting on April 27, it will be once again a virtual AGM and on May 5, we will be back with our Q1 numbers. That concludes our presentation, and I hand back to Oliver for the Q&A.

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

Yes. Thank you very much, Stefan, Marcus and Johannes, and Sharon back to you to open up the line for the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And your first question comes from the line of Sven Weier, UBS.

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**Sven Weier** - *UBS Investment Bank, Research Division - Executive Director and Analyst*

The first one, starting with the usual question around the order intake environment. And obviously, asking about your expectations for the current quarter. But given that we know there's always some fluctuations with big-ticket orders. I was also wondering in terms of tendency for the year as a whole, would you see a book-to-bill of one being achievable? Or how do you look at the overall environment as well as in the short term?

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

Sven, good to hear you. I take your questions. So let's first talk about the order intake environment. We -- you need to know that we are beating against a very strong Q1 from '22, but we are very optimistic that we will minimum achieve the same number. That means we expect our order intake also this Q1 of more than EUR 1.5 billion. That also brings us to the question, what is the overall sentiment or environment? We also see a good order pipeline, and we remain quite optimistic. So we believe and we trust that we also can achieve a book-to-bill ratio of 1.0x.

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**Sven Weier** - *UBS Investment Bank, Research Division - Executive Director and Analyst*

Okay. That sounds encouraging. And the second question is just with regards to your organic growth guidance of above 5%. I know above 5% can mean different things to different people. But I was just wondering, you thankfully outlined the increase in the backlog of EUR 400 million, which is entirely due for 2023, which would be around 8%. So are you still a bit reluctant at this stage because the supply chains have not fully normalized and you just want to cater for the usual uncertainties this -- early this year. Is that a fair assumption?

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

Yes. I think it's fair. I mean, you're absolutely right. We have a much higher order backlog than last year. We will definitely see a very strong Q1 in order intake. So having this -- those factors, you know that the sales of '23 is almost determined by these 2 factors. So yes, larger 5% means larger 5%. And the world is still a volatile one. So we never know, but there is some upside potential, maybe.

**Sven Weier** - UBS Investment Bank, Research Division - Executive Director and Analyst

Okay. And then maybe finally if I may, just on the use of cash. I noticed the dividend increase was a bit smaller than what you had on net profit. And you haven't announced a new share buyback despite the fact that the cash level is obviously quite impressive. I mean, is that telling us that maybe on the M&A side, things are becoming a bit more imminent? Or is this still something in terms of another buyback? I think you still have 5% left that you will see as a possibility this year.

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

Okay. I mean, that might be a very -- how should I say very, very, very surprising interpretation, let's say. So there are -- you cannot expect any indication for any M&A here. It's simply that we always said we are watching out. We are looking out what could be the right targets. In case it would come, we would be prepared. We would have enough funds. That's how it is. And we have no intention here to do anything right now.

**Sven Weier** - UBS Investment Bank, Research Division - Executive Director and Analyst

And on the buybacks?

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

Also we have not made any additional decisions and discussions here.

**Operator**

We will now go to our next question. And your next question comes from the line of Klas Bergelind from Citi.

**Klas Henrik Bergelind** - Citigroup Inc., Research Division - MD

Stefan and Marcus. Klas at Citi. So first on pricing, it looks like you're confident on compensating both the net inflation, the EUR 128 million and also the wage inflation EUR 80 million through price increases. That's around 4%. And things well supported given that order pricing, I think you said before, has been running at 5% to 6% last couple of quarters. So can I ask you, Stefan, on incremental price increases. What order pricing did you have for the fourth quarter? And what do you intend to do here for the first quarter, if you can give any indication on incremental price increases?

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

There is not one single number. It depends very much on the various businesses. Klas, you know GEA very, very well. You know that we have a lot of different businesses. And it depends on the businesses, what kind of increase we do in Q1, but it varies from the business. Sometimes, it also -- it's only 2% or 3%, but it also goes up to 6%. So it's in some cases when it is about special products or spare parts or whatever it might be even more. So there is no clear number, but Marcus told you what we need and you automate his calculation, we need 3% to 4% to cover the cost increases. And we are very optimistic that this is, at the end, what we minimum can achieve.

**Klas Henrik Bergelind** - Citigroup Inc., Research Division - MD

Yes. And the order pricing that has been 5% to 6% previous quarters, that must have been the same for the fourth quarter then, I assume, Marcus?

**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Say that again you were to understand, what's that for the fourth quarter?

**Klas Henrik Bergelind** - Citigroup Inc., Research Division - MD

The order pricing has been running ahead of the P&L, right, through 2022. And I was wondering whether it's still 5% to 6%, that will eventually move through the P&L. It seems like the price assumption you have for out of backlog is very supportive.

**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Well, we see usually 5% -- say around 5%, actually, which is running through the P&L, perhaps a little bit more when you look at the accumulated price increases we have because we did at least 2 price increases per business unit. So 5% to 6%, as you said, it's probably a real big number. But as Stefan mentioned, there's not one number because we have the machinery recruitment business, we have the processing engineering part, which is not simply just increasing the prices. But around that in that range, that's probably about right.

**Klas Henrik Bergelind** - Citigroup Inc., Research Division - MD

Okay. My second one is on return on capital employed. It's a great level, but I thought it would be a little bit more upside. We met recently markets there, talking about bottlenecks easing. You -- obviously, all of these inventories coming down quite a bit here in the fourth quarter, so that's fair. But when you say that margin will be at least 13.8% at the higher end of the EBITDA range, I can get ROCE to 35%. So I'm just -- yes, your process around thinking about ROCE for 2023, please?

**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Well, I understand your reasoning here when we say it's going to be 13.8% at least for this year, there will be certainly upside then also for the ROCE.

**Klas Henrik Bergelind** - Citigroup Inc., Research Division - MD

Okay. My very final and quick one is coming back to M&A, Stefan. And I appreciate, I also interpreted (inaudible) to saying that no buyback, maybe there is something imminent. But can we talk at least a little bit about sort of potential white spots? Are you still thinking packaging? I know that, decanters, there are consolidation opportunities to understand roughly if you would do M&A, what are you interested in terms of white spots?

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

Yes. I mean it's also a very difficult question. There are many various white spots, let's say. Of course, packaging is something which would be very complementary to GEA because we are mainly focused on the processing that could be an area. Also, let's say, areas in pharmaceutical could be areas where we could grow, which would be a good add-on pharmaceutical machinery, let's say.

We also could focus on certain countries and growth areas, be it U.S., be it China, be it India for local players. So there are many, many directions we are looking at. But as I said -- as I always said, we are prepared for everything, but we also know that we don't want to do any stupid things. And

our Mission '26 and the value add story for GEA will work also without any M&A. If it comes on top, it's fine, and that keeps us very relaxed in watching the market and looking out for the right opportunities and once it would be the right time, of course, we would come out at the time it is appropriate.

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**Operator**

We will now go to your next question. And your next question comes from the line of Sebastian Kuenne from RBC.

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**Sebastian Kuenne** - RBC Capital Markets, Research Division - Analyst

My first question goes to the direction of the market. You mentioned some delays from the Farm Tech side so from the dairy farmers as we go into 2023 as the milk prices drop, we see a similar development on the dairy prices, actually a steeper drop of dairy prices. And are you at all concerned that the dairy processes and food processes are slowing their CapEx for 2023? That would be my first question.

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

I mean you have to see, if you look at the numbers of '22, we had fantastic growth rates in Farm Technology, which is, of course, not something which we can repeat every year with numbers about 17% growth in order intake and in sales. So it might be a bit more flattish maybe. On the other hand, we have a lot of new products released here. We have the automatic feeding system. We are very, very well positioned in the digitization technology, which we offer to our customers here.

We also are now working on that fertilizer thing, which I explained to you before, the [N2] technology. So there are many, many additional products coming out. So I'm also still quite optimistic that we can also see interesting growth here, even if the milk price is dropping down at the moment a little bit, that doesn't worry me. And in the medium and long term, our Farm Technology is still a fantastic business and absolutely interesting growth area.

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**Sebastian Kuenne** - RBC Capital Markets, Research Division - Analyst

And regarding food processing, dairy processing, so the further processing like milk drying and butter and skim milk, cream, cheese, do you see any risk of a slowing there as well since the dairy prices dropped by 30% since December. Is there any indication of slowdown?

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

Not really, not really, not really as long as that is concerned with the investment in our machinery and equipment.

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**Sebastian Kuenne** - RBC Capital Markets, Research Division - Analyst

Then my second question would be on the tax loss carryforwards, which really helped the tax rate in Q4, just as it did the prior year. Could you just let us know the scale of further potential activations of tax loss carryforwards from here, especially in North America?

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**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Well, actually, we think we're going to -- for our planning conferences, we went back to the 26% tax rate there. So we had -- we -- we had actually 16% for the last 2 years, but that was really -- because we were able to increase the -- we have increased the midterm planning in the U.S. And therefore, we took away some accruals for the deferred tax assets there. And that was the reason why it was only 16%. So it really depends on the outlook how we do a new 3-year plan, what it will be there, if we have any further reduction of accruals on our deferred tax assets.

**Sebastian Kuenne** - *RBC Capital Markets, Research Division - Analyst*

But what would be the maximum? I mean, how many tax credits could you activate in North America? Is everything..

**Marcus A. Ketter** - *GEA Group Aktiengesellschaft - CFO & Member of Executive Board*

No. No, we're not activating. We took a charge of the deferred tax assets to releasing that charge basically.

**Sebastian Kuenne** - *RBC Capital Markets, Research Division - Analyst*

I have to read into that. Final question is on the one-offs. So you guide for pre-restructuring EBITDA, the one-offs were a little bit higher in Q4, but nothing too unusual. But I was wondering what you expect for 2023 in terms of anything that is a one-off or considered restructuring that may relate to the footprint reductions and so on. Do you expect more charges, less charges and why?

**Marcus A. Ketter** - *GEA Group Aktiengesellschaft - CFO & Member of Executive Board*

Okay. We expect actually that there will be some more charges this year for various reasons. It's approximately EUR 60 million of restructuring, and that includes also a good part for our global manufacturing but not only. So there will be also other charges which we are planning for this year. After that, in '24, it's supposed to drop significantly in the range of EUR 20 million -- EUR 20 million to EUR 25 million in '24. So this year will be a year, which is on the -- basically on the same level, a little bit higher than it was for last year.

**Operator**

We will now go to the next question. And your next question comes from the line of Max Yates from Morgan Stanley.

**Max R. Yates** - *Morgan Stanley, Research Division - Equity Analyst*

Just my first question would just be around the service growth, which was obviously very strong in Q4, particularly in separation and flows. So I just wanted to understand what was driving that? Whether that was all spare parts, whether there's any catch-up from COVID? Just if you could talk a little bit about sort of why that's been so strong and how sustainable the current level is, that would be great.

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

Okay. Thanks for the question, Max. So you know that the service excellence is one of our streams in Mission '26 and the team who are working here they are coming up with a lot of really concrete actions and measurements worldwide. So I could give you one example. We established, for instance, meanwhile, 17 local decentralized repair shops for the bowls in a separator, and we created a special contract here to deliver a service to our customers to bring the bowl into our local repair shops, which has also a sustainability issue because we can award large freight and long freight distances.

And we do proactively repair the bowls before they fail, and this is something which gives production safety to our customers and which also generates additional turnover for us. And this is one of the examples or one example where additional sales could be generated here, for instance.

**Max R. Yates** - Morgan Stanley, Research Division - Equity Analyst

Okay. And if I could just follow up on the cost headwind, the EUR 140 million gross. I'm slightly surprised without -- obviously, it's excluding wage inflation. I'm slightly sort of surprised that's as high as it is. I mean we know you've talked about sort of EUR 20 million to EUR 25 million of wage inflation. But I would have thought, given sort of steel prices peaked sort of mid-2022 that we'd see some of these leveling off. So maybe if you could talk a little bit about the kind of how we build up to that EUR 140 million number across maybe different items? Because clearly, other things like freights have gone down significantly. So I'm just -- I'd love to get a bit more color around that number?

**Johannes Giloth** - GEA Group Aktiengesellschaft - COO & Member of the Executive Board

Yes, absolutely. As we have a simulation for that by each category. And one of the major drivers is obviously wage increases in many areas of the material we are buying, but also in the indirect area, we have a significant increase. Just to down -- double click on the different components. In travel and fleet, we see a further increase of around 7% in manufactured parts, which is a big spend of our -- part of our spend, we will see another (technical difficulty) come to electricity a lot in our prices for this year already for the first half. So it's a mixture. And that's a dynamic picture to there are ability that this EUR 140 million is a little bit (technical difficulty)

**Max R. Yates** - Morgan Stanley, Research Division - Equity Analyst

Sorry, just slightly lost you because the line broke up a bit at the start. But just the first cost you mentioned, did you say travel and fleet was a 7% increase. Was that what you said?

**Johannes Giloth** - GEA Group Aktiengesellschaft - COO & Member of the Executive Board

Yes, it's still travel basically, although the cost increases for our business travel, for example, is still going up. And it's not necessarily our transportation logistics cost because here, we see indeed a kind of relaxation of the market, but traveling costs are going up after the COVID. That is one block, for example, but also manufacturing -- mechanical components, electrical components and manufactured parts which amounts to more than EUR [1.5 billion], which is still a significant increase majorly because of wage driven or availability driven, like in the electric components.

**Max R. Yates** - Morgan Stanley, Research Division - Equity Analyst

Perfect. And just one final one for Marcus. Just on working capital, obviously, a good improvement in Q4. We're at 6.1%. And as you say, kind of below the guided range. So I'm just wondering kind of how to think about 2023. Obviously, supply chains may be getting a bit easier, but you are below your range. So I'm just trying to understand kind of if you could help us with how to think about that sort of working capital to sales? And if you do think you'll go back into the range? Or this is the kind of right kind of level where I think you can hold things?

**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Yes, I understand your question. We are not changing the range for now, but we do not expect to reach it again there. So we will try actually to keep it at a lower level. And through first half year, we want to take a look if that's going to be achievable, especially considering that these supply chain challenges might get lighter and lighter. So do not expect that we will go into the guided corridor soon. But you never know, but we do our utmost actually to keep net working capital as efficient as possible.

**Operator**

(Operator Instructions) And your next question comes from the line of Sebastian Growe, BNP Paribas.

**Sebastian Growe** - *BNP Paribas Exane, Research Division - Analyst*

My first question would be around the margin trajectory. And primarily, that is for LPT and FHT. So if we leave Farm Tech aside and especially LPT and FHT have seen quite a remarkable pickup in the margin in the second half of '22. Considering that both have seen an improved order backlog, there's much better visibility, obviously and also at least a bit of an easing in supply chains. How should one think about the margin trajectory going into fiscal '23 because I think these are the ones that stand out in the sense that they are on a flat lining compared to fiscal year '21. So if you could start there please.

**Marcus A. Ketter** - *GEA Group Aktiengesellschaft - CFO & Member of Executive Board*

Well, yes, they are -- well, when you take a look at FHT, they are not exactly flatlining, right? They are increasing if you look at the EBITDA margin, and we expect to increase the EBITDA margin further. So this -- into '23. And when you look at LPT, yes, you're right, but we expect further growth actually the EBITDA margin for '23. So we do not expect actually that we will be on that level, but we will go through the 10% mark. That's the expectation.

**Sebastian Growe** - *BNP Paribas Exane, Research Division - Analyst*

The reason why I'm asking that question is obviously that we had seen a pretty soft H1, and that was, I think, related to a lower coverage, simply lower visibility on the one side. And then you also had some exogenous headwinds related to supply chains. Obviously, the question is, is the H2 margin, the kind of better exit rate to think of when it comes to modeling '23. What are your thoughts around it?

**Marcus A. Ketter** - *GEA Group Aktiengesellschaft - CFO & Member of Executive Board*

Well, it's -- we're not really guiding that quite frankly. So I expect actually to see for FHT and LPT an increase in March that FHT probably more significant than at LPT. Because when we look at peers then actually, we see that there's a lot of potential upside at FHT. But at LPT, we also -- we already came actually a good way ahead. So there's more upside on the FHT side than on the LPT side. But as I said, LPT, we expect to see them go through the 10% margin mark.

**Sebastian Growe** - *BNP Paribas Exane, Research Division - Analyst*

Okay. That's helpful color. And if we can then switch gears to free cash flow. At your Capital Markets Day, you guided to disciplined capital expenditure of about EUR 200 million per annum until '26. Now for '23, you guide CapEx of EUR 240 million. So my question is, how should we think about the structural CapEx needs of the business? And what is really driving this quite significant step-up in fiscal '23 in particular?

**Marcus A. Ketter** - *GEA Group Aktiengesellschaft - CFO & Member of Executive Board*

You mean the -- I just couldn't hear the last sentence, not. It's about the CapEx that is that high. No, we are considerably investing into our own company -- into the company right now. So that's really -- we said it's going to go up to like 4.5% for a few years, and then we're going to go back again to like more range of 2.5% to 3.5%. We also had here the new factory in Koszalin. We have other investments and therefore, the manufacturing.

So mainly we're investing a lot into our manufacturing side right now. But as I said, it's not going to go over more years. It's going to be this year and it's going to be also next year, but then it's going to come down again to more like 2.5% to 3.5% instead of 3.5% to 4.5%.

**Sebastian Growe** - *BNP Paribas Exane, Research Division - Analyst*

Okay. That's helpful. And then for the free cash flow overall, if I just may take a more better view on the matter, you also guided to EUR 2 billion total free cash generation in the year '22 to '26. So after '22 is now done, that would imply more than EUR 400 million per annum as of fiscal '23. So



the target is, I guess, very much on still? Or is there any sort of change in the thinking process? Or are you kind of signing the EUR 2 billion even now too conservative after what you hinted to, I think, around especially working capital part?

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**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Well, I would say for this year, we might not reach the EUR 400 million, but I expect to see that we're going to do EUR 400 million -- in the high EUR [400s millions] actually for the year after in '24, and then even a much stronger increase after that because CapEx is coming down considerably in '25 there. So we see a higher CapEx still in '23. It's going to be low expectation '24, it's going to be even lower in '25 there. So it's going to be a bit backloaded to reach the EUR 2 billion you were mentioning. I would not actually -- we could reach the EUR 400 million this year, but it would be a little bit more conservative than that for this year.

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**Sebastian Growe** - BNP Paribas Exane, Research Division - Analyst

Okay. Great. And if I may, just very quickly, just on the special effects on nonrecurring items. I think your guidance at the Capital Market Day was EUR 130 million to EUR 150 million over the period, '22 to '26. Can you just share with us what you have budgeted for '23? And just remind us of what is really behind it?

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**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Yes. So the restructuring costs for this year is like between EUR 60 million and EUR 70 million there. And that's the line actually with the guidance we gave you to the year '26 with EUR 130 million to EUR 150 million. We might be actually at the lower end from a current perspective, but you never know what happens there.

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**Sebastian Growe** - BNP Paribas Exane, Research Division - Analyst

And just to get it for the restructuring that is mostly then because of the manufacturing footprint that you are kind of optimizing and that you then need to take these charges or what is beyond it?

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**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Yes. Well, it's definitely restructuring. We're also doing at farm technologies, for example, an efficiency program, which is going on. And also looking at our portfolio, we do some restructuring there. So these are the main components, actually, which we're doing.

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**Operator**

(Operator Instructions) And the next question comes from the line of Akash Gupta from JPMorgan.

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**Akash Gupta** - JPMorgan Chase & Co, Research Division - Research Analyst

My first question is on gross inflation. On Page 30, you say you had EUR 170 million in '22, and you are expecting EUR 140 million in '23. And if I add the 2, I get to around 6% of revenues in 2023. And for some reason, that looks too low to me against general inflation and what we hear from companies, where companies saw more than 6% of headwind alone in 2022. So maybe if you can help us understand, is that at EUR 410 million -- sorry, not EUR 410 million, EUR 310 million of gross CapEx -- gross cost inflation, does that include everything? Or are there some components that are not part of it? That's question number one.

**Johannes Giloth** - GEA Group Aktiengesellschaft - COO & Member of the Executive Board

Akash, thank you for the question. I think what you need to consider, first of all, yes, it includes everything. So we're looking to the entire spend, what we're spending for the company for the last year that has been roughly EUR 3 billion in different categories. But you need to consider this is already the managed spend, so the managed headwind.

So just to give you an idea, last year, our procurement people were not only incentivized to get savings from other categories, they were also incentivized financially to keep the headwind low. So what we did was we went to different categories. We went to different specifications. We went to different suppliers. We also negotiated long-term contracts, and that was supplied in order to keep the -- so the demand for the price increase was much higher. We can't show them as savings, obviously. So it avoided costs, but the net headwinds, which came then to the bottom line of the company was the spell out EUR 169 million. And as a projection this year, EUR 140 million. That's what we have as realized headwind.

But it's the managed headwind, if you call like this, and it is including everything. So a big part of our procurement organization was focusing on avoiding further cost increases rather than seeking for on other areas to a net-net save money. Hopefully, that answers the question?

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**Akash Gupta** - JPMorgan Chase & Co, Research Division - Research Analyst

Yes. No, I think that answers, and thank you a detailed elaboration on the topic. The second one I have is on phasing of backlog. So you say that 75% of new machine sales have already been secured in backlog and services are generally more stable. And therefore, we would have vast majority of '23 revenues already kind of good visibility in backlog or through services. Can you talk about phasing of backlog like how this more than 5% organic growth that you target for the full year will split between first half and second half and also considering the comps we had in 2022, where we had higher growth in H2 versus H1?

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**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Yes. So it's -- we have -- we're starting quite well in '23. So my expectation is actually that we also see a higher growth rate perhaps in the range of 5%, what we guided for also already in Q1, Q2. So it's a good start into the new year.

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**Akash Gupta** - JPMorgan Chase & Co, Research Division - Research Analyst

And my final question is on working capital. I mean if I look at the net contract liabilities, then at the end of 2022, you were at EUR 466 million, which looks a new record looking at last year numbers. You are quite positive on demand outlook and Q1 orders are expected to be more than EUR 1.5 billion. Shall we expect further increase in net contract liabilities in 2023? That's the final question.

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**Marcus A. Ketter** - GEA Group Aktiengesellschaft - CFO & Member of Executive Board

Well, that's a very -- that's a very specific item. What you can expect that we manage the net working capital overall. And as I said, we thrive for actually staying below the guided line in this year.

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**Operator**

(Operator Instructions) And your next question comes from the line of Christoph Dolleschal from HSBC.

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**Christoph Dolleschal** - HSBC, Research Division - Head of Equity Research for Germany

I've got 2 follow-up questions, if I may. The first one is on, once again, on the sales guidance of 5%. And basically, you're targeting price increases of net in the same magnitude. So obviously, the question is what do you think about volumes? And how does that compare to your current capacity utilization? I mean how much open space is there? Could you bring up capacity utilization if you would want to?

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

I mean, we guide for growth large of 5%. And as I indicated before, there might be a certain caution in that number if everything is going smoothly this year, but we are living in a very volatile world. We saw pandemics, we saw wars coming up, we saw supply chain eases coming up. And that's the reason why we guide -- why we do a guidance, which we can definitely keep, but there is also, let's say, room for improvement here or deliver higher growth than 5%. This is what we actually guided.

**Christoph Dolleschal** - HSBC, Research Division - Head of Equity Research for Germany

Okay. And could you kindly comment on where your capacity utilization roughly is?

**Johannes Giloth** - GEA Group Aktiengesellschaft - COO & Member of the Executive Board

When you talk about capacity -- it's Johannes speaking. When you talk about capacity utilization, I think you talked about the manufacturing capacity. And here, we have a lot of productivity measures on the way which is not limit ourselves big time in the output. So there is headroom because of a lot of activities we are doing in the productivity measures. And especially when it comes to our factories in APAC, in our -- in China, for example, we are further investing into further increases.

Give you one example, our Vadodara factory in India has doubled the output compared to last year with a lot of measures we are taking. And as you have seen, we are also expanding our capacities through our manufacturing footprint in Poland. That's a big factory ramping up. There is another area we could grow into. So capacities will not be limiting our growth.

**Christoph Dolleschal** - HSBC, Research Division - Head of Equity Research for Germany

Okay, good to know. The next question is also a follow-up regarding, obviously, supply chain constraints and everything surrounding that. And you've already commented in various questions on the input cost increase and how that complies with the supply chain. But could you just provide some more color there, i.e., what are the biggest issues still in the supply chain? I suppose it's electronic components. Where do you see some easing? And also, you commented on the cost impact of that and said that all the materials, especially on the half finished goods, semi-finished goods are rising in prices. And how do you see that across the say, the supply chain, if you could break that down into electronic components and others?

**Johannes Giloth** - GEA Group Aktiengesellschaft - COO & Member of the Executive Board

Yes. As you rightly said, it's category-driven. Some categories are having less problems than others. Many categories are coming back to normal. Like, for example, logistics and warehousing, we see here an overcapacity, which is soon coming to a decrease in prices, and we are not limited by its capacity.

When it comes to mechanical components, for example, here, it's more labor-driven and -- the prices are labor-driven but not the availability is the problem any longer. Here, the area where we still suffer most, and I think what everybody else does is the electrical components because here, especially in the area of PLCs and drives where industrial semiconductors are used. The backlog recovery, and we have a lot of discussions with the major suppliers like ABB, Siemens, Rockwells and so on. The back to recovery is going to happen in the second part of this quarter -- second

part of this year, but on the other side, as we have been living in that area of supply chain crisis for a year now, many, many of the orders are placed already. And therefore, the order lead time is increased. We adapted to it. And therefore, our output indeed is less and less limited by those constraints we are still seeing in that industry.

Our flexibility to respond on very sudden high-peak demand is then still kind of an issue potentially. But the long-term growth is not jeopardized to that large extent. And over here, we see more and more recovery also in the industrial area of the semiconductor industry where to a certain extent, on the one side, the demand in automotive and photovoltaic is further growing, but other industries are also going down. So it's a neutralizing, normalizing effect where I think -- it's not a normal year 2023, but much better than 2022.

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**Christoph Dolleschal** - HSBC, Research Division - Head of Equity Research for Germany

Okay. And you said recovery rather happening in H2 that you think the component...

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**Johannes Giloth** - GEA Group Aktiengesellschaft - COO & Member of the Executive Board

For some of the major gating items when it comes to drives, when it comes to because the order back -- when you talk to the Rockwells and Siemens and Schneider's of the World, they are still claiming that their order books are pretty filled and they do not see order cancellations at the moment, which potentially could come in the latter part of this quarter or the next quarter. But currently, their lead times are really very high, but -- and that's also the good news.

In the last 2 years, the teams in GEA has worked around a lot of alternatives. So we have established back-end sources for the same. It also helped us to convince our engineers to try something new. And therefore, our flexibility in that area has gained a lot of momentum, which is also helping us to be flexible on the market, but still in some areas, there are some constraints. And I would say the last backlogs will be released in the third quarter this year to hopefully get back to normal completely in the fourth quarter, potentially only quarter 1 next year.

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**Operator**

We will now take our last question of the day. (Operator Instructions) And the last question for today comes from the line of Uma Samlin from Bank of America.

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**Uma Jun Samlin** - BofA Securities, Research Division - Research Analyst

So my first question is on the procurement savings. So in '22, you actually had EUR 28 million savings on procurement, despite your supply chain was experiencing a lot of constraints. So we think about -- how should we think about the [EUR 40 million] savings plan for 2023? Does that include the effect of the supply chain easing? Or is it purely from like operational perspective?

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**Johannes Giloth** - GEA Group Aktiengesellschaft - COO & Member of the Executive Board

It is including everything. So it's the net number what we are targeting for. And you need to understand that those net savings, what we are posting here is already considering the deduction of pass-throughs and is not mentioning and not considering also cost avoidance. It's really net-net, what we call effect is to the P&L, and that is the contribution.

Our pipelines for savings is well built because we have still categories where we can consolidate suppliers where we can go to alternative sources. And the EUR 40 million is cumulative to that, what you see basically EUR 20 million -- EUR 28 million last year, it's now EUR 12 million, which might be a little bit on the conservative side when I look to our savings pipeline, but that's the accumulated target towards again to the target what we laid out in the Capital Market Day leading to the EUR 60 million to EUR 90 million for 2029 -- 2026, sorry.

And -- but it's, again, the net savings, not considering all those areas where we are doing additional work for the company. It's just net-net profit to the company on EBITDA level.

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**Uma Jun Samlin** - *BofA Securities, Research Division - Research Analyst*

Yes, that's really helpful. My second one is just following up on the pricing question from before. So in your bridge that the pricing component is like the biggest component to offset any input cost increases. Given the large backlog to be delivered in 2023. And I guess you already commented that a rough 5% to 6% of price increases in the backlog. So should we -- how should we think about like any further price increases? I mean, can we -- do you think that the 5% to 6% increase in the backlog is already covering to price increases that you are looking at to offset the cost increases in 2023?

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

I'm not sure if I got your question right. Of course, we are doing further price increases. It is very clear as long as the inflation goes on as long as we get the headwind from the supply chain. And from wage, we have to increase prices continuously. And this is also what we do.

I think we started very, very early already last year. This is what you can see. I think we handled it much better than a lot of other companies, and we have created the culture and the awareness in all our business units that they do it in the right way. We are also optimistic that and ensure that the backlog and the calculation of the backlog is covering the necessary costs we will see when we execute this order.

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**Operator**

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

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

Well, thank you. Thank you all for participating in our call for listening and for your great questions. I would like to summarize that today's call as follows: First of all, '22 was another successful year for GEA. We are continuously growing and improving our profitability in absolute numbers as well as in margin. We are very -- we had a very good start into the year '23. We expect also very good Q1 with solid order intake here. And we also have a very optimistic view on the pipeline for the remainder of the year.

So all in all, I can summarize that the good journey of GEA will continue in '23, and you will see another year of growth and profitability increase -- profitable growth has continued to increase. Let's summarize it like that. With that, I thank you for participating again, and goodbye, and see you next time.

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**Operator**

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please standby.

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